Capital Adequacy and Other Information Subject to Notice by the Capital Group of Alior Bank Spółka Akcyjna as at 31 December 2019

March 2020

Table of Contents

1. Introduction

The “Capital Adequacy and Other Information Subject to Notice of the Capital Group of Alior Bank SA as at 31 December 2019” 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 restructured 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 thousands of zlotys.

2. Information about the Capital Group

As at 31 December 2019, 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 2019, the Capital Group was composed of the following units:

Company name	31 December 2019
Alior Services Sp. z o.o.	100%
Alior Leasing sp. z o.o.	100%
- Serwis Ubezpieczeniowy sp. z o.o.	100%
Meritum Services ICB SA	100%
NewCommerce Services sp. z o.o.	100%
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%

For the purposes of calculating the solvency ratio in 2019, prudential consolidation was applied (in accordance with art. 19 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013) - consolidation encompassed Alior Bank SA and Alior Leasing sp. z o.o.

Differences in accounting and regulatory consolidation in the form of 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	1,379,127	1,375,207
Receivables from banks	212,885	212,885
Investment financial assets	15,798,674	15,798,474
measured at fair value through other comprehensive income	10,438,695	10,438,695
measured at fair value through profit or loss	543,925	543,725
measured at amortized cost	4,816,054	4,816,054
Hedging derivatives	134,832	134,832
Receivables from customers	55,871,308	55,873,736
Assets hedging liabilities	335,489	335,489
Tangible fixed assets	763,585	762,918
Intangible assets	580,352	544,348
Investments in associates	9,822	111,586
Assets for sale	103	103
Income tax assets	1,164,764	1,158,106
Other assets	484,893	477,798
TOTAL ASSETS	**76,735,834**	**76,785,482**
LIABILITIES		
Owed to banks	822,543	822,543
Owed to customers	64,999,259	65,026,514
Financial liabilities measured at fair value through profit and loss account	436,856	436,856
Hedging derivatives	40,676	40,676
Provisions	358,869	358,854
Other liabilities	1,429,676	1,425,294
Income tax liabilities	94,905	94,296
Subordinate liabilities	1,793,985	1,793,985
TOTAL LIABILITIES	**69,976,769**	**69,999,018**

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 Policy at Alior Bank SA. 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 policy 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 recognized 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 risk level of activities of particular entities within the risk monitoring and reporting system on 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 Policy of the Group of Alior Bank SA in relation 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 2019 at the level of: total capital ratio - 13.75% and Tier 1 equity ratio - 11.75%. The expected ratio of internal capital coverage was approved at 1.5%.

By decision of 14 October 2019, the Polish Financial Supervision Authority cancelled the decision of the Polish Financial Supervision Authority of 31 July 2018 ref. DAZ-W5.751.1.2018 identifying Alior Bank S.A. as belonging to the other institution of systemic importance category, and removed the duty of other institutions of systemic importance to maintain a buffer (on stand-alone and consolidated basis), at the equivalent of 13.50% of the total risk exposures, calculated in accordance with Article 92(3) of the EU CRR (no. 575/2013).

The structure of the value of the risk exposure assessed, measured by the measure of the capital requirement for individual types of risk during 2019 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, TSA (for a branch in Romania)), and BIA 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 is presented below as at 30 September 2019 (data as at 31 December 2019 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	91.26%	90.83%
due to settlement risk	0.00%	0.00%
due to position risk, currency risk, and commodity price risk	0.65%	1.53%
due to operating risk	7.76%	7.40%
due to fixed indirect costs	0.00%	0.00%
due to adjustment of credit valuation	0.33%	0.23%
due to large exposures in the trading book	0.00%	0.00%
other risk exposure amounts	0.00%	0.01%

5. Risk management organizational 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 Committee – CALCO, Operational Risk Committee, Credit Risk and Business Initiatives Committee, Model Risk Committee, Bank Credit Committee),
- Organizational 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 sets out the standards applicable in the banking sector and guidelines contained in regulations, including supervisory recommendations which are reflected in applicable internal regulations.

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

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 Committee's tasks include, among other things, issuing opinions on the overall, current and future readiness of the Bank to take risk, issuing opinions on the risk management strategy at the Bank, and analysing information submitted by the Management Board concerning the implementation of this strategy. In addition, the Committee supports the Supervisory Board in supervising the implementation of the risk management strategy at the Bank by senior management staff, verifies the compliance of the price of liabilities and assets offered to customers, provides opinions on regulations defining the Bank's strategy and approach to taking risks, and analyses cyclical reports on the implementation of the strategy and policies. In 2019, the Risk Committee of the Supervisory Board held 10 meetings.

The Management Board of the Bank exercises general control over the risk management process, defines the Bank's strategy for managing individual types of risk and ensures the operation of the risk management system. 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 most important competences of the CALCO Committee include supervision over market risk, liquidity risk, as well as capital, assets and liabilities management. In 2019, the CALCO Committee held 50 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 2019, the Operational Risk Committee held 14 meetings.

The aim of the Credit Risk and Business Initiatives Committee is to support the Bank's Management Board in effective management of the Bank’s credit risk, including credit concentration risk, taking into account significant subsidiaries. In 2019, the Credit Risk and Business Initiatives Committee held 9 meetings.

The Model Risk Committee supports the Management Board of the Bank in effective model risk management, taking into account significant subsidiaries in which the model risk was considered significant as part of the Internal Capital Adequacy Assessment Process (ICAAP). In 2019, the Model Risk Committee held 2 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 of the operations of the subsidiaries belonging to the Bank’s Capital Group. The Bank supervises risk management systems in these entities and takes into account the level of risk of activity of individual entities as part of 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 organizational 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 and assessments concerning the risk management process, its compliance with internal and external regulations.

6. Credit risk

6.1 Organization 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 (KB).

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 thanks to the application of concentration limits,
- risk reduction thanks 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.

Organizational 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 specialized portfolios (AGRO, 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 in the scope of management of credit accounts,
- management of credit committees,
- valuation and periodic monitoring of KB mortgage collaterals.

The SME Customer Analysis Department responsible for:

- analysis of credit applications and credit management for the SME segment, including specialized 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 in the scope of management of credit accounts,

Restructuring and Debt Collection Department responsible for:

- minimizing credit losses in the business customer's portfolio by conducting 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 the IAS revaluation write-down 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 processes and debt collection.

KB Monitoring Department responsible for:

- periodic monitoring of the financial and economic condition of credit customers, sources of repayment, and correctness in handling KB credits, with particular emphasis on KB Customers credited with structured instruments,
- periodic monitoring of collaterals securing credit exposures of KB 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 productivity and effectiveness of credit processes, diagnosis of bottlenecks, process errors and taking actions 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 specialized finance (factoring, leasing, AGRO),
- recommending changes in the credit strategy with an assessment of impact on the Bank's results, including the credit strategy of Alior Leasing,
- optimization 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,
- developing and implementing rules for dealing with related 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,
- cooperation with Amron with regard to the exchange of data on mortgage collaterals.

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.
- optimization 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 entire KB portfolio 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,
- building scoring and rating models and model management,
- control of the quality of data used in the model design process and of the production functioning of models,

- maintaining and developing the methodology of credit risk model management in the KB segment,
- 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 KB credit portfolios.

Credit Operations and KI Debt Collection Department responsible for:

- minimizing 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 violation of contractual clauses 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 optimization 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 KI and KB,
- 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 KI and KB 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 MSWiA / MC 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 of the Individual Customer,
- 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 portfolios,
- implementation, parametrization and maintenance of treasury product management systems,
- substantive supervision over the functioning of the interfaces of the treasury system 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.

Internal 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 optimize banking processes and procedures in order to reduce banking risks and improve Customer service,
- cooperation with the Bank's organizational 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 summarizing 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;
- supervision over current and potential types of risks – 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.

The main component of risk assessment is to determine standard risk costs on the basis of the implemented methodology and to allocate them to relevant Bank units. 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:

- methodologies for determination of credit capacity (including DTI levels) 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 2019 amounted to PLN 508.2 million, determined by adding up positive market values for all ongoing transactions. The net value of the credit exposure, taking into account the on-balancing of transactions for counterparties having framework agreements, amounted to PLN 364.3 million. Networking benefits amounted to approx. PLN 143.8 million (they were not taken into account when calculating capital requirements for credit risk). The value of the collaterals accepted amounted to PLN 471.1 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 minimized 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. An additional element that determines the decision to grant a treasury limit to the Customer is the recognition of their knowledge and experience in the use of derivatives and knowledge of financial markets. In the case of Individual Customers, only limits secured with a deposit 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 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 characterized 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 arising from special offers and promotions;
6. 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. Collaterals may be established in total, which means that the collateral for a single loan may constitute different assets at the same time. The purpose is to obtain the total value of the collateral at the level expected by the Bank.

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, in particular it uses a reliable database of the AMRON system.

The Bank monitors the effectiveness of establishing collaterals by:

- verification of completeness and correctness of documentation concerning collaterals, including:

- confirmation of the establishment of blockades on accounts in other institutions by these institutions;
- confirmation of acceptance of powers of attorney for execution by institutions keeping the Customer's accounts to which the Bank has a power of attorney;
- confirmation of entries in relevant registers/accounts (land and mortgage register, court register, register of participants of an investment fund, deposit account, investment account);
- confirmation of notification of debtors of receivables;
- confirmation of acceptance of the assignment of receivables from insurance policies by insurers;
- confirmation of consent of the spouse, partners in a partnership;

- 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 2019, 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 million. Secured exposures were included in the class of exposures to institutions, exposures to entrepreneurs, retail exposures, exposures secured on real estate and exposures to which the failure pertains. The amount of exposures secured by recognized collaterals as at the end of 2019 was PLN 4,906 million.

As at 31 December 2019 the Bank applied credit protection in the form of accepted guarantees (the value of exposures secured with guarantees amounted to PLN 4,750 million) and did not use credit protection in the form of credit derivatives.

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;
- 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 minimizing the impact of the human factor, and thus minimizing the cost of materialization 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 2019 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 authorized 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	200,449	200,449
AA-	4,448	4,448
Aa1	129,391	129,391
Aa2	10,007	10,007
Aa3	56,603	56,603
2	1,329,089	1,327,533
A	1,170	1,170
A-	25,170	25,170
A+	662,863	662,863
A1	245,959	245,959
A2	393,927	392,371
3	134,071	134,071
Baa1	982	982
Baa3	4,799	4,799
BBB	6,326	6,326
BBB-	467	467
BBB+	121,497	121,497
4	1,403	1,403
BB-	821	821
BB+	581	581
5	1,616	1,616
B3	1,616	1,616
6	17	17
Caa1	17	17

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

Collateral provider	Credit rating	Unfunded collateral value
Guarantor 1	2	4,725,512
Guarantor 2	3	7,896
Guarantor 3	3	1,404
Guarantor 4	2	1,279
Guarantor 5	3	11,982
Guarantor 6	2	600
Guarantor 7	2	1,076
Guarantor 8	3	111

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 write-downs and provisions

For accounting and regulatory purposes, the Bank assumes that overdue items include financial assets for which a delay in the repayment of capital or interest occurred. The overdue days are counted from the due date of the oldest due payment and are specified in the agreement with the customer.

The Bank shapes the policy of write-downs and provisions for receivables in the form of credits and loans in accordance with IFRS 9 requirements. The Bank examines all credit exposures in terms of impairment by monitoring and recording events recognized as evidence of impairment.

The Bank assumes receivables affected by impairment as financial assets measured at amortized cost (AC) or measured through other comprehensive income (FVOCI) for which evidence of impairment has been identified - occurrence of an impairment event defined as the risk of non-performance or failure to meet the borrower's liability towards the Bank.

For exposures with regard to which evidence of impairment has been identified and which the Bank considers to be individually significant, an individual analysis is carried out by an expert 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, a write-down is created in the amount equal to the difference in the book value of the asset item and its recoverable value.

For exposures without identified evidence of impairment, the Bank creates write-downs for losses expected within 12-month horizon (basket 1) or maturity horizon of the exposure (basket 2). The rules for allocation of the escalation of items between basket 1 and basket 2 are based on the assessment of a significant increase in the cumulative credit risk between the initial recognition date and the valuation date.

The model of write-downs on expected losses according to IFRS 9 consists of:

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 basket 1 and basket 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.

As at 31 December 2019:

- write-down on expected losses in basket 1 amounted to PLN 471.1 million and PLN 773.3 million in basket 2. The impairment loss was estimated in relation to the portfolio of outstanding receivables using the internal model in force at the Bank.
- a write-down on receivables with premises of impairments amounted to PLN 4,153.9 million in relation to the Bank's receivables in the form of credits and loans. The write-down was estimated using the scenario analysis (individual valuation) and the statistical model (group valuation).
- write-down for credit and loan portfolios acquired in impairment (the so-called POCI) amounted to PLN 90.6 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 778.2 million
    - for a portfolio valued individually – PLN 1,900.2 million.
- as regards exposures for which evidence of impairment has been identified, overdue items constituted 71% of the exposure, while the write-down in the case of these exposures amounted to PLN 3,633 million.
  Overdue exposures shall be understood as exposures for which 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 organizational 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),
- monitoring the establishment of a collateral,
- collaterals, in particular with regard to:
- values of accepted collaterals,

- adequacy of accepted collaterals,
- renewal of collateral,
- write-downs and provisions, in particular with regard to:
- correctness of creation and dissolution of write-downs 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 2019:

EU CRB-B: Total and average net amount of exposure	Net exposure value as at the end of 2019	Average exposure net amount in the period	Net exposure value as at the end of 2018
Governments and central banks	17,051,031	15,679,116	14,678,351
Exposures towards regional or local governments	226	4,081	12,700
Public sector bodies	7,738	7,679	7,987
Institutions	1,465,831	1,545,948	1,505,512
Entrepreneurs	13,891,352	14,960,844	16,217,159
of which: SME	8,429,093	8,893,189	9,727,460
Retail	33,510,507	33,301,262	32,463,776
of which: SME	10,998,366	11,553,535	11,515,115
Secured by real estate mortgage	12,629,928	13,222,299	13,260,889
of which: SME	1,999,177	2,751,243	3,234,755
Exposures in default	5,557,753	5,426,720	4,783,181
Items associated with particularly high risk	20	20	18
Equity exposures	215,109	167,611	123,327
Other exposures	2,761,871	3,788,597	3,073,888
Total	**87,091,366**	**88,104,177**	**86,126,788**

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 2019 - 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	2,287,258	417,363	301,690	2,232,179	5,332,392	5,488,936	92	991,121
Regional or local authorities	0	0	0	0	0	0	213	13
Public sector bodies	1,972	1,473	0	0	0	2,928	1,330	34
Institutions	647,122	62,380	142,469	203,880	160,760	36,836	728	211,657
Entrepreneurs	1,283,007	1,474,191	1,527,529	2,988,470	3,368,779	1,728,747	1,374,711	145,918
Retail	711,468	761,823	1,780,244	3,210,483	5,742,080	11,141,236	9,954,065	209,108
Secured with real estate mortgages	104,676	184,125	215,843	192,184	413,830	1,143,303	10,373,560	2,408
Exposures in default	2,929,488	91,485	94,263	379,704	627,198	700,973	726,241	8,401
Items associated with particularly high risk	0	0	0	0	0	0	0	20
Equity exposures	0	0	0	0	0	0	0	215,109

Exposure class/Net exposure value	<= 3M	> 3M <= 6M	> 6M <= 1Y	> 1Y <= 2Y	> 2Y <= 5Y	> 5Y <= 10Y	> 10Y	NO_DATE
Other exposures	159,517	0	0	0	0	0	0	2,602,354
TOTAL	**8,124,508**	**2,992,841**	**4,062,038**	**9,206,900**	**15,645,039**	**20,242,960**	**22,430,938**	**4,386,143**

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 2019 - geographical distribution:

Exposure class/Net exposure value	Poland	Other countries	Total
Governments and central banks	17,051,031	0	17,051,031
Regional or local authorities	226	0	226
Public sector bodies	7,738	0	7,738
Institutions	108,089	1,357,742	1,465,831
Entrepreneurs	13,304,675	586,676	13,891,352
Retail	33,215,826	294,681	33,510,507
Secured by real estate mortgage	12,435,123	194,806	12,629,928
Exposures in default	5,544,550	13,203	5,557,753
Items associated with particularly high risk	20	0	20
Equity exposures	215,109	0	215,109
Other exposures	2,761,706	165	2,761,871
Total	**84,644,094**	**2,447,272**	**87,091,366**

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 2019 - 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	Healthcare and social security	Arts, entertainment and recreation	Other service activities	Other	Total
Governments and central banks	0	0	0	0	0	0	0	0	0	0	2,307	0	0	0	13,904	0	0	0	0	840	17,051
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
Public sector bodies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4	1	2	0	0	8
Institutions	0	0	0	0	0	0	0	0	0	0	1,445	0	0	0	0	0	0	0	0	21	1,466
Entrepreneurs	254	156	1,396	526	32	3,249	890	267	752	618	2,214	2,985	156	135	0	11	65	43	0	142	13,891
of which SMEs	207	2	563	370	30	2,544	557	115	751	54	134	2,908	37	67	0	9	49	28	0	6	8 429
Retail	96	14	1,639	15	59	285	3,449	2,323	449	363	45	109	781	416	1	70	431	84	129	22,753	33,511
of which SMEs	96	14	1,639	15	59	284	3,449	2,323	449	363	45	109	781	416	1	70	431	84	129	242	10,998
Secured by real estate mortgage	41	8	385	65	1	194	271	30	172	6	49	1,016	25	15	0	23	39	61	9	10,220	12,630

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	Healthcare and social security	Arts, entertainment and recreation	Other service activities	Other	Total
of which SMEs	37	8	274	13	1	66	235	30	172	6	49	999	25	14	0	8	39	15	9	1	1,999
Exposures in default	168	10	576	300	46	168	908	208	198	43	42	891	101	216	0	8	88	23	18	1,546	5,558
of which SMEs	168	10	439	300	46	166	744	208	198	39	41	803	100	202	0	8	87	23	18	3	3,602
Items associated with particularly high risk	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Equity exposures	0	0	0	0	0	0	0	0	0	0	77	0	0	0	0	0	0	0	0	138	215
Other exposures	0	0	0	0	0	0	0	0	0	0	160	0	0	0	0	0	0	0	0	2,602	2,762
TOTAL	558	187	3,996	906	138	3,895	5,519	2,829	1,570	1,030	6,339	5,001	1,063	783	13,905	115	625	213	156	38,262	87,091

The table below presents the credit quality of the exposure broken down into significant industries for the Capital Group of Alior Bank SA, as at 31 December 2019:

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	238,874	392,205	-72,977	43,901	558,102
Mining and extraction	13,449	177,753	-3,941	498	187,260
Industrial processing	1,015,785	3,451,545	-470,991	221,248	3,996,339
Production and supply of electricity, gas, steam and	392,349	644,073	-130,692	5,613	905,731
Water supply	57,754	92,690	-12,090	364	138,354
Construction	250,896	3,738,605	-94,301	-5,654	3,895,201
Wholesale and retail trade	1,516,954	4,670,239	-668,171	194,029	5,519,022
Transport and warehouse management	313,458	2,647,646	-131,856	52,293	2,829,248
Activity related to accommodation and gastronomy	251,091	1,387,106	-68,046	9,304	1,570,151
Information and Communication	97,573	996,093	-63,530	7,522	1,030,135
Financial and insurance activities	54,201	6,314,281	-29,609	-54,564	6,338,874
Real estate activities	1,080,753	4,134,903	-214,281	43,733	5,001,375
Professional, research, and technical activities	201,503	977,517	-115,939	26,804	1,063,080
Administrative and support service activities	282,610	573,978	-73,369	16,935	783,220
Public and defence administration, compulsory social security	2	13,904,717	-5	2	13,904,714
Education	14,571	108,222	-7,784	1,841	115,009
Healthcare services and social assistance	165,829	549,508	-90,554	24,317	624,784

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
Arts, entertainment and recreation	36,856	191,330	-15,399	8,681	212,786
Other services	30,859	142,164	-17,010	5,681	156,013
Other	3,223,923	39,326,197	-4,288,151	1,451,076	38,261,969

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 2019:

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	9,221,065	81,981,331	-6,558,301	2,050,456	84,644,094
Other countries	18,226	2,439,439	-10,393.73	3,167	2,447,272

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-recognized and recognized impairment,
- changes in write-downs, 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 0.25% of exposures. The value of this item as at 31 December 2019 amounted to PLN 215,109,000, and the requirement for this item amounted to PLN 26,437,000.

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	x	873,813	x
Equity instruments	0	0	109,820	109,820
Debt securities	335,486	335,486	15,315,320	15,315,320
Credits and advances other than loans on demand	135,765.50	x	56,010,888	x
Other assets	0	x	4,004,389	x
Total	**471,251**	**335,486**	**76,314,230**	**15,425,140**

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	335,486	
Credits and advances other than loans on demand	135,766	
Other collaterals received		28,577,820
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	471,251	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	204,245	471,251
including derivatives	135,766	135,766
including deposits	68,480	335,486

6.15 Securitization

On 7 June 2019, the Bank operationally launched a transaction of synthetic securitization 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.

Thanks to EIB's support under the so-called Juncker Plan, the securitization transaction also contributed to launching additional credit opportunities in the segment of small and medium-sized enterprises in the Alior Bank SA Group on more favourable terms in the form of a lower interest rate.

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 securitization.

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 securitization 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 securitization. On this basis, on a quarterly basis, it sends reports to the EIF and EIB. In addition, the portfolio covered by securitization 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 securitization.

Information on transactions concluded by the Bank by 31 December 2019:

	Securitization	Portfolio	
		Non-trading	Trading
total amount of all receivables for exposures securitized 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 securitization items that have been maintained or acquired	traditional	0	0
	synthetic	15,436	0
total amount of assets to be securitized	traditional	0	0
	synthetic	695,768	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
securitization positions that reduce own funds or are weighted with risk according to a weight equal to 1,250 %	traditional	0	0
	synthetic	15,436	0
recognized profits or losses on sales	traditional	0	0
	synthetic	0	0

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

The purpose of the securitization 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 recognize profits from sales and does not use the valuation of securitization items. The transaction did not result in discontinuation of recognition of financial assets in the Bank's books.

Under the securitization agreement, the Bank has the right to supplement the depreciated part of the portfolio (replenishment) within 3 years from 7 June 2019.

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

Reason for impairment	amount
Overdue	5,484
Bankruptcy	0
Restructuring	24
Other	321

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 restructured exposures enter into force, which impose new disclosures on the Bank.

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

Currently, the report contains data according to the following formulas: 1 "Credit quality of restructured exposures", 3 "Credit quality of exposures not justified by the number of overdue days", 4 "Performing and non-performing exposures and related provisions", and 9 "Collateral obtained by the acquisition of assets and enforcement proceedings" which, in accordance with EBA/GL/2018/10 guidelines, apply to all credit institutions.

On the other hand, the formulas: 2, "Quality of restructuring", 5 "Quality of non-performing exposures according to geographical division", 6 "Credit quality of credits and advances by industries", 7 "Valuation of collateral - credits and advances", 8 "Changes in loans held and non-performing advances" and 10 "Collateral obtained by taking over assets and enforcement proceedings - broken down by analogous analyses", in accordance with the provisions of paragraph 15 of the EBA/GL/2018/10, should be disclosed by credit institutions meeting at least one of the criteria of materiality from point 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 2019 for Alior Bank SA:

	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 restructured exposures**	
	Performing restructured exposures	Non-performing restructured exposures			Of performing restructured exposures	Of non-performing restructured exposures		Including a collateral and financial guarantees received due to non-performing exposures in relation to which restructuring measures were applied
			Of which exposures in default	Of which impaired exposures				
Credits and advances	**789,374**	**1,497,106**	**1,497,092**	**1,258,343**	**83,725**	**465,266**	**680,861**	**564,321**
Central banks	0	0	0	0	0	0	0	0
Government institutions	0	0	0	0	0	0	0	0
Credit institutions	0	0	0	0	0	0	0	0
Other financial institutions	68	1,286	1,286	1,129	0	566	38	0
Non-financial enterprises	132,789	1,028,683	1,028,683	801,960	2,244	280,812	466,109	446,675
Households	656,518	467,136	467,122	455,254	81,481	183,888	214,714	117,646
Debt securities	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Liabilities granted to grant a loan	**1,665**	**15,640**	**15,640**	**35**	**0**	**0**	**0**	**0**
Total	**791,039**	**1,512,746**	**1,512,732**	**1,258,379**	**83,725**	**465,266**	**680,861**	**564,321**

The credit quality of non-performing exposures broken down by the number of days overdue as at 31 December 2019 for the Capital Group of Alior Bank SA 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	Overdue > 1 year ≤ 2 years	Overdue > 2 years ≤ 5 years	Overdue > 5 years ≤ 7 years	Overdue > 7 years	Of which exposures in default
Credits and advances	**53,297**	**52,486**	**811**	**8,592**	**2,722**	**732**	**1,253**	**1,422**	**1,846**	**616**	**0**	**8,580**
Central banks	0	0	0	0	0	0	0	0	0	0	0	0
Government institutions	7	7	0	1	0	0	0	0	1	0	0	0
Credit institutions	567	567	0	0	0	0	0	0	0	0	0	0
Other financial institutions	604	604	0	62	50	0	0	1	8	1	0	61
Non-financial enterprises	12,418	12,333	85	4,260	1,994	324	528	446	732	236	0	4,259
Including SMEs	10,911	10,827	85	3,787	1,816	257	342	445	726	201	0	3,786
Households	39,701	38,975	726	4,270	678	408	725	975	1,105	379	0	4,260
Debt securities	**15,650**	**15,650**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Central banks	1,750	1,750	0	0	0	0	0	0	0	0	0	0
Government institutions	13,794	13,794	0	0	0	0	0	0	0	0	0	0
Credit institutions	20	20	0	0	0	0	0	0	0	0	0	0
Other financial institutions	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial enterprises	86	86	0	0	0	0	0	0	0	0	0	0
Off-balance-sheet exposures	**8,316**	x	x	**311**	x	x	x	x	x	x	x	**306**
Central banks	0	x	x	0	x	x	x	x	x	x	x	0
Government institutions	3	x	x	0	x	x	x	x	x	x	x	0
Credit institutions	0	x	x	0	x	x	x	x	x	x	x	0
Other financial institutions	345	x	x	0	x	x	x	x	x	x	x	0
Non-financial enterprises	5,433	x	x	272	x	x	x	x	x	x	x	272
Households	2,534	x	x	39	x	x	x	x	x	x	x	34
Total	**77,263**	**68,136**	**811**	**8,903**	**2,722**	**732**	**1,253**	**1,422**	**1,846**	**616**	**0**	**8,886**

Performing and non-performing exposures and related provisions as at 31 December 2019 for the Capital Group of Alior Bank SA 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 basket 1	Including basket 2		Including basket 2	Including basket 3		Including basket 1	Including basket 2		Including basket 2	Including basket 3			
Credits and advances	53,297	47,244	6,051	8,592	740	7,899	-1,158	-516	-633	-4,290	10	-4,309	-457	26,228	2,585
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

	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 basket 1	Including basket 2		Including basket 2	Including basket 3		Including basket 1	Including basket 2		Including basket 2	Including basket 3			
Government institutions	7	7	0	0	0	0	0	0	0	0	0	0	0	6	0
Credit institutions	567	567	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial institutions	604	498	95	62	25	59	-5	-2	-2	-52	0	-52	-1	312	1
Non-financial enterprises	12,418	10,039	2,385	4,260	658	3,610	-226	-141	-76	-1,585	5	-1,592	-280	9,233	1,919
of which SMEs	10,911	8,892	2,026	3,787	651	3,148	-211	-134	-68	-1,290	2	-1,295	-256	8,548	1,862
Households	39,701	36,133	3,570	4,270	57	4,229	-928	-373	-555	-2,652	5	-2,664	-176	16,678	665
Debt securities	15,650	15,650	0	0	0	0	-10	-10	0	0	0	0	0	0	0
Central banks	1,750	1,750	0	0	0	0	0	0	0	0	0	0	0	0	0
Government institutions	13,794	13,794	0	0	0	0	-10	-10	0	0	0	0	0	0	0
Credit institutions	20	20	0	0	0	0	0	0	0	0	0	0	0	0	0
Other financial institutions	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-financial enterprises	86	86	0	0	0	0	0	0	0	0	0	0	0	0	0
Off-balance-sheet exposures	8,316	7,531	785	311	266	2	-20	-14	-5	-48	-46	0	x	634	3
Central banks	0	0	0	0	0	0	0	0	0	0	0	0	x	0	0
Government institutions	3	3	0	0	0	0	0	0	0	0	0	0	x	0	0
Credit institutions	0	0	0	0	0	0	0	0	0	0	0	0	x	0	0
Other financial institutions	345	247	98	0	0	0	-1	0	-1	0	0	0	x	0	0
Non-financial enterprises	5,433	4,830	604	272	237	1	-15	-12	-4	-48	-46	0	x	457	3
Households	2,534	2,451	83	39	29	1	-3	-2	-1	0	0	0	x	177	0
Total	77,263	70,425	6,836	8,903	1,007	7,900	-1,188	-541	-638	-4,338	-36	-4,309	-457	26,862	2,589

Collateral obtained by takeover and enforcement proceedings

Currently, the Bank does not practice taking over collaterals in connection with non-performing exposures, for this reason as at 31 December 2019, there are no disclosures regarding assets taken over through enforcement proceedings, in accordance with templates 9 and 10, published in the Guidelines on disclosures in the scope of non-performing and restructured 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 Capital Group of Alior Bank, 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 organizational 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.

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 organizational 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 point of view of market risk management of the Group of Alior Bank SA. 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 repricing gap,
- baseline risk, i.e. 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 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 variance-covariance method at 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

Alior Bank regularly monitors and reports:

- interest rate risk measure level;
- the degree of utilization of internal capital allocated to interest rate risk;
- the degree of utilization 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 Bank, broken down into bank and trade books as at the end of 2019 and 2018.

VaR	31 DEC 2019	31 DEC 2018
Bank ledger	36,480	36,860
Trade book[1]	3,031	3,422
Total[2]	**39,356**	**37,675**

[1] VaR of the trading book contains VaR for currency risk.
[2] VaR of the Capital Group of Alior Bank (prudential consolidation covering Alior Bank SA and Alior Leasing Sp. z o.o.)

Change in the economic value of capital

The change in the economic value of the capital while moving parallel interest curves by +/- 200 b.p. and scenarios defined by the EBA as at the end of December 2019 and 2018 for the Capital Group of Alior Bank (prudential consolidation covering Alior Bank SA and Alior Leasing Sp. z o.o.) is presented below:

Scenario	Change of economic value of equity 31 DEC 2019	Change of economic value of equity 31 DEC 2018
parallel up shift of interest rates (EBA)	117.133	199,744
parallel down shift of interest rates (EBA)	-157.107	-210,417
steeper interest rates curve (EBA)	-49.385	9,183
flatter interest rates curve (EBA)	50.185	39,414
increase in short-term interest rates (EBA)	84.891	101,249
decrease in short-term interest rates (EBA)	-130.323	-147,951
parallel up shift of curves by 200 bp	108.317	179,244
parallel down shift of curves by 200 bp	-136.170	-208,436
worst scenario	-157.107	-210,417
the most unfavourable scenario as % of Tier 1	2.4%	3.2%

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 2019 and at the end of 2018 for the Capital Group of Alior Bank (prudential consolidation covering Alior Bank SA and Alior Leasing Sp. z o.o.) is presented below.

	31 DEC 2019	31 DEC 2018
NII	6.86%	5.98%

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 variance-covariance method at 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 utilization 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 2019, 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 436.04 thousand, with the assumed confidence level of 99%.

horizon [days]	10
VaR [thousands of PLN]	436.04

VaR statistics on the currency portfolio for the period from January to December 2019

Minimum	Average	Maximum
24.88	227.75	710.56

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 DEC 2019
rates	+ 20%	23,190
rates	- 20%	-5,761

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 2019 was approx. 0.0055%.

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 minimizing the costs of liquidity acquisition.
The Bank has an internal liquidity adequacy assessment process (ILAAP) which comprehensively presents key indicators and figures concerning the Bank's liquidity risk profile.

This process accomplishes the following objectives:
- ensuring the ability to pay all liabilities in a timely manner at any time (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 in the event of a sudden deterioration of the liquidity situation;
- determining the scale of liquidity risk taken by the Bank by establishing internal liquidity limits, the survival horizon in extreme conditions
- minimizing 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 Emergency 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 organizational 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 Bank's activity,
- manages the Emergency 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, among other things, it calculates the required liquidity buffer.

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. Conclusion of transactions rests with the Treasury Department, the settlement and posting of transactions takes place in the Operations Division, while liquidity risk is monitored and measured in 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.

7.4.2 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.

7.4.3 Liquidity risk protection 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.

7.4.4 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, characterized 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 2019, the total liquidity buffer was PLN 14,295 million as compared to a minimum level of PLN 11,398 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 of assessing the situation in the liquidity area, including, among other things, monitoring (in brackets - values as at the end of 2019):

- the deposit base ratio and own issues ratio to net loans (1.15);
- stability of the deposit base (94%), including termination of deposits (0.6%);
- deposit concentration (WWK=1% - 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 Capital Group of Alior Bank, according to realigned dates as at the end of 2019, is presented in the table (in millions of PLN).

31 DEC 2019	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	**8,311**	**8,544**	**1,972**	**2,951**	**4,404**	**6,758**	**11,707**	**32,089**	**76,736**
Cash and Nostro	817	0	0	0	0	0	0	540	1,357
Receivables from banks	0	73	0	0	0	135	0	0	208
Securities	7,421	7,422	0	0	0	335	390	195	15,763
Receivables from customers	72	1,050	1,972	2,951	4,404	6,288	11,317	27,853	55,907
Other assets	0	0	0	0	0	0	0	3,501	3,501
Equity and liabilities	**-3,317**	**-3,016**	**-3,281**	**-1,839**	**-3,418**	**-4,101**	**-5,385**	**-52,379**	**-76,736**
Owed to banks	-278	-117	-29	-40	-62	-113	-168	-78	-885
Owed to customers	-1,238	-2,826	-3,115	-1,500	-2,041	-2,571	-4,441	-44,727	-62,461
Own issues	0	-67	-108	-255	-1,227	-1,312	-658	-755	-4,383

31 DEC 2019	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
Shareholders' equity	0	-6	-12	-18	-36	0	0	-6,688	-6,759
Other liabilities	-1,801	0	-17	-26	-52	-104	-117	-131	-2,248
Balance sheet gap	4,994	5,528	-1,309	1,112	986	2,657	6,322	-20,291	0
Accumulated balance sheet gap	**4,994**	**10,522**	**9,213**	**10,325**	**11,311**	**13,969**	**20,291**	**0**	
Derivatives – inflows	0	7,978	2,077	748	344	761	285	43	12,235
Derivatives – outflows	0	-7,956	-2,084	-744	-344	-774	-289	-42	-12,234
Derivatives – net	**0**	**21**	**-7**	**3**	**0**	**-13**	**-4**	**0**	**1**
Guarantee and financial lines	0	-290	-212	-208	-294	112	335	558	0
Off balance sheet gap	0	-269	-220	-205	-294	98	331	559	1
Gap, total	**4,994**	**5,259**	**-1,528**	**908**	**692**	**2,756**	**6,653**	**-19,732**	**1**
Accumulated gap, total	**4,994**	**10,253**	**8,725**	**9,632**	**10,324**	**13,080**	**19,733**	**1**	

The analysis of maturity of assets and liabilities for the Capital Group of Alior Bank, according to contract dates as at the end of 2019, is presented in the table (in millions of PLN).

31 DEC 2019	1D	1M	3M	6M	1Y	2Y	5Y	5Y+	TOTAL
ASSETS	**1,422**	**3,124**	**2,027**	**3,037**	**4,819**	**9,307**	**17,134**	**35,865**	**76,736**
Cash and Nostro	1,357	0	0	0	0	0	0	0	1,357
Receivables from banks	0	73	0	0	0	135	0	0	208
Securities	0	1,750	0	416	299	2,260	5,389	5,649	15,763
Receivables from customers	66	1,302	2,027	2,621	4,520	6,912	11,746	26,714	55,907
Other assets	0	0	0	0	0	0	0	3,501	3,501
Equity and liabilities	**-46,200**	**-5,103**	**-4,702**	**-3,878**	**-5,326**	**-2,599**	**-1,252**	**-7,675**	**-76,736**
Owed to banks	-278	-117	-29	-40	-62	-113	-168	-78	-885
Owed to customers	-44,121	-4,913	-4,536	-3,540	-3,949	-1,070	-309	-23	-62,461
Own issues	0	-67	-108	-255	-1,227	-1,312	-658	-755	-4,383
Shareholders' equity	0	-6	-12	-18	-36	0	0	-6,688	-6,759
Other liabilities	-1,801	0	-17	-26	-52	-104	-117	-131	-2,248
Balance sheet gap	**-44,777**	**-1,978**	**-2,675**	**-841**	**-507**	**6,708**	**15,882**	**28,189**	**0**
Accumulated balance sheet gap	**-44,777**	**-46,756**	**-49,431**	**-50,272**	**-50,779**	**-44,071**	**-28,189**	**0**	
Derivatives – inflows	0	7,978	2,077	748	344	761	285	43	12,235
Derivatives – outflows	0	-7,956	-2,084	-744	-344	-774	-289	-42	-12,234
Derivatives – net	**0**	**21**	**-7**	**3**	**0**	**-13**	**-4**	**0**	**1**
Guarantee and financial lines	-8,627	0	0	0	0	0	0	0	-8,627
Off balance sheet gap	-8,627	21	-7	3	0	-13	-4	0	-8,626
Gap, total	-53,404	-1,957	-2,683	-837	-507	6,695	15,877	28,190	-8,626
Accumulated gap, total	**-53,404**	**-55,361**	**-58,044**	**-58,881**	**-59,388**	**-52,693**	**-36,816**	**-8,626**	

As part of the monitoring of the liquidity risk level, the Bank carries out stress tests for liquidity, taking into account the internal, external and mixed crisis, including the development of a plan for obtaining funds in emergency situations, and defines and verifies the rules for selling liquid assets, taking into account liquidity maintenance costs. The results of stress tests are used to determine the minimum maintained buffer of unencumbered high quality liquid assets; they are used in the structure of emergency plans and to determine internal liquidity risk limits.

In the event of an increase in liquidity risk or a deteriorated liquidity status, the Bank has emergency action plans, specifying warning factors, responsibility of individual liquidity risk management units and sources, and costs of covering the expected outflow of funds from the Bank. Emergency plans are subject to periodic verification.
Under resolution 386/2008 of the Polish Financial Supervision Authority of 17 December 2008, the Bank establishes and reports the following 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 2019

	Regulatory liquidity measures - the Bank	31 DEC 2019
M3	Rate of coverage of illiquid assets with own funds,	3.68
M4	Ratio of covering non-liquid own assets and assets of limited liquidity with own funds and stable foreign funds.	1.18

In accordance with the requirements of the above Resolution, the Bank carries out an in-depth analysis of long-term liquidity and stability and structure of sources of finance, including the level of sediment and concentration for term and current deposits. In addition, the Bank monitors the volatility of on-balance-sheet and off-balance-sheet items, in particular the projected inflows due to credit lines and guarantees provided to customers.

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 DEC 2019
LCR	148%
NSFR	130%

In the period from 31 December 2018 to 31 December 2019, 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 Currency and unit: million PLN	Total non-weighted value (average)				Total weighted value (average)			
	End of quarter (DD MM YYYY)	**31 DEC 2019**	**30 SEP 2019**	**30 JUN 2019**	**31 MAR 2019**	**31 DEC 2019**	**30 SEP 2019**	**30 JUN 2019**	**31 MAR 2019**
	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	13,712	13,357	12,938	12,533
CASH OUTFLOWS									
2	Retail deposits and deposits of customers who are small enterprises, including:	38,696	38,196	37,135	35,766	3,059	3,039	2,966	2,867
3	Stable deposits	17,256	16,657	16,020	15,439	863	833	801	772
4	Less stable deposits	21,427	21,518	21,085	20,283	2,183	2,185	2,134	2,050
5	Unsecured wholesale financing	13,875	13,857	13,980	14,144	6,233	6,159	6,083	6,059
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)*	13,804	13,785	13,926	14,109	6,161	6,087	6,029	6,023
8	*Unsecured debt*	71	72	54	36	71	72	54	36
9	Secured wholesale financing					0	0	0	0
10	Additional requirements	9,029	9,524	9,972	10,356	1,056	1,111	1,202	1,282
11	*Outflows related to exposure to derivative instruments and other security requirements*	169	188	203	211	169	188	203	211
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*	8,860	9,335	9,769	10,145	887	923	999	1,071
14	Other contractual liabilities related to financing	1,074	999	886	812	930	856	742	668
15	Other contingent liabilities related to financing	877	911	1,007	1,117	0	0	0	0
16	**TOTAL CASH OUTFLOWS FLOWS**	x	x	x	x	11,277	11,165	10,994	10,876
CASH INFLOWS									
17	Secured credit transactions (e.g. with repurchase promise granted)	624	541	198	174	0	1	1	0
18	Inflows from fully performing exposures	1,534	1,469	1,465	1,475	1,129	1,091	1,115	1,117
19	Other cash inflows	160	146	136	150	150	137	126	141
EU-19a	(The difference between the sum of weighted total proceeds and the sum 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)	x	x	x	x	0	0	0	0
EU-19b	(Surplus of proceeds from related specialized credit institutions)	x	x	x	x	0	0	0	0

20	**TOTAL CASH INFLOWS**	2,318	2,156	1,800	1,800	1,280	1,228	1,242	1,258
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%*	2,318	2,156	1,800	1,800	1,280	1,228	1,242	1,258
		TOTAL ADJUSTED VALUE							
21	**SECURITY AGAINST LOSS OF LIQUIDITY**	x	x	x	x	**13,712**	**13,357**	**12,938**	**12,533**
22	**TOTAL NET CASH OUTFLOWS**	x	x	x	x	**9,998**	**9,937**	**9,753**	**9,618**
23	**NET OUTFLOW COVERAGE RATIO (%)**					**137%**	**134%**	**133%**	**130%**

The main source of funding of the Bank's activities, including the liquid assets portfolio, are funds acquired from the deposit base whose level as at the end of 2019 was about 86% of total liabilities. In financing its activity, the Bank focuses on individual customers - the largest part of the deposit base are current accounts of individual customers - 51%, while term deposits of individual customers account for 22% of the base. In addition, by diversification of sources of financing, the Bank acquires long-term funds as part of own issues (including the issue of subordinated liabilities). In order to obtain funds from the above sources of financing, the Bank carries out, among other things, deposit campaigns and updates prospects.

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 characterized 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 2019 WWK amounted to 1%, which indicates no concentration. The WWK statistics for 2019 are presented in the table.

High Concentration Indicator (WWK) statistics for the Bank for 2019

Minimum	Average	Maximum
0.98%	1.21%	1.72%

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.

In 2019, 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 and prepares cyclical reports. The reports prepared by Alior Leasing concerning 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 liquidity risk at the Group level.

In 2019, 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 organizational units of the Bank and of the Bank's Headquarters.

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 formalized operational risk management system to prevent operational events and incidents from occurring and minimise losses if the risk materializes.
Operational risk management includes identification, measurement and assessment of operational risk, management activities, monitoring and control of risk at all levels, from organizational 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 identification of operational risks, the Bank collects data on events and losses both at the Bank and its subsidiaries. Operational risk measurement and assessment is carried out using quantitative measures (including internal and regulatory capital calculation for operational risk with the use of the AMA approach) and qualitative measures (e.g. operational risk self-assessment). The AMA model uses in-house and third-party data on operational events, the factors of the business environment and the Bank’s in-house factors, as well as the results of scenario analyses.

Operational risk measurement and assessment include:

- Key Risk Indicators (KRI),

- target and limits,
- calculation of own funds requirement for operational risk - from 01 January 2018 the Bank calculates own funds requirement for operational risk in accordance with the advanced approach (AMA) for the Bank, excluding the Romania Branch, for which the standard approach (TSA) applies, and Alior Leasing, for which the basic indicator approach (BIA) applies,
- estimation of the Bank's operational risk internal capital based on the output of the AMA model,
- stress tests,
- scenario analyses,
- operational risk self-assessment,
- determination of the extent to which operational risk limits have been used,
- valuation of actual and potential losses associated with identified operational events.

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 organizational 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 organizational unit responsible for, among others:

- development and rollout of appropriate methodologies and instruments for operational risk management;
- monitoring the requirement for own funds for operational risk in accordance with the basic indicator approach (BIA) for Alior Leasing, using the standard approach (TSA) for the branch in Romania and in accordance with the advanced approach (AMA) in the scope of other activities conducted by the Bank;
- providing opinions and consulting operational risk assessment in projects, products and procedures (new and modified ones);
- monitoring of the level of internal utilization 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 organizational 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 minimize 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 the Bank is supported by the OpRisk IT system in which, among other things, operational events and losses are recorded and results of scenario analyses are recorded.

The Bank records operational events and consequences which enables it to effectively analyse and monitor operational risks. To monitor operational risks and their changes, key risk indicators (KRI) are used, for which tolerance levels are defined.
The level of operational risk losses and key risk indicators (KRI) are monitored on an ongoing basis and presented in monthly management reports to the Organizational Risk Committee and quarterly to the Management Board of the Bank and the Supervisory Board.

The value of operational losses (gross) in the Capital Group of Alior Bank S.A. for 2019 amounted to PLN 19,134 thousand.
Compared to 2018, the value of losses (gross) decreased by PLN 6,109 thousand. The value of operating losses for historical effects of the Bank BPH SA's operations taken over amounted to PLN 6,403 thousand. In 2019, the value of recoveries and operating revenues amounted to PLN 6,852 thousand, compared to PLN 1,589 thousand in 2018. The amount of operational losses was within the limit adopted for 2019 and objective 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.

Operating losses in the Capital Group of Alior Bank S.A. in 2019 in thousands of PLN – by category:

Loss category	gross loss 2019
Internal fraud	70
External fraud	11,031
Employment rules and workplace safety	750
Customers, products, and operational practices	5,061
Losses related to fixed assets	31
Disruption of the Bank's operations and system failures	339
Execution of transactions, delivery and management of operational processes	1,853
Sum total	**19,134**

AMA approach is used for measuring the internal capital 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).

Since 1 January 2018, the Bank applies and develops an advanced approach. On 14 February 2019, the Bank has been authorised by the Polish Financial Supervision Authority to implement a significant expansion to the AMA approach by encompassing historical consequences of the acquired business of Bank BPH SA and for combined use by the Bank of:

- the AMA approach – regarding Alior Bank SA's activity taking into account historical consequences of Bank BPH SA's business for the acquired separated part of BPH SA without the branch business in Romania,
- standardised approach regarding the Romanian Branch for the calculation of own funds requirements for operational risk since 14 February 2019.

The decision of 14 February 2019 also contained the consent to the Bank's own funds requirements maintained with the use of the AMA at a level not lower than 60% (previously 80%) of the requirements calculated on the basis of the standard approach.

The value of operational losses recorded in 2019 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 materialization 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 internal capital 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 emergency and crisis situations,
- develops and implements emergency solutions and Business Continuity Plans (BCP),
- performs tests, updates and self-assessment of the BCM system,
- builds awareness in the organization 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 emergency solutions for critical processes (including substitute locations) and disaster recovery solutions.

9. Own funds

The structure of own funds as at 31 December 2019 of the Alior Bank SA Group presents the following summary (for the purposes of calculation of the solvency ratio for 2019)

Own funds components as at 31 December 2019

	Own funds		(B) 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	**5,182,319**	art. 26.1, art. 27, 28 and 29, EUNB list referred to in art. 26.3
	Series A	1,500,000	EUNB list referred to in art. 26.3
	Series B	99,924	EUNB list referred to in art. 26.3
	Series C	685,310	EUNB list referred to in art. 26.3
	Series D, E, F	108,257	EUNB list referred to in art. 26.3
	Series C	457,995	EUNB list referred to in art. 26.3
	Series H	172,460	EUNB list referred to in art. 26.3
	Series I, J	2,158,373	EUNB list referred to in art. 26.3
2	Retained profits	-435,075	art. 26.1 (c)
3	Accumulated other comprehensive income (and other reserves, to include unrealized gains and losses under the applicable accounting standards)	1,768,661	art. 26.1 (c)
3a	General banking risk funds		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	art. 486.2
5	Minority shares (amount allowed in consolidated common Tier 1 equity)	0	art. 84,
5a	Irrespective of the verified profits from the current period, after deducting all encumbrances or dividends that can be foreseen	169,889	art. 26.2
6	**Common Tier 1 equity before regulatory adjustments**	**6,685,794**	
Common Tier 1 equity: regulatory adjustments			
7	Additional value adjustments (negative amount)	-11,727	art. 34, 105
8	Intangible assets (net of the related deferred income tax provision) (negative value)	-544,348	art. 36.1 (b), art. 37
9	Empty set in the EU	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	art. 36.1 (c), art. 38
11	Reserve capitals reflecting the fair value related to profits or losses arising from money flow hedging instruments	-40,576	art. 33 (a)
12	Negative amounts resulting from calculations of expected loss amounts	0	art. 36.1 (d), art. 40, 159,
13	Each increase in equity due to securitized assets (negative amount)	-15,436	art. 32.1
14	Profit or loss on liabilities, measured at fair value, resulting from changes in the credit capacity of the institution	0	art. 33 (b)
15	Assets of the pension fund with defined benefits (negative amount)	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	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	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	art. 36.1 (h), art. 43, 45, 46, art. 49.2 and 3, art. 79,

	Own funds		(B) Reference to an Article of Regulation (EU) No 575/2013
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	art. 36.1 (i), art. 43, 45, 47, art. 48.1 (b), art. 49. 1-3, art. 79,
20	Empty set in the EU	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	art. 36.1 (k)
20b	including: significant share packages outside the financial sector (negative amount)	0	art. 36.1 (k) (i), art. 89-91
20c	including: securitization items (negative amount)	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	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)	-295,856	art. 36.1 (c), art. 38, art. 48.1 (a),
22	Amount exceeding the threshold of 17.65% (negative amount)	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	art. 36.1 (i), art. 48. 1 (b)
24	Empty set in the EU	0	
25	including: deferred income tax assets resulting from temporary differences	0	art. 36.1 (c), art. 38, art. 48.1 (a)
25a	Losses for the current financial year (negative amount)	0	art. 36.1 (a),
25b	Expected tax burdens related to common Tier 1 equity (negative amount)	0	art. 36.1 (l)
26	Other adjustments in the temporary period in the Tier 1 primary equity	878,891	art. 473a
27	Eligible deductions from Additional Tier 1 equity which exceed Additional Tier 1 additional institution equity (negative amount)	0	art. 36.1 (j)
28	**Common Tier 1 equity total regulatory adjustments**	**-29,051**	
29	**Common Tier 1 equity**	**6,656,743**	
Additional Tier 1 capital: instruments			
30	Equity instruments and related share premiums	0	art. 51, 52
31	including: classified as own equity in accordance with applicable accounting standards	0	
32	including: classified as liabilities in accordance with applicable accounting standards	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	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	art. 85, 86
35	including: instruments issued by subsidiaries intended to withdrawal	0	art. 486.3
36	**Additional Tier 1 equity before regulatory adjustments**	**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	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	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	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	art. 56 (d), art. 59, 79,
41	Empty set in the EU	0	
42	Eligible deductions from Tier 2 equity positions which exceed Tier 2 of institutions' equity (negative amount)	0	art. 56 (e)
43	Additional Tier 1 equity total regulatory adjustments	0	
44	**Additional Tier 1 equity**	**0**	

	Own funds		(B) Reference to an Article of Regulation (EU) No 575/2013
45	**Tier 1 equity (Tier 1 = Common Tier 1 equity + Additional Tier 1 equity)**	**6,656,743**	
Tier 2 equity: instruments and provisions			
46	Equity instruments and related share premiums	1,342,232	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	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	art. 87, 88,
49	including: instruments issued by subsidiaries intended to withdrawal	0	art. 486.4
50	Credit risk adjustments	0	art. 62 (c) (d)
51	**Tier 2 equity before regulatory adjustments**	**1,342,232**	
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	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	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	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	art. 66 (d), art. 69, 79,
56	Empty set in the EU	0	
57	**Tier 2 equity total regulatory adjustments**	**0**	
58	**Tier 2 equity**	**1,342,232**	
59	**Total equity (total equity = Tier 1 equity + Tier 2 equity)**	**7,998,975**	
60	**Total risk-weighted assets**	**49,367,425**	
Equity ratios and buffers			
61	Common Tier 1 equity (as a percentage of risk exposure amount)	13.48%	art. 92.2 (a)
62	Tier 1 equity (as a percentage of risk exposure amount)	13.48%	art. 92.2 (b),
63	Total equity (as a percentage of risk exposure amount)	16.20%	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)	2,715,208	capital requirements directive, art. 128, 129, 130.131, 133
65	of which: capital conservation buffer requirement	1,234,186	
66	of which: capital conservation buffer requirement	0	
67	of which: systemic risk buffer requirement	1,481,023	
67a	of which: global systemically relevant institutions buffer or other systemically relevant institutions buffer	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)	0	directive on capital requirements, art. 128
69	[insignificant in EU regulations]	0	
70	[insignificant in EU regulations]	0	
71	[insignificant in EU regulations]	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	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)	78,255	art. 36.1 (i), art. 45, 48,
74	Empty set in the EU	0	

Own funds			(B) Reference to an Article of Regulation (EU) No 575/2013
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	695,260	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	art. 62
77	Ceiling for taking into account the credit risk adjustments in Tier 2 equity in accordance with the standard approach	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	art. 62
79	Ceiling for taking into account the credit risk adjustments in Tier 2 equity in accordance with the internal ratings approach	0	art. 62
Equity instruments being the subject of arrangements concerning withdrawal (applicable only from 1 January 2013 to 1 January 2022)			
80	Current threshold in relation to instruments in common Tier 1 equity being the subject of arrangements concerning withdrawal	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	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	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	art. 484.4, art. 486.3 and 5
84	Current ceiling in relation to Tier 2 equity instruments subject to arrangements concerning withdrawal	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	art. 484.5, art. 486.4 and 5

For the purposes of calculation of the solvency ratio for 2019, 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	Common equity Tier 1	Common equity Tier 1	Common equity Tier 1	Common equity Tier 1	Common equity Tier 1	Common equity Tier 1
Qualified at the unit level or (sub-) consolidated/at the unit level and (sub-) consolidated level	unit level/ consolidated level	unit level/ consolidated level	unit level/ consolidated level	unit level/ consolidated level	unit level/ consolidated level	unit level/ consolidated level
Type of instrument (types defined by each legal system)	ordinary shares	ordinary shares	ordinary shares	ordinary shares	ordinary shares	ordinary shares
Amount recognized in regulatory equity (currency in min, as at the last reporting date)	500,000,000	12,500,000	131,967,920	8,431,050	87,137,940	565,503,000
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

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
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
Original issue date	21 April 2008	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
			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 supervisory authorities	No	No	No	No	No	No
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 write-downs	No	No	No	No	No	No
In the case of impairment write-down, event or event causing the impairment write-down	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
In case of impairment write-down, in full or in part	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
In case of impairment write-down, permanent or temporary	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
In case of a temporary impairment write-down, a description of the impairment write-down mechanism	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable

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
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 DEC 2019
	Available equity (amounts)
Common Tier 1 equity (CET 1)	6,656,743
Common Tier 1 equity (CET 1) if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	5,522,973
Tier 1 equity	6,656,743
Tier 1 equity (CET 1) if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	5,522,973
Total equity	7,998,975
Total equity if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	6,865,205
Risk-weighted assets	
Total risk-weighted assets	49,367,425
Risk-weighted assets if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	48,451,169
Equity ratios	
Common Tier 1 equity as a percentage of risk exposure amount	13.48
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	11.40
Tier 1 equity as a percentage of the risk exposure amount	13.48
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	11.40
Total equity as a percentage of the risk exposure amount	16.20
Total equity if transitional solutions concerning IFRS 9 or analogous expected losses on account of credits were not applied	14.17
Leverage ratio	
Measure of total exposure comprising the leverage ratio	79,842,771
Leverage ratio	8.34
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	6.98

Arrangements of own funds to the amounts presented in the consolidated financial statements of the Capital Group of Alior Bank as at 31 December 2019.

	positions of the consolidated financial statement	adjustments resulting from the application of prudential consolidation	positions of the consolidated financial statement after taking into account prudential consolidation	items not taken into account in regulatory own funds	items recognized in regulatory own funds
ASSETS					
Intangible assets	580,352	-36,004	544,348	0	-544,348
LIABILITIES AND EQUITY					
Share capital	1,305,540	0	1,305,540	0	1,305,540
Supplementary capital	5,393,358	-4,432	5,388,926	0	5,388,926
Revaluation reserve	77,009	0	77,009	40,576	36,433
Other reserves	166,850	12,655	179,505	0	179,505
Retained profits	0	0	0		0
- previous years' result	-436,524	1,450	-435,074		-435,074
- current year net result	252,832	17,726	270,558	270,558	0
Non-controlling interest	0		0		0
Total own equity	**6,759,065**				**6,475,330**
Equity included in the calculation of regulatory own funds					6,475,330
Other components (decreases and increases) of own funds, including:					1,523,645
- subordinated liabilities					1,342,232
- goodwill and other intangible assets					-544,348
- profit verified by a statutory auditor for which the Capital Group has the consent to include in its own funds					169,889
- deferred income tax assets based on future profitability and resulting from temporary differences					-295,856
- adjustment in the transitional period due to adjustment to IFRS 9 requirements					878,891
- securitization positions					-15,436
- adjustment of the value due to prudent valuation requirements					-11,727
Regulatory own funds adopted to calculate the total capital ratio					**7,998,975**

10. Financial leverage

The regulatory leverage ratio of Alior Bank SA Group as at 31 December 2019 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: - "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 Capital Group of Alior Bank SA published in accordance with Commission Implementing Regulation (EU) 2016/200

LRSum: Summary for reconciliation of accounting assets and leverage ratio exposures		**2019-DEC-31**
		Applicable amount
1	Total assets according to published financial statements	76,735,833
2	Adjustment on account of entities subject to consolidation for accounting purposes but not covered by the scope of regulatory consolidation	-49,648
3	(Adjustment on trust assets recognized 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
4	Adjustment on derivatives	333,782
5	Adjustment on securities financing transactions (SFTs)	0
6	Adjustment on off-balance sheet items (i.e. conversion to the amount of credit equivalent of off-balance-sheet exposures)	1,670,388
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
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
7	Other adjustments	1,152,416
8	**Measure of total exposure comprising the leverage ratio**	**79,842,771**

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		**2019-DEC-31**
		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)	78,009,361
2	(Amounts of assets deducted when determining Tier 1 equity)	-855,640
3	Total balance-sheet exposures (excluding derivatives, transactions financed with the use of securities and trust assets) (sum of lines 1 and 2)	77,153,721
Exposures for derivatives		
4	Replacement cost related to all transactions on derivatives (i.e. excluding a qualifying variable security deposit in cash)	502,229
5	The amount of mark-up in relation to the potential future exposure related to all derivative transactions (valuation method according to market value)	518,041
EU-5a	Exposure calculated using the valuation method of the primary exposure	

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)	-178,319
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 exposures for derivatives (sum of lines 4-10)	841,951
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	175,475
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	1,236
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 exposures under transactions financed with the use of securities (sum of lines 12–15a)	176,711
Other off-balance-sheet exposures		
17	Off-balance sheet exposures expressed as gross nominal value	8,459,080
18	(Adjustments due to conversion to the credit equivalent amount)	-6,788,691
19	Other off-balance-sheet exposures (sum of lines 17 and 18)	1,670,388
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	6,656,743
21	**Measure of total exposure comprising the leverage ratio (sum of lines 3, 11, 16, 19, EU-19a, and EU-19b)**	**79,842,771**
Leverage ratio		
22 Leverage ratio		8.34%
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)		**2019-DEC-31**
		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:	**78,009,360**
EU-2	Exposures included in the trading book	202,861
EU-3	Exposures included in the banking book, including:	**77,806,499**
EU-4	Covered bonds	0
EU-5	Exposures treated as exposures to the State	17,051,019
EU-6	Exposures to regional governments, multilateral development banks, international organizations and public sector entities not treated as states	5,912
EU-7	Institutions	602,053
EU-8	Secured with real estate mortgages	12,594,955

LRSpl: Division of balance sheet exposures (excluding derivatives, transactions financed with the use of securities, and excluded exposures)		2019-DEC-31
EU-9	Retail exposures	30,352,590
EU-10	Enterprises	9,305,832
EU-11	Exposures in default	5,386,992
EU-12	Other exposures (e.g. equity, securitization, and other assets not generating credit liability)	2,507,146

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 2019 is as follows:

Leverage ratio	31 March 2019	30 June 2019	30 September 2019	31 December 2019
Leverage ratio - application of a fully introduced definition of equity	6.58	6.65	6.89	6.98
Leverage ratios using the temporary definition of Tier 1 equity	8.04	8.06	8.31	8.34

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 2019, 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 2019 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):

- 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 2019 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, broken down into types of risks as at 31 December 2019 in thousands of PLN:

Risk types	Value of risk-weighted exposure	Capital requirement
credit risk	45,066,076	3,605,286
CVA credit valuation adjustment risk	160,733	12,859
high exposure risk	0	0
position risk	282,024	22,562
currency risk	0	0
settlement risk	0	0
commodity price risk	41,172	3,294
operational risk	3,829,501	306,360
including the base indicator approach (BIA)	53,442	4,275
of which the standard approach (TSA)	15,185	1,215
of which the advanced measurement approach (AMA)	3,760,874	300,870
TOTAL	**49,379,506**	**3,950,361**

Value of risk-weighted exposure and capital requirement for credit risk according to exposure classes as at 31 December 2019 in thousands of PLN:

Exposure class	Value of risk-weighted exposure	Capital requirement
Governments and central banks	1,778,611	142,289
Regional or local authorities	45	4
Public sector bodies	3,264	261
Institutions	597,510	47,801
Entrepreneurs	9,288,466	743,077
Retail	19,282,630	1,542,611
Secured with real estate mortgages	6,253,135	500,251
Exposures in default	6,292,587	503,407
Items associated with particularly high risk	31	2
Equity exposures	330,466	26,437
Other items	1,239,331	99,146
TOTAL	**45,066,076**	**3,605,286**

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 2019, the Capital Group of Alior Bank SA 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

The value of the system risk buffer, in accordance with the Regulation of the Polish Minister of Development and Finance of 1 September 2017 on the system risk buffer of 3% of the total risk exposure with the use of all exposures within the territory of the Republic of Poland.

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 2019, the Financial Stability Committee did not identify significant third countries for the Polish banking system. As at 2019 December 31 the anti-cyclical buffer ratio for the Bank is 0.004%.

The amount of the anti-cyclical buffer specific to the institution as at the end of 2019 for the Capital Group of Alior Bank SA is as follows:

	31 DEC 2019
Total risk exposure amount	49,379,506
Specific anti-cyclical buffer indicator for the institution	0.004%
Requirements for the specific anti-cyclical buffer institution	2,028

Geographical distribution of relevant credit exposures for the purposes of calculating the anti-cyclical buffer

	General credit exposures	Exposure included in the trading book	Securitization exposure	Own funds requirements				Weights used to determine own funds requirement	Anti-cyclical buffer indicator
	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: Securitization exposures	Total		
Division by state:									
POLAND	60,384,777	6,237	683,994	41,838,223	24,358	0	41,862,581	97.96	0.00
LUXEMBURG	467,425	-	-	467,060	-	-	467,060	1.09	0.00
FRANCE	189,445	-	-	148,760	-	-	148,760	0.35	0.00
GREAT BRITAIN	189,723	-	-	139,118	-	-	139,118	0.33	1.00
ROMANIA	40,460	-	-	24,984	-	-	24,984	0.06	0.00
GERMANY	41,250	-	-	22,462	-	-	22,462	0.05	1.00
UNITED STATES	23,844	-	-	18,772	-	-	18,772	0.04	0.00
OTHER COUNTRIES	16,132	-	-	11,716	-	-	11,716	0.03	0.00
BELGIUM	11,227	-	-	11,165	-	-	11,165	0.03	0.00
IRELAND	12,097	-	-	6,820	-	-	6,820	0.02	0.00
SWITZERLAND	10,089	-	-	5,764	-	-	5,764	0.01	0.00
THE NETHERLANDS	6,692	-	-	5,047	-	-	5,047	0.01	0.25
CYPRUS	6,510	-	-	3,739	-	-	3,739	0.01	0.00
DENMARK	2,692	-	-	3,480	-	-	3,480	0.01	2.50
NORWAY	725	-	-	981	-	-	981	0.00	1.50
CZECH REPUBLIC	657	-	-	803	-	-	803	0.00	2.50
SWEDEN	198	-	-	282	-	-	282	0.00	1.00
LITHUANIA	196	-	-	72	-	-	72	0.00	1.00
BULGARIA	1	-	-	1	-	-	1	0.00	0.50
ICELAND	0	-	-	0	-	-	0	0.00	1.75
TOTAL	**61,404,140.87**	**6,237**	**683,994**	**42,709,249**	**24,358**	**0**	**42,733,607**	**100**	

Buffer of other system-wide institutions (O-SII)

By decision of 14 October 2019, the Polish Financial Supervision Authority cancelled 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 (on stand-alone and consolidated basis) of other institutions of systemic importance, at the equivalent of 0.25% of the total risk exposures, calculated in accordance with art. 92.3 of the EU CRR (no. 575/2013).

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, as part of calculation of 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. In particular, as at 31 December 2019 as part of adjustments due to special credit risk, the Bank took into account adjustments from the last date on which the result was classified as own funds, i.e. of 30 June 2019.

The Financial Reporting Standard (IFRS 9) is applied at the Bank from 1 January 2018. 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	6,101,074
Increases due to amounts set aside for estimated credit losses in a given period	2,792,099
Decreases due to amounts reversed for estimated credit losses in a given period	1,977,235
Amounts taken against the accumulated credit risk adjustments	347,242
Transfers between credit risk adjustments	
Impact of exchange rate differences	
Merger of enterprises, including acquisition and disposal of subsidiaries	
Other adjustments	
Final balance	6,568,695
Amounts recovered by adjustments by credit risk disclosed directly in the profit and loss account	60,902
Adjustments by specific credit risk disclosed directly in the profit and loss account	

12. Internal capital

Alior Bank SA has a process of assessing the adequacy of internal capital (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 internal capital in banks (Dz. U. [*Polish Journal of Laws*] of 24 March 2017, item 637).
The purpose of the internal capital 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 internal capital,
- 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 2019 the Bank recognized 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,
- 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 size of internal capital were used for the types of risks considered significant in the Bank as at 31 December 2019:

- 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 organization,
- 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 materialization 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 internal 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. Variable remuneration components 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 risk management and discouraging excessive risk-taking (exceeding the acceptable level of risk at the Bank) in order to maintain a solid and efficient capital base and taking into account the long-term interest 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,
- to maintain a transparent relationship between individual results and individual remuneration by focusing on goals linked to responsibilities and actual influence,
- to 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 organizational 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 MRT’s variable pay constitutes encouragement to take special care of the Bank's long-term good and consisting of financial instruments related to the Bank's 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 organizational 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. 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 specialization 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 judgments 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, specialization 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 internal capital 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.

The composition of the Committee as at 1 January 2019 and at the end of the reporting period, the composition of the Committee without changes:

• Tomasz Kulik	Chairman of the Committee
• Marcin Eckert	Member of the Committee
• Maciej Rapkiewicz	Member of the Committee
• Mikołaj Handschke	Member of the Committee

In 2019, the Nomination and Remuneration Committee held 16 meetings which, among other things, evaluated the Management Board as a body, provided opinions on the Pay Policy, classification of positions subject to the Remuneration Policy for individuals having major effect on the Bank's risk profile, and conducted current updates for MRT identification during the year, provided opinions on the objectives of those individuals for 2019 and the topics related to the variable component of the pay of those individuals.

Functions of members of the management body

As at 31 December 2019, Members of the Management Board of Alior Bank SA held 8 positions in management boards and 5 positions in supervisory boards. Data includes functions in the Management Board of the Bank and treats functions as a single function within the Alior Bank SA Group.

13.2. Bonus systems for the Managing 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, stabilizing 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 Authorized 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 Polish Act of 9 June 2016 on the principles of shaping remuneration of persons managing certain companies.

The remaining members of the Management Staff, 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 organizational 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 influencing the risk profile

The summary quantitative information for the Members of the Management Board and persons affecting the risk profile is presented below in 2019 (in thousands of PLN):

Business Area	Total Remuneration
Products and sales – Individual Customer segment	5,622
Products and sales – Business Customer segment	7,033
Risk/Audit/Compliance	7,586
Other units	17,048
Subsidiaries	4,562
Total	**41,850**

Remuneration	number of persons	Total remuneration for the financial year		Variable remuneration for the financial year			
		fixed for 2019	variable for 2018	cash	financial instruments	issued/ paid	deferred for subsequent years
Management Board Members	13	8,559	398	199	199	239	159
Other persons affecting the Bank's risk profile	85	26,754	6,139	3,622	2,518	4,031	2,108
Total	**98**	**35,313**	**6,537**	**3,821**	**2,717**	**4,270**	**2,267**

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 2019 (in thousands of PLN):

Remuneration	number of persons	Benefits connected with departure
Management Board Members	11	8,170
Other persons affecting the Bank's risk profile	18	3,574
Total	**29**	**11,744**

The amount of the highest single payment to one person is PLN 1,440 thousand.

Below you will find quantitative information for persons affecting the risk profile in previous years with regard to deferred parts (in thousands of PLN):

Remuneration	number of persons	Variable remuneration granted in previous years - paid in a given year
Persons affecting the Bank's risk profile	28	2,353

In 2019, 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 arrangements described in the Report correspond to the facts, and the risk management systems used are appropriate from the point of view of the profile and risk strategy of the Capital Group of Alior Bank SA.

Statement of the Management Board on liquidity risk

In 2019, the Management Board of the Bank 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 materialization.

Alior Bank, as an institution operating mostly on the retail market and independent of a foreign parent institution, is characterized by a lower level of liquidity risk resulting from maintaining a stable deposit base (characterized by high stability at 94%), as well as a small involvement in long-term mortgages denominated in foreign currencies.

As at 31 December 2019, all liquidity limits were at a safe level, including: LCR amounted to 148%, M3 ratio reached the level of 3.68, M4 amounted to 1.18, and the total liquidity buffer amounted to PLN 14.3 billion compared to the required level of PLN 11.4 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 2019 at a level consistent with the risk appetite defined by the Supervisory Board. 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. The situation was closely monitored on the basis of cyclical reports submitted to the Management Board of the Bank and maintained at a safe level by adjusting the deposit base and launching additional sources of financing depending on the development of credit campaigns and other liquidity needs.

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.