Management Board Report of the Alior Bank S.A. Group for 2014

ALIOR BANK

WYŻSZA KULTURA BANKOWOŚCI

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LETTER FROM THE CEO

Dear Sirs,

During the past 12 months Alior Bank consequently strengthened its market position by establishing deeper relations with existing clients and at the same time maintaining leadership position in new clients acquisition. Compared to previous year net profit increased by 40% while operating income increased by 20%. I find these results satisfactory taking into account changing market conditions in 2014. I believe that Bank's business strategy and implementation of subsequent initiatives will result in acceleration of Alior's development.

Cooperation with T-Mobile – one of the global leaders in telecommunication industry – initiated in May 2014 is progressing dynamically. T-Mobile Banking Services (provided by Alior) results achieved in the first months are optimistic. They confirm our initial assumption that in the coming years this initiative will become one of the growth engines of Alior Capital Group.

We are actively engaged in an on-going process of Polish banking sector consolidation which has been taking place for the past few years. On 21st October 2014 Alior Bank signed a purchase agreement for 97,9 percent of shares in Meritum Bank. Closing of the transaction took place on 19th February 2015. Pending Polish Supervisory Financial Authority approval for operational and legal merger Meritum Bank will remain separate entity within Alior Capital Group. Full integration should conclude the latest in 4th quarter of 2015. We believe this process will be one of the most effectively executed mergers on Polish market. I am convinced that combined potential of two dynamic and innovative banks will result in a strong organization which will offer its clients a broad range of attractive products and modern, multichannel service adhering to highest market standards. The merger will certainly bring further value for Bank's shareholders.

I would like to underline that in the autumn 2014 Alior Bank passed the most serious test so far in satisfactory manner: Stress Test conducted in line with most strict guidelines of European Banking Authority (EBA) and European Asset Quality Review. Test results confirmed both the merits of Bank's risk management strategy and its strong capital position which constitutes a guaranty for our depositors and solid underpinning for further development.

The lowering of interest rates by Monetary Policy Council in 4th quarter last year as well as administrative decisions concerning the increase of payments for Banking Guarantee Fund and introduction of lower interchange fees provide for serious challenges for Polish financial institutions in 2015. New market conditions make maintaining current banking sector profitability a very ambitious task. I can assure you that Alior Bank will undertake all necessary efforts to fulfill the expectations of our clients, employees, investors and shareholders.

I kindly invite you to read the report.

Yours faithfully,
Wojciech Sobieraj
CEO

LETTER FROM PRESIDENT OF THE SUPERVISORY BOARD

Dear Sirs,

2014 results are a confirmation of effective execution of strategy communicated by Management Board.

In 2014 Alior Bank started strategic initiatives which will certainly result in a further increase of value for our shareholders and enhanced product and service offering for current and future clients. These are as follows:

- start of virtual bank T-Mobile Banking Services provided by Alior Bank in cooperation with T-Mobile Polska
- signing of purchase agreement for Meritum Bank ICB S.A.

Consequent development of electronic channels of distribution is a proof of Alior innovation capacity and ability to define market trends as well as fulfill dynamically changing client expectations. Planned merger with Meritum Bank will already in 2015 benefit Alior and in a long term will significantly strengthen Bank's sales potential. Supervisory Board of Alior Bank is watching closely market developments and actively supports Management Board in execution of Bank's strategic initiatives.

Last year was also a period of changes within the Supervisory Board. Using this occasion I would like to thank Mrs. Lucyna Stańczak-Wuczyńska for her valuable contribution to the works of Supervisory Board and wish her success in a subsequent professional endeavors. In October 2014 we welcomed two new members: Mr. Niels Lundorff and Mr Stanisław Popow. Both of them have strong competences backed by substantial professional experience which will certainly result in further enhancement of Supervisory Board's efficiency this year.

On behalf of the Supervisory Board I would like to thank shareholders and the Management Board as well as all employees of Alior Bank for their engagement wishing them success in 2015.

Your faithfully,

Helene Zaleski
President of the Supervisory Board

What do banking and tailoring have in common?

Contrary to all appearances, much.
Especially higher banking culture and haute couture.

We strive to create banking that is elegant and convenient so that every Client could feel at Alior Bank as in well-tailored clothing.

In this annual report, like in others of its kind, we handle figures, but we do not forget their human dimension.

Chapter I.

I. DESCRIPTION OF ALIOR BANK'S OPERATIONS IN 2014

Crucial business initiatives executed in 2014

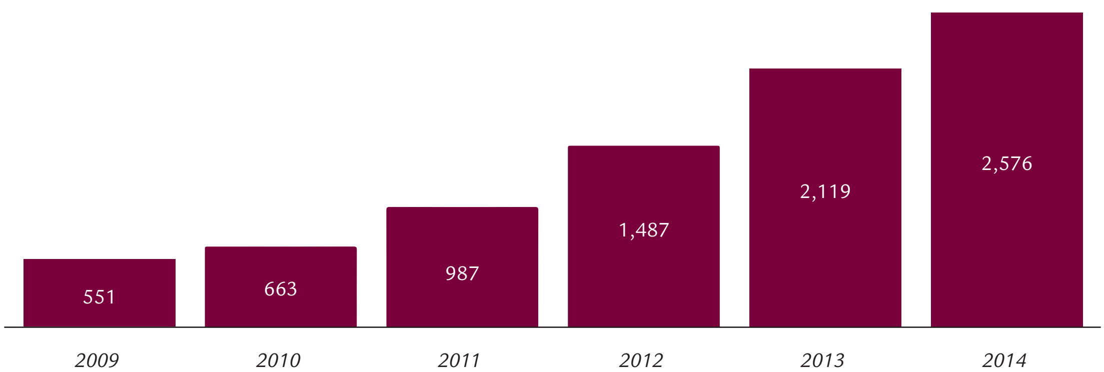
In 2014, Alior Bank continued to carry out the strategy aimed at enriching and optimizing the product offer as well as continuing to rapidly gain new customers. Achieving these objectives is the basis for the Bank's strategy which assumes deepening the Bank's relationships with existing customers and gaining new ones for the existing distribution network. As a result, the Bank intends to double its market share in 2016 compared with 2012.

In 2014, the Bank executed the above strategy both with dynamic organic growth and active efforts in the field of consolidating the banking sector assets.

Implementing measures aimed at dynamic organic growth enabled the Bank to maintain a high rate of acquisitions of new customers and a high level of sales in 2014. These activities had a significant impact on the increase in the effectiveness of operations measured with ROE, which amounted to 12.4% as at the end of 2014 and went up by 1.4 p.p. year on year.

As at 31 December 2014, the number of customers to whom services were provided reached 2 576 thousand. About 2 454 thousand are individual customers and more than 122 thousand are corporate customers. On a year on year basis, the number of customers at the end of 2014 went up by 457 thousand, thus ensuring the Bank maintained its leading position in the Polish banking sector with regard to increasing the number of customers served.

Number of Alior Bank S.A. customers (in thousands)



In 2014, the Bank gained retail customers mainly due to selling cash loans and housing loans, as well as deposit and settlement products, based on an extensive network of outlets located throughout the country and remote access channels.
The increase in the number of corporate customers served was mainly due to granting working capital and investment loans by the Large Enterprises Centre and the Regional Business Centres.

In terms of clients acquisition the most important distribution channels were: T-Mobile Usługi Bankowe (nearly 38% clients acquired in 2014), Alior Bank branches (nearly 30% clients acquired in 2014) and Consumer Finance (23.7% clients acquired in 2014).
Alior Bank mainly provides services to customers from Poland. The share of foreign customers in the total number of customers is negligible.

The impressive increase in the number of customers was actively supported by the following business initiatives:

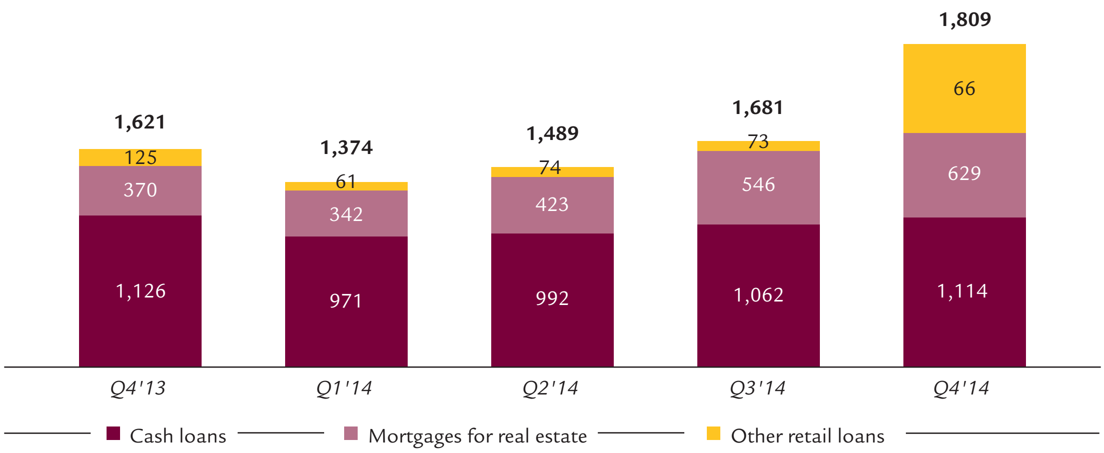
- Cooperation with T-Mobile Polska – On 4 May 2014, the Bank began offering products and services to the new and existing customers of Alior Sync under a new brand: T-Mobile banking services delivered by Alior Bank.
  The launching of this cooperation gave new customers the opportunity to open personal accounts with a debit card in 783 T-Mobile sales outlets (including 74 store-in-store outlets providing full banking services). T-Mobile customers may at the same time avail themselves of a free-of-charge debit limit in a current account of up to PLN 1000.
  The full offer of T-Mobile Usługi Bankowe products and services is available in all remote channels, comprising: the Internet service, mobile applications, Contract Center and Wirtualny Oddział (the Virtual Branch) – enabling full customer service through audio, video or chat with bank advisor channels.
  In the period to the end of 2014 (i.e. less than 9 months), over 145 thousand customers were gained, 85% of whom had no previous relationship with Alior Bank.
  New products to be introduced as part of the continued cooperation in 2015 will be products combining bank services with telecommunications services, including products for small businesses. Moreover, the access channels will be developed.

- In 2014, the Bank continued to acquire customers in the Consumer Finance sector. Based on the sale of instalment loans through an extensive network of retail shops, the Bank is building the customer base which will be used to further develop the sales of loan products (mainly cash loans). Increasing the scale of productization of the customers thus gained is one of the sources for strengthening the level of income generated.
  The assets of Alior Bank's offer in the area of Consumer Finance include a new approach to sales processes, mainly a break-through online instalment sale process. The Bank's offer is present in each of the 3 sales channels (stationary, direct and the above-mentioned online). Due to the most compact structure of sales, the instalment sale activity is based both on large instalment sale partners and on smaller enterprises, including also those operating locally. In each channel, Alior Bank cooperates with the largest retail sale leaders in the country (e.g. Euro RTV AGD, Allegro, Vorwerk, Zepter), thanks to which its offer is available to a wide group of customers throughout the country.

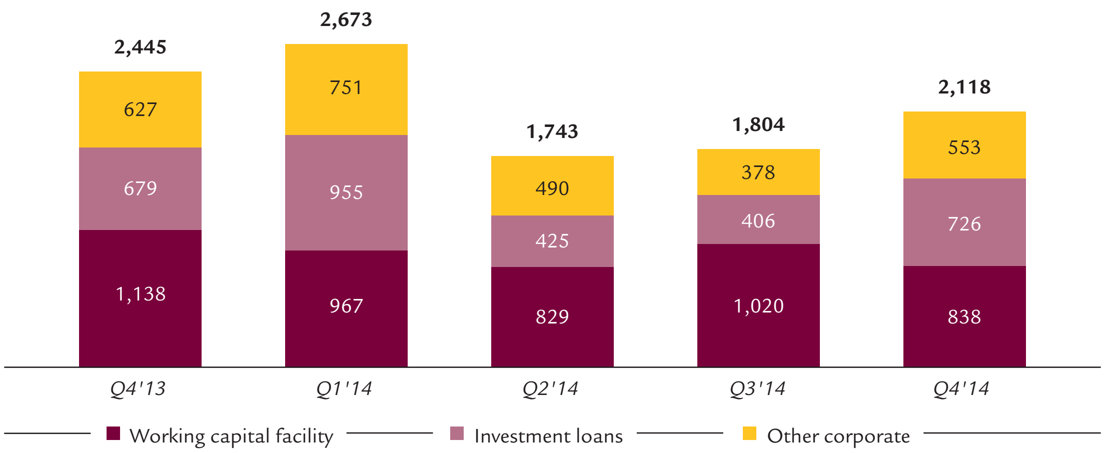
- Cooperation with a subsidiary Money Makers in three areas: asset management (managing individual customer portfolios / private banking), offers of insurance equity funds, and Alior SFIO subfund management.

The detailed amounts of quarterly sales (excluding renewals) in the individual product groups for retail and corporate customers are presented on the diagrams below.

Sales of products to retail customers (in million PLN)



Sales of products to retail customers (in million PLN)



In 2014, Alior Bank again became an active player on the market of mergers and acquisitions.

Based on the decision of the Polish Financial Supervision Authority issued on 14 August 2014, Alior Bank acquired SKOK im. Św. Jana z Kęt as of 1 September 2014. Through this transaction, full security of funds accumulated by customers of the acquired SKOK im. Św. Jana z Kęt was ensured. The value of the assets acquired amounted to 0.22% of Alior Bank's assets.

In October 2014, Alior Bank signed a preliminary contract with Innova Financial Holdings S.à.r.l, WCP COÖPERATIEF U.A. and the European Bank for Reconstruction and Development concerning the acquisition of Meritum Bank and signed a contract with Innova Financial Holdings S.à.r.l and WCP Coöperatief U.A. concerning subscription of the Bank's new issue shares.

The transaction constituting the subject of the above-mentioned contracts comprises the acquisition of shares in Meritum Bank ICB by Alior Bank, representing 97.9% of Meritum's share capital and 95% of the total number of votes at the general meeting of Meritum, in return for a total price of PLN 352.5 million.

On 10 February 2015 the Polish Financial Supervision Authority made a decision of no exsisting obstacles to object against Alior Bank's purchase of shares in Meritum Bank ICB S.A.

On 19 February 2015 Alior Bank acquired 12 382 746 shares in Meritum Bank ICB, representing 97.9 percent of the share capital and 95 percent of the total voting rights at the general shareholders meeting of Meritum, for the amount of PLN 352.5 million. This purchase has been financed with means acquired from issue of subordinated bonds and issue of shares of the Bank. Innova Financial Holdings S.à.r.l and WCP Coöperatief U.A., previous shareholder of Meritum Bank, took up 2 355 498 shares of new issue of Alior Bank of PLN 172.7 million value.

Moreover on 19 February 2015 the Bank informed of intention to merge Alior Bank with Meritum Bank. The completion of the merger is contingent on: obtaining the consents and permits connected with the merger, including the permit of the Polish Financial Supervision Authority to the merger and adoption of resolutions by the Bank's General Meeting and the Meritum General Meeting concerning the merger, and in particular resolutions voicing consent to the merger plan.

Meritum Bank will remain an independent company within Alior Bank's Capital Group, until the moment of Polish Financial Supervision Authority permission for a legal merger. Integration, which is gradual processes connection of systems and IT infrastructure of both banks and preparation of unified offer of products and services, will last until IV quarter of 2015 the latest.

Connection of experience of Meritum Bank, in cash loans segment as well as small- and micro-enterprises banking in particular, with the current operations of Alior Bank, will enable to achieve effective business synergies and forming a bank with promising perspectives for development.

Financial results

The achievements relating to the increased number of customers and maintaining the scale of generated sales, discussed above, had a significant effect on the level of the results achieved.

At the same time, bearing in mind the occurrence of a number of factors in 2014, which had a negative effect on the level of revenue and costs generated, namely the prevailing low interest rates (including a significant reduction in interest rates in October 2014), reduction in interchange rates, and a significant increase in the level of charges to the BGF, the Bank took active measures aimed at limiting the effect of these factors on the results. These measures included, among others: deepening the relationships with clients, optimizing the product offer and changes in the table of fees and commissions.

As a result, the 2nd half of 2014 turned out to be crucial for the level of net profit generated. Excluding the negative effect of selling the assets of Polbita S.A. on the results for the 3rd quarter of 2014, both in the 3rd and 4th quarter of 2014, the net profit generated exceeded PLN 100 million.

The above net profit level is fully satisfactory to the Bank's Management Board. It constitutes a solid basis for a consistent and secure increase in the scale of the Bank's operations in the coming years.

The Bank's stable position was confirmed by the Stress Test performed in accordance with the strict guidance of the European Banking Authority (EBA). The test has shown Alior Bank's strong equity position and confirmed that the Bank not only meets the most prudent norms established by the provisions of the law as far as the solvency ratio is concerned. Moreover the Bank was subject to a European Asset Quality Review. The review covered 55% of the Bank's risk weighted assets. The results of the stress tests performed under this review confirmed the Bank strong capital position. The differences in assumptions identified between the Bank's models and the general models being the basis of the review did not have a material effect on the Bank's financial position.

The table below presents the basic amounts and financial ratios as at the end of 2014, including comparatives:

Selected amounts (in PLN million) and financial ratios	2014	2013	change
Net interest income	1 215.8	998.6	21.8%
Net fee and commission income	348.1	275.2	26.5%
Trading and other result	309.1	266.3	16.1%
Net operating income*	1 873.0	1 540.0	21.6%
General administrative expenses	-925.3	-847.4	9.2%
Net impairment allowances	-546.6	-405.0	35.0%
Profit before tax	401.1	287.7	39.4%
Net profit attributable to equity holders of the parent company	322.7	227.9	41.6%
Loans and advances to customers	23 648	19 654	20.3%
Customer deposits	24 428	20 832	17.3%
Equity attributable to equity holders of the parent company	3 013	2 185	37.9%
Assets	30 168	25 550	18.1%
NIM	4.69	4.67	0,02
ROE	12.4	11.0	1.4
ROA	1.2	1.0	0.2
Costs / Income	49.4	55.0	-5.6
Cost of risk**	2.40	2.29	0.12
Loans / Deposits	96.81	94.34	2.46
NPL	8.9	6.9	2,1
Coverage ratio of impaired loans	53.52	57.34	-3.82
Solvency ratio	12.8	12.11	0.69
Tier 1 ratio	11.23	10.34	0.89

* Includes: net interest income, net fee and commission income, dividend income, realized result on other instruments and net other operating income.

** Including impairment losses linked with sell of Polbita assets

The Bank Group's net profit (attributable to equity holders of the parent company) generated in 2014 amounted to PLN 322.7 million and was PLN 94.1 million, i.e. 41.6% higher than the net profit generated in a similar period of the prior year.

The amount of the net revenue earned was mainly affected by the amount of generated net interest income, which in 2014, in spite of record low interest rates, thanks to the increased scale of operations, effective management of the loan portfolio structure, reducing the costs of the deposit base and maintaining an effective pricing policy, amounted to PLN 1 215.8 million, i.e. 21.8% more than as at the end of 2013.

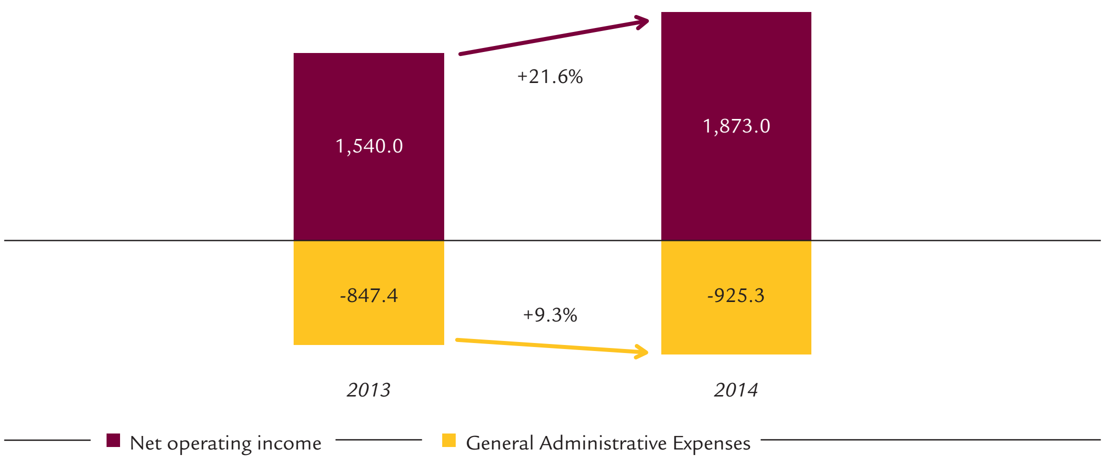
As a result, net interest margin in 2014 was similar to that for the prior year and amounted to 4.7%. As at the end of September 2014, the above-mentioned ratio for the peer group, according to the information of the Polish Financial Supervision Authority as of the end of September 2014, amounted to 2.69%.

Net commission income which increased by 26.5% in 2014, and reached PLN 348.1 million, was the second significant factor affecting the level of net revenue. The increase was achieved thanks to the increased scale of operations, despite the negative effect related to the reduction in interchange rates.

The total net operating income of the Bank's Group amounted to PLN 1 873,0 million and was 21.6% higher than the net operating income generated in 2013.

The increase in the Bank's general administrative expenses, despite the increased charges to the BGF, thanks to the careful monitoring of expenses incurred, was maintained in 2014 on a significantly lower level than the increase in net operating income (9.2% compared with the above-mentioned 21.6%), giving a Cost/Income ratio of approx. 49.4% (i.e. 5.6 p.p. less than in 2013). Incremental indicator C/I shaped at the level below 24%.

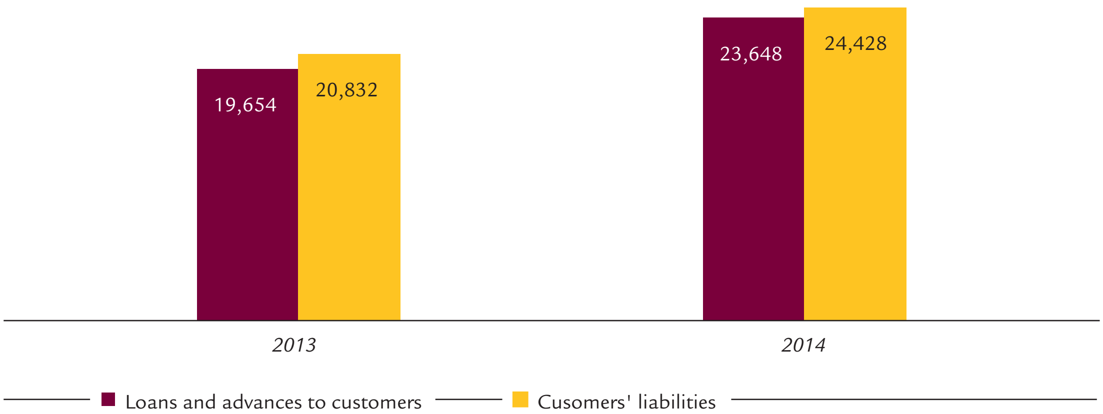
The levels of net operating income and general administrative expenses in 2013 and in 2014 (in PLN million) are presented on the diagram below:



The increase in net impairment losses, which amounted to -PLN 546.6 million in 2014 (-PLN 405.0 million in 2013 – up by 35.0%) resulted mainly from the dynamic increase in the scale of operations. The main factors affecting the level of net impairment losses included write-downs of amounts due from the non-financial sector (up by PLN -467.6 million, i.e. 20.7%). The above-mentioned item was also significantly affected by the change in the sign of the IBNR of the non-financial sector from plus to minus (PLN -31.7 million in 2014 compared with PLN +4.7 million in 2013). The allowances related to the Bank's exposure in Polbita amounted to PLN -24 million in 2013 and PLN -38.3 million in 2014.

Total net amounts due from customers as at the end of 2014 were PLN 23 648 million and the amount of accumulated customer deposits was PLN 24 428 million, i.e. 20.3% and 17.3% respectively more than as at the end of 2013.
As a result, the Loans/Deposits ratio amounted to 96.8%.

Customer loans and deposits (in PLN million)



As at the end of June 2014, the market share of Alior Bank in the market of loans was 2.8%, and in the deposit market 2.7%. Compared with the end of 2013, the share in the loan market increased by 0.3 p.p. and in the case of deposits it increased by 0.1 p.p.

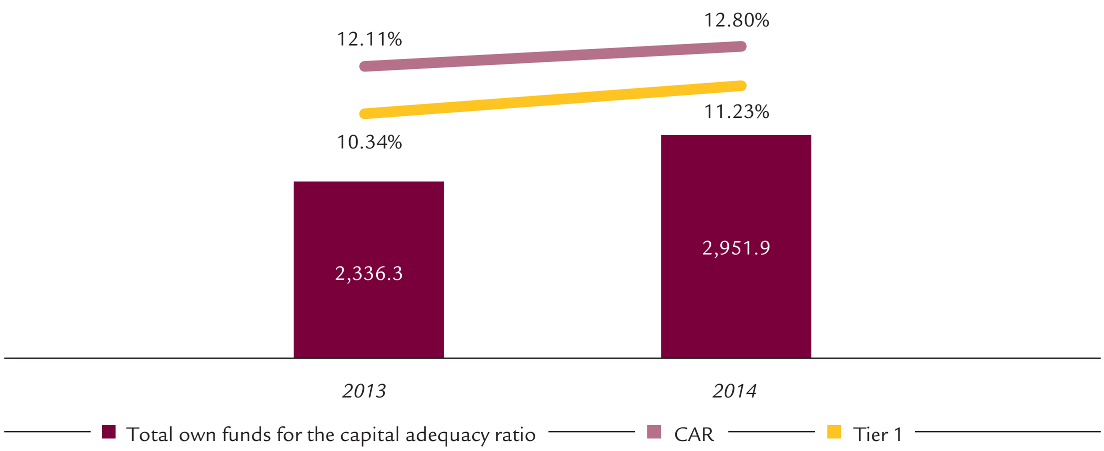
Bearing in mind high liquidity of the interbank market as well as a very low level of interest rates, the Bank, striving to keep level of operations effectiveness and low level of costs linked with current liquidity management, finances activity based on Repo transactions.

The Bank's intention is to limit its dependence on funds obtained from financial institutions so that the level of the Loans/Deposits ratio does not materially exceed 100%, at the same time striving to optimize as much as possible the structure of liabilities from the perspective of interest expense incurred by the Bank.
Amounts due to banks as at the end of 2014 amounted to PLN 1 049.2 million and were PLN 221.2 million, i.e. 26.7% higher than at the end of 2014.

In 2014, the Alior Bank Group maintained a level of equity adequate to the scale of operations, which was reflected in both the capital adequacy (CAR) and the Tier-1 ratios remaining on safe levels, higher than those recommended by the Polish Financial Supervision Authority.

The diagram below shows the level of the Bank's equity (in PLN million) and capital ratios.

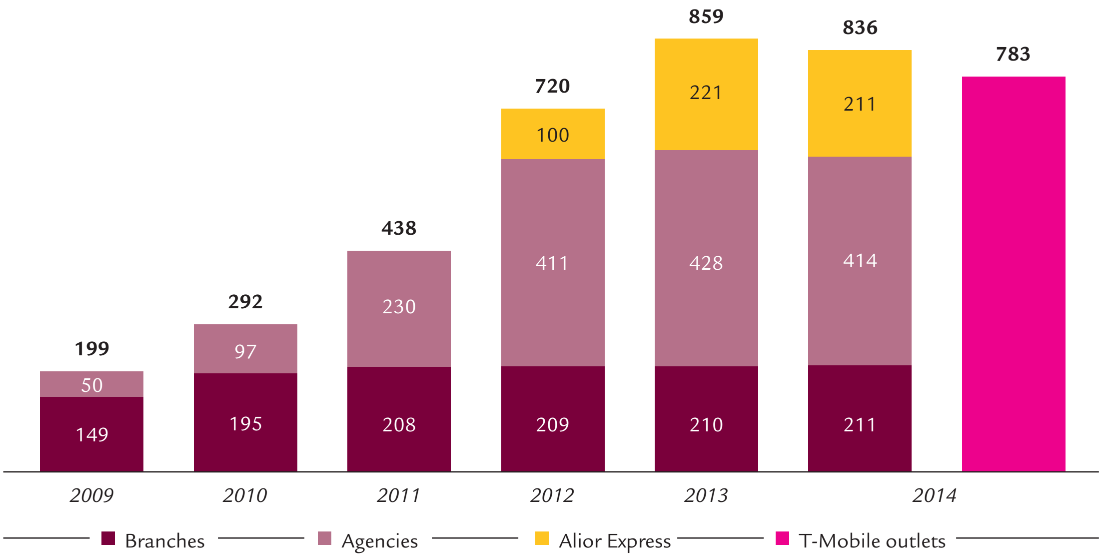
Equity (in PLN million) and capital adequacy ratio



Distribution network and employment level

Distribution network of Alior Bank S.A.

As at the end of 2014, the Bank had 836 outlets (211 traditional branches, 414 partner outlets, 211 mini branches operating under the brand Alior Express). The Bank's products are also offered through a network of nearly 3000 financial intermediaries' outlets.



It should be emphasized that an important element of Alior Bank's operational strategy is to continually analyse and increase the effectiveness of the distribution network created. The current fluctuations in the number of outlets which took place in 2014 were usually related to active network management processes aimed at optimally adapting the size and structure to the current tasks and situations on local markets.

Alior Bank also uses distribution channels based on a leading edge IT platform, which comprises: online banking, virtual banking, call centres and mobile banking.

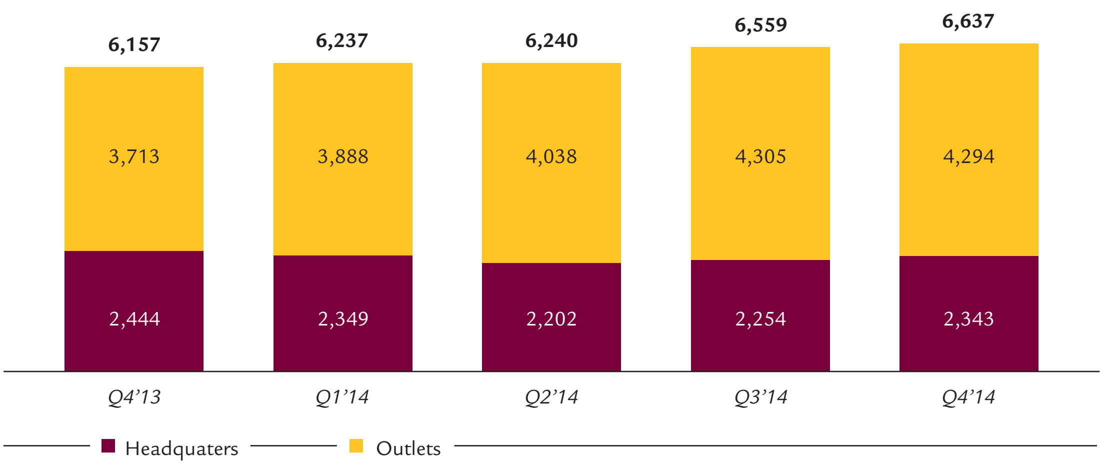
Significant support is provided to the above-mentioned distribution network by 783 service outlets which offer the Bank's products under the brand: T-Mobile banking services delivered by Alior Bank. Out of the above-mentioned service outlets, as at the end of 2014, full banking services were provided by 74 dedicated T-Mobile Banking Services outlets.

Additionally Consumer Finance products are available offered by more than 470 business partners and more than 1 000 shops.

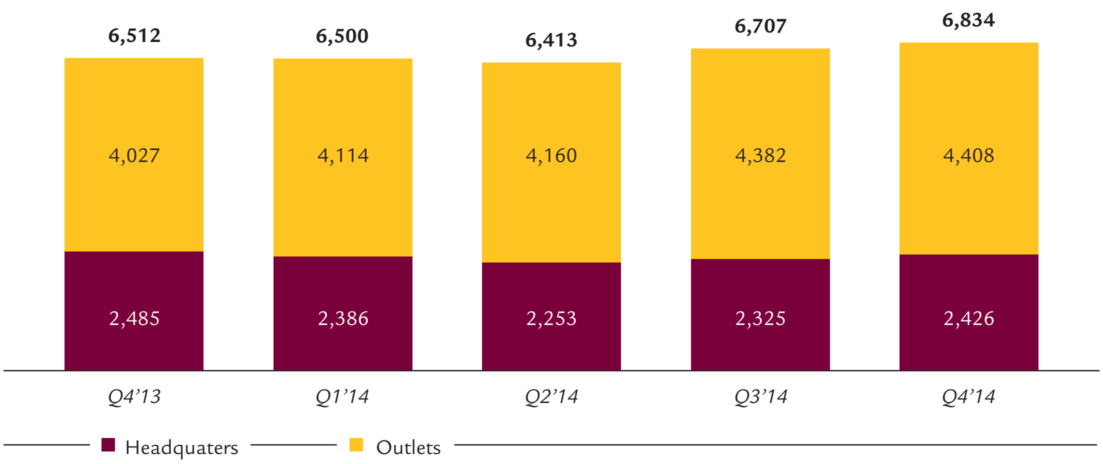
Number of employees

As at the end of 2014, the employment level at Alior Bank was 6 637 full-time positions. This means an increase of 480 full-time positions, i.e. 7.8% compared with the end of 2013. The employment level expressed in the number of persons employed increased in the same period by 4.9%, i.e. by 322 persons.
It should be emphasized that the key managers have been related to Alior Bank since its formation.

Employment level expressed by the number of full-time positions:



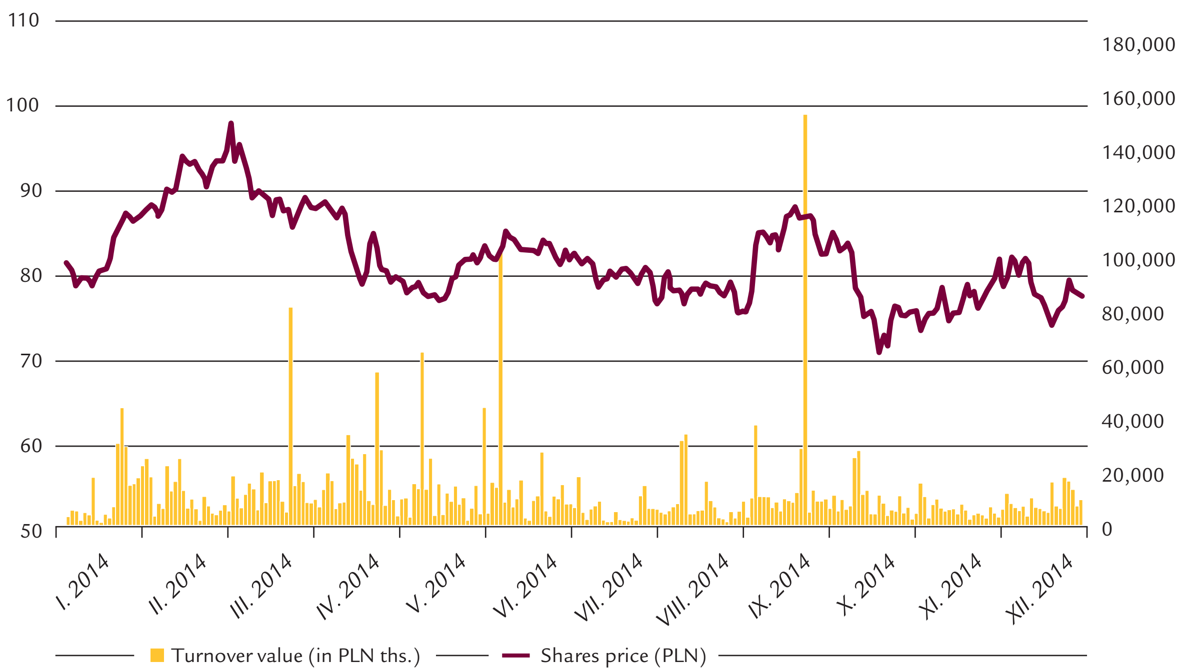
Employment level expressed by the number of persons:



Quotations of Alior Bank's shares on the WSE in 2014

Alior Bank made its debut on the WSE on 14 December 2012. On 21 March 2014, barely 15 months from the stock exchange debut, the Bank joined the circle of the largest and most liquid joint stock companies, quoted on the Warsaw trading floor. The total turnover in the Bank's shares in 2014 amounted to more than PLN 2.9 billion (vs. PLN 3.3 billion in 2013).
In 2014, the price of the Bank's shares went down by 4.3% reaching PLN 77.98 as at 30 December 2014. For comparison, the value of the WIG Banki index in the same period went down by 0.7% and the quotations of the WIG20 index dropped by more than 3.5%. As at the end of the year, Alior Bank's P/E and P/BV ratios amounted to 19.5 and 1.87 respectively.

The Bank's share prices and turnover volume on the WSE in 2014



Chapter II.

II. EXTERNAL ENVIRONMENT OF THE BANK'S OPERATIONS

Macroeconomic situation

The first half of 2014 brought a slight increase in the GDP growth forecasts abroad, relating to a greater extent to the US economy and southern Europe and to a lesser extent to the Eurozone as a whole. The GDP growth in the Eurozone in the second quarter amounted to +0.1% q/q (0.8% y/y) compared with the market consensus of +0.4% q/q. The disappointing data on the GDP dynamics in France, Italy and the Netherlands were partly a result of one-off factors. The GDP growth in Germany and Spain remained above the market consensus. The stabilization of energy prices was a significant factor globally affecting the inflation level and economic growth in the first half of 2014.

In October 2014, IMF revised downwards its forecast regarding the GDP growth of the main global economies for the years 2014 and 2015. According to IMF, this was mainly due to a slower than expected growth in the first half of the year of the economies, such as: Japan (stronger than expected drop in domestic demand as a result of the increased consumer tax), Brazil (domestic demand turned out to be lower than expected), Russia (the Russian-Ukrainian conflict had a negative effect on investment, production and consumer confidence indices) and the Eurozone (growth slowed down due to geopolitical tensions, a drop in investments and exports). At the same time, it was assessed that the economic situation of the United States, the United Kingdom, China and India was relatively good and supported the revival of the global economy.

In the third quarter, the GDP of the Eurozone went up by 0.2% q/q and remained on a level of 0.8% y/y, which shows a weak and dubious economic revival in the Eurozone. Moreover, decomposition shows clear differences between the individual countries of the zone. The reforms implemented in Spain, Ireland and Portugal have been bringing positive results in the form of a revival, whereas in France and Italy where structural reforms meet with resistance, a moderate growth has been recorded. Gradual deleverage of the private sector, stricter lending standards and a high unemployment level keep restricting the stability of the economic revival in these countries.

In the second half of 2014, the prices of many raw materials went down, especially that of crude oil (by approx. 50% bi-annually). In association with the weakening economic growth dynamics, the drop in energy prices led to low inflation in a number of countries, and in the Eurozone and in the countries closest to Poland inflation remained on a level close to zero.

In Poland, the GDP data in the first quarter of 2014 turned out to be slightly higher than expected, with stronger domestic demand and weaker net exports compared with the previous quarter. At the same time, in the second quarter there were signs of a slight slowdown in the Polish economy. In May 2014, the retail sales dynamics slowed down, thus slightly adjusting the growing trend which had been maintained since autumn 2013. The weakening of retail sales is attributable to a weaker growth in fuel and car sales. On the other hand, consumer confidence ratios which had been improving since the middle of 2013, returned to the level from the first half of 2010 in the second quarter of 2014.
The conflict in Ukraine was a significant factor affecting the GDP growth in the first half of the year. At the start of 2014, the scale of the slumps in the exports to Russia and Ukraine deepened. In April, exports to Russia shrank by 8.2% y/y and to Ukraine by 30.7%. The scale of the slumps on the Russian market was reduced due to fulfilling previous orders. As a result of the drop in sales to Russia and Ukraine, the general export dynamics were 1.3 p.p. lower.

The monthly records of economic activity observed at the start of the second half of the year indicated a significant economic slowdown due to the weakening exports as a result of the Russian-Ukrainian crisis. However, in the third quarter, the GDP grew above expectations and amounted to 0.9% q/q (3.3% y/y with 3.5% for the second quarter). This result was achieved mainly thanks to increased consumption and investments Despite the GDP growth above expectations, certain symptoms of slowdown have appeared, as shown by the data on industrial production, construction and assembly and retail sales, which may affect the reading of the GDP for the fourth quarter.

As regards employment in the first quarter of 2014, better than expected LFS (Labour Force Survey) data on employees were recorded. All employment ratios showed an improvement and the LFS growth dynamics turned out to be particularly high 1.8% y/y. The growth of employment and activity is particularly strong among women aged 15–34. In the second quarter of 2014, despite the slowdown in economic growth dynamics, the increase in the number of persons employed in the economy was maintained, with a slowing down of salary growth. Also in the third quarter, the number of employed increased, which led to a further drop in unemployment. The salary pressure remained limited which was reflected in the low growth of salaries in the economy. According to the data of the Central Statistical Office, the unemployment rate in December 2014 was 11.5% and was 1.9 p.p. lower than in December 2013.

From the beginning of 2014, inflation showed a downward trend. At the start of the year, the drop in inflation was mainly due to the lower than expected inflation of food prices (fruit and vegetables: as a result of favourable agrometeorological conditions, and meat: among other things, an increased supply caused by the Russian embargo). Moreover, from the middle of 2013 a downward trend of manufacturer prices has been observed. The manufacturer price dynamics in annual terms went down in May 2014 by 0.3 p.p. to -1.0% y/y. In June 2014, inflation amounted to 0.28% y/y. In the summer months y/y inflation went down below zero and has remained negative, mainly due to the falling prices of food and fuels. As at the end of the year, the drop in prices measured with CPI y/y amounted to 1.03%.

External factors affecting the Bank's operations in 2015

In 2015 it is expected that the favourable factors promoting the strong development of GDP in Poland will be maintained, mainly thanks to:

- progress in the improvement of the economic situation abroad;
- overlapping the use of EU funds from the current (2007-2013) and new (2014-2020) financial perspective;
- acceleration of GDP dynamics to a level slightly lower than the long-term average from before the global crisis;
- the demand gap remaining on a level approximating nil in the years 2015-2016;
- low prices of raw materials;
- continued growth of employment resulting in a stronger salary increase, and in consequence, consumption supporting the GDP.

The clearly negative growth factors include the expected increase in prices of electrical energy in 2015 in connection with introducing the obligation for the energy suppliers to purchase certificates of origin from cogeneration.

The most important external factors affecting the GDP growth and inflation in Poland include mainly the stability and scale of the revival in the Eurozone, the possibility of considerable appreciation of the Euro, Russia's bankruptcy resulting in an increased risk aversion and a potential escalation of the Ukraine-Russia conflict. The stability of the growth revival for the Eurozone, being Poland's main trading partner, also depends on the still unsolved conflict between Russia and Ukraine and the effect of the sanctions imposed as a result of the conflict. An additional drop in turnover in global trade and a slowdown of growth in the developing countries raises additional concern as to the expectations of the global economy's growth.

Macroeconomic forecast for the years 2015 and 2016

	2014		2015				2016			
	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
GDP increase (% y/y)	3.3	3.1	2.9	3.0	3.0	3.1	3.3	3.4	3.6	3.7
Unemployment rate (%, year-end)	11.5	11.5	12.1	11.2	10.5	10.6	11.3	10.4	9.7	9.8
CPI inflation (% y/y, period average)	-0.26	-0.75	-0.20	0.60	1.60	2.00	2.00	2.00	2.00	2.00
CPI inflation (% y/y, year-end)	-0.33	-1.03	0.20	1.00	2.20	1.80	2.00	2.00	2.00	2.00
3M WIBOR (average)	0.08	2.06	2.20	2.20	2.20	2.20	2.60	3.00	3.40	3.80
3M LIBOR EURO (average)	4.20	0.06	0.10	0.10	0.10	0.10	0.11	0.14	0.17	0.19
EUR/PLN rate (average)	2.10	4.21	4.20	4.15	4.10	4.00	4.0	4.0	4.1	4.1
IRS PLN rate: 2Y	2.50	1.77	1.70	1.80	1.80	1.90	1.90	1.90	1.90	1.90
IRS PLN rate: 5Y	0.15	1.93	1.90	2.00	1.90	1.90	1.98	2.06	2.14	2.22
IRS EUR rate: 2Y	0.42	0.18	0.13	0.18	0.18	0.18	0.18	0.18	0.18	0.18
IRS EUR rate: 5Y	-15	0.36	0.57	0.57	0.52	0.47	0.51	0.55	0.59	0.63
Basis Swap PLN/EUR: 2Y	2.28	-11	-15	-15	-15	-15	-15	-15	-15	-15
Basis Swap PLN/EUR: 5Y	-20	-6	-20	-20	-20	-20	-20	-20	-20	-20

It is assumed that the solid growth dynamics of Poland's GDP will be maintained in the years 2015 and 2016. The strong labour market will support consumption. Additionally, the utilization of EU funds will support infrastructure-related expenditure of the public sector. Unemployment will drop by 1 p.p. per annum, mainly in consequence of the increase in employment with a steady participation ratio. Inflation in 2014 dropped below zero and remained in this region until the early months of 2015. In 2015, inflation will grow, mainly due to the basis effect. This is shown by the inflation expectations among manufacturers (both in the industry and in services) which seem to be a better lead ratio than the inflation-related expectations among consumers. Inflation in 2015 will go up to 2% and will stabilize at this level in 2016. A lack of further interest rate reductions by the NBP in the period covered by the forecast has been assumed. Whereas deflation and the probable continued loosening of the monetary policy by the EBC supports the scenario of further interest rate reductions in Poland, yet solid growth will balance off the realization of this scenario. The decision-makers seem to ignore inflation and focus solely on the GDP, therefore it is expected that the interest rates will not change in 2015 and that they will go up in 2016.

Chapter III.

III. SITUATION IN THE BANKING SECTOR

Banking sector in 2014

The economic revival had a positive effect on the operating conditions of the Polish banking sector in 2014. We have observed increased activity of Polish enterprises and the related revival of the lending activity's growth dynamics, both in the area of corporate and household loans.
However, the risk factor still remains that the economic growth dynamics are weaker than the growths recorded in the middle of the last decade. Additionally, the state of the Polish economy is affected by a number of negative factors, including: the crisis in Ukraine, the low growth dynamics of the Eurozone economies or the turbulence observed in the currency markets.

In 2014, banks operated in an environment of record low interest rates, which in spite of the adapting measures undertaken by them, put pressure on the level of net interest margin generated. The pressure increased significantly as a result of the October interest rate reduction, which brought the Lombard rate down to 3%.

The considerable increase in charges related to introducing the new fee to the BGF – the prudence fee – was not without significance to the results generated by the banking sector. The fee goes towards the stabilization fund created within the BGF. Thanks to the above-mentioned fund, the security of the Polish banking sector will increase and the role and scope of the BGF's tasks will grow.
The increase in the banks' operating expenses was additionally due to implementing the Recommendation U issued by the Polish Financial Supervision Authority in June 2014. As a result of introducing this Recommendation, banks will be obliged to change the model of offering banking product-linked insurance to their customers. Introducing such comprehensive changes involves costs related to adapting the product offer, the IT systems and the internal procedures.

Basic structural data

As at the end of 2014, in Poland there were: 38 national commercial banks, 565 cooperative banks and 28 branches of lending institutions. The national bank network as at the end of November comprised: 7 354 branches, 4 870 bank offices and other customer service outlets and 2 838 agencies (including partnership outlets). The number of employees was maintained on a level of 172.7 thousand and was 1.6 thousand lower than the number of employees in a similar period of the prior year.

Main income statement items

In the period between January and December 2014, the banking sector generated a net profit at the level of PLN 16.2 billion compared with PLN 15.2 billion in a similar period of the prior year.
The net profit level of the sector was mainly affected by: an increase in the result on banking activities (to PLN 57.7 billion, i.e. 4.0% more than in the period from January to December 2014), which occurred as a result of a significant increase in net interest income (of 7.1%), accompanied by a slight increase in net fee and commission income (of 0.7%).
The increase in net interest income was mainly the effect of the banks adapting their deposit and lending policies to the environment of low interest rates. As a result, there was a strong drop in interest expense, accompanied by a moderate reduction in interest income.

Stagnation in net fee and commission income was mainly due to introducing changes in accounting policies in the area of recording income from sale of insurance products and a decrease (in the case of some banks) in commission income from granting loans.

General administrative expenses of banks (including amortization and depreciation and provisions) in the period under analysis, year to year, dropped slightly (by 0.2% to PLN 30.6 billion). The decrease was due to a drop in personnel costs (of 1.7% to PLN 15.1 billion) and a drop in overheads (of 0.8% to PLN 12.1 billion).

Negative balance of provisions and write-downs in 2014, in comparison to 2013, practically did not change and amounted to PLN 7.8 billion at the end of 2014.

Loans and deposits

After the growth dynamics of loans slowing down at the end of 2013, at the start of 2014 the lending activity accelerated again.
As at the end of December 2014, the balance of gross amounts due from the non-financial sector and government institutions and local authorities increased by PLN 57.7 billion, i.e. by 6.2% in annual terms to PLN 988.2 billion. Gross amounts due from the financial sector as at the end of December 2014 increased by 10.5% to PLN 130.2 billion compared with a similar period of the prior year.
The main areas of growth were loans to corporate customers (8.3% y/y), whereas the lending activity for households increased by 6.1% y/y, and gross amounts due from the public sector increased by 0.3%.

Deposits of the banking sector (deposits of the non-financial sector and public sector entities) increased in nominal terms at the end of November 2014 by 10.1% to PLN 914.7 billion.
The growth dynamics of the deposits of households exceeded the growth dynamics of corporate deposits (growth by 10.6% vs. 9.4% respectively). As a result, deposits of households as at the end of December 2014 increased to PLN 606.4 billion. Deposits accumulated by corporate entities as at the end of December 2014 amounted to PLN 229.4 billion.
The value of public sector deposits, which is subject to strong periodical fluctuations and is characterized by high concentration increased year to year by 9.5% and amounted to PLN 60.6 billion as at the end of December 2014.

Equity and capital adequacy ratios

As at the end of December 2014, the banking sector's equity amounted to PLN 166.5 billion, which represents an 8.8% increase in annual terms.
The level of equity for the capital adequacy ratio, calculated in accordance with the regulations contained in the CRR/CRDIV package was PLN 138.9 billion as at the end of September 2014, and it went up by 6.3% compared with the end of March (the first reporting period).

The aggregate capital adequacy ratio of the banking sector amounted to 14.93% as at the end of September (up 0.3 p.p. compared with the end of March 2014), whereas the Tier-1 ratio as at the end of the said period amounted to 13.73% (it went up by 0.4 p.p. compared with the end of March 2014).

The stabilization of the aggregate capital adequacy ratio and the Tier-1 ratio results from the fact that the observed increase in equity was accompanied by an increase in the aggregate risk-weighted exposure (of 4.2% y/y) resulting from the growth of the requirement in respect of credit risk.

Chapter IV.

IV. FINANCIAL RESULTS OF THE ALIOR BANK S.A. GROUP

Income statement

The main external factors which determined the level of the main income statement items in 2014 included:
- the increased demand for loans resulting from the improving economic situation trend;
- the environment of record low interest rates;
- reduction in interchange rates;
- the increase in charges related to the Bank Guarantee Fund.

Internal factors include:
- the increased scale of banking activity resulting from rapidly gaining new customers and maintaining high sales levels within the main products groups;
- supporting customer acquisition through a number of initiatives, including mainly offering products in cooperation with T-Mobile Polska; and
- active measures aimed at limiting the effect of the above-mentioned external factors on the results, which included: deepening the relationships with customers, optimizing the product offer and changes in the table of fees and commissions;
- careful monitoring of operational costs incurred, which went up by 9.2% year on year – i.e. to a significantly lower extent than the increase in revenues;
- creating write-downs related to the Bank's exposure in Polbita (PLN -24 million in 2013 and PLN -38.3 million in 2014).

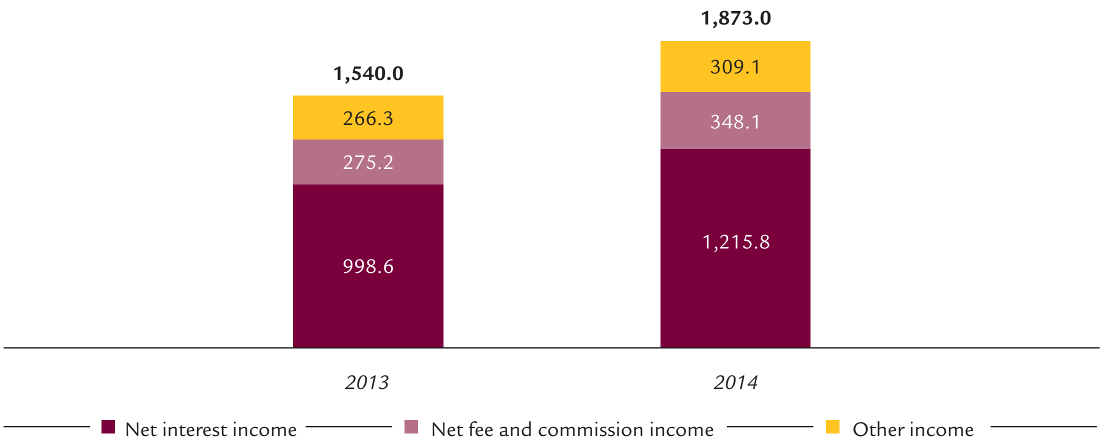
The detailed items of the Alior Bank S.A. Group's income statement are presented in the table below:

in PLN'000	1.01.14-31.12.14	1.01.13-31.12.13	Change y/y%
Interest income	1 713 075	1 518 166	12.8%
Interest expense	-497 317	-519 605	-4.3%
Net interest income	1 215 758	998 561	21.8%
Dividend income	16	23	-30.4%
Fee and commission income	533 608	475 930	12.1%
Fee and commission expense	-185 468	-200 752	-7.6%
Net fee and commission income	348 140	275 178	26.5%
Trading result	268 710	226 850	18.5%
Net gain realized on other financial instruments	7 928	11 812	-32.9%
Other operating income	52 384	49 916	4.9%
Other operating expenses	-19 948	-22 313	-10.6%
Net other operating income	32 436	27 603	17.5%
General administrative expenses	-925 271	-847 358	9.2%
Net impairment losses	-546 590	-404 981	35.0%
Profit before tax	401 127	287 688	39.4%
Corporate income tax	-79 080	-59 786	32.3%
Net profit on continued operations	322 047	227 902	41.3%
Net profit attributable to equity holders of the parent company	322 744	227 902	41.6%
Net profit attributable to non-controlling interests	-697		
Net profit	322 047	227 902	41.3%

Net profit of the Alior Bank S.A. Group (attributable to equity holders of the parent company) in 2014 amounted to PLN 322.7 million and it was PLN 94.8 million, i.e. 41.6% higher than the net profit generated for a similar period of the prior year.

The level of generated net profit was affected by the levels of the income statement items discussed below:

Total income (in PLN million)



Net interest income is the main component of the Group's income (representing 64.9% of the total balance). Its increase of nearly 22% in annual terms was a consequence of not only an increase in the volume of loans to customers of 20.3% and an accompanying increase in the volume of loans and advances to customers of 17.3% but also of implementing an adequate pricing policy in the scope of deposit and lending products, bearing in mind the Bank's functioning in an environment of low interest rates.

It should be noted that the Group's profitability, despite the drop in interest rates, remained at a level of 4.7% at the end of 2014 and did not change compared with the interest margin generated at the end of 2013.

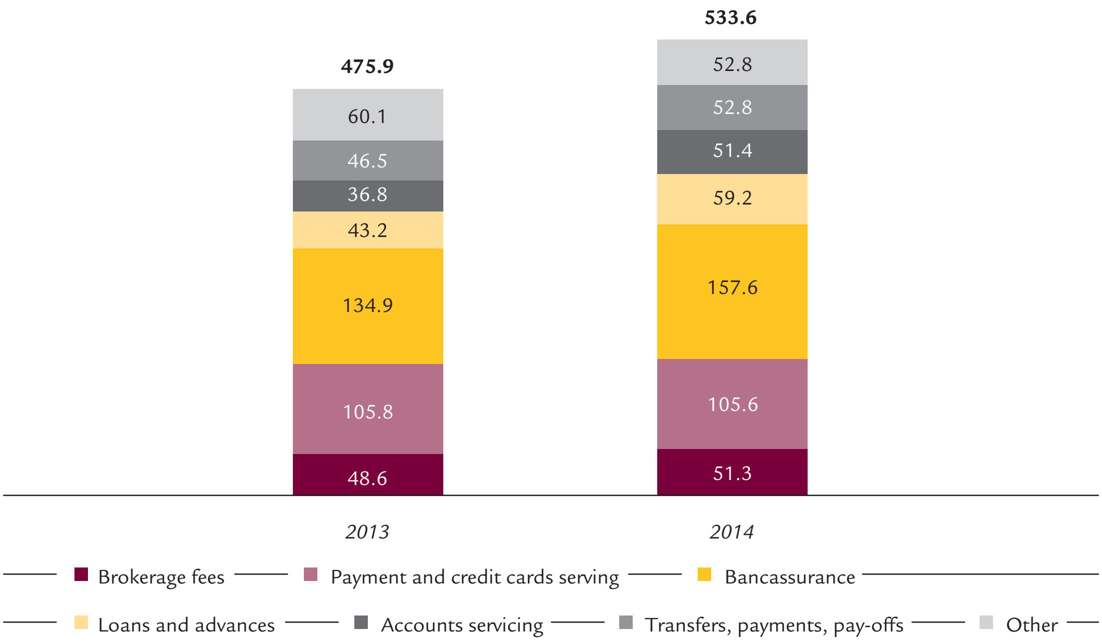
At the same time, the average interest rate on loans went down by 0.82 p.p. to 6.73%. In the same period, the average cost of deposits decreased to 1.97%, i.e. by 0.68 p.p.

The average 3M WIBOR rate in 2014 was 2.51% and was 0.52 p.p. lower compared with the average for 2013.

LOANS/3M WIBOR	2014 (%) 6.73/2.51	2013 (%) 7.55/3.03
retail segment, including:	7.96	9.23
Consumer loans	10.19	12.11
Loans for residential real estate	4.61	4.99
corporate segment, including:	5.23	6.29
Investment loans	5.09	6.58
Working capital facilities	4.69	5.95
Car loans	8.16	9.34
DEPOSITS	1.97	2.65
retail segment	1.89	2.78
Current deposits	0.85	1.31
Term deposits	2.77	3.52
corporate segment	2.12	2.37
Current deposits	0.10	0.14
Term deposits	2.26	2.56

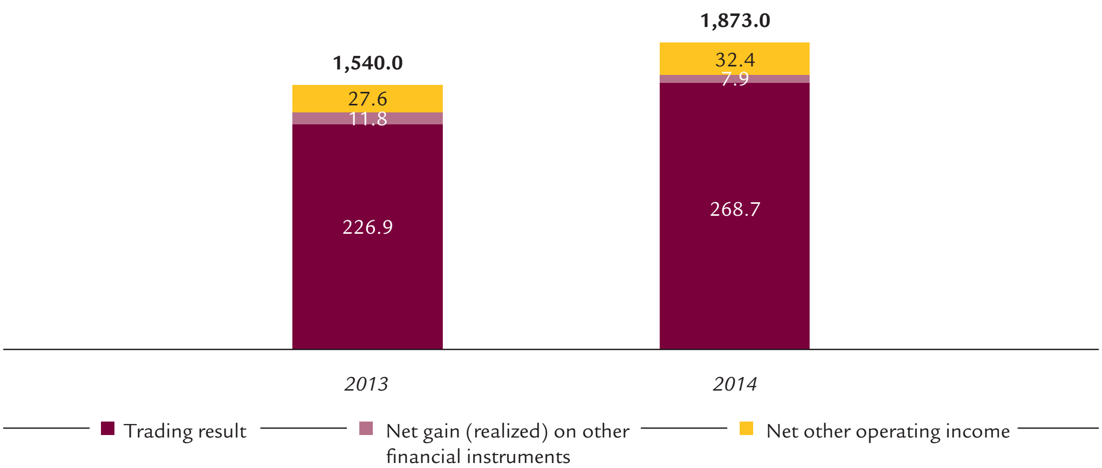
Net fee and commission income increased by 26.5% to PLN 348.1 million. It comprised PLN 533.6 million of commission income (up by 12.1%) and PLN 185.5 million commission expense (drop down by 7.6%).
The Group recorded increases in all the basic groups of fee and commission income. Fees for intermediation in insurance sales are the main component of fee and commission income. In 2014, they amounted to PLN 157.6 million and represented 29.5% of the fee and commission income.
Moreover, it should be noted that in spite of the drop in interchange rates, fee and commission income related to debit and credit card handling generated in 2014 remained on a similar level as in 2013, thanks to the increased scale of the Bank's operations.

Fee and commission income (PLN million)



Net trading income, result realized on other financial instruments and net other operating income went up in aggregate by 16.1% to PLN 309.1 million. The Group recorded an 18.5% increase in net trading income to PLN 268.7 million, i.e. by 41.9 million.
Trading result was achieved mainly thanks to margins on currency transactions and derivatives, on the interest rate, made with the Bank's clients.

Net trading income, result realized on other financial instruments and net other operating income (in PLN million)



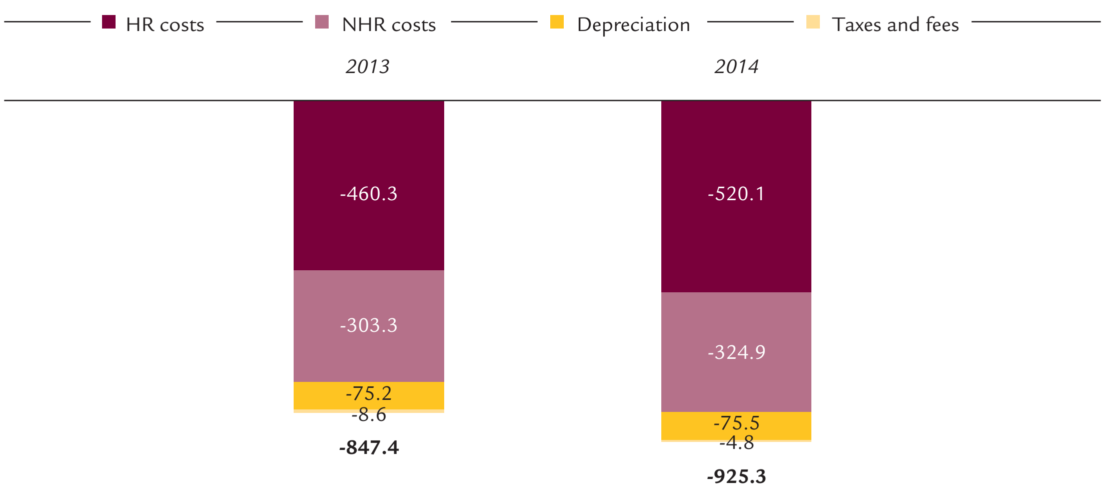
In 2014 the increase in the Bank's general administrative expenses, thanks to careful monitoring of the expenses incurred, was maintained on a level significantly lower than the increase in net operating income (9.2% compared with 21.6%).

Personnel expenses in the period under analysis amounted to PLN 520.05 million and were 13% higher than the personnel expenses incurred in 2013, with simultaneous increase in number of employed by 480 vacancies.

Running costs amounted to PLN 324.9 million in 2014 and were 7.1% higher than the running costs incurred in 2013. The increase in the running costs was due to the increased contributions to the BGF of PLN 13.9 million (i.e. 97.2%), the increase in advisory costs of PLN 4.9 million (i.e. 36.5%) and external service costs of PLN 3.5 million (i.e. 27.4%). Marketing expenses, on the other hand, were PLN 2.9 million (i.e. 7.1%) lower in 2014 than in 2013.

As a result, the Cost/Income ratio amounted to 49.4% in 2014 compared with 55.0% in 2013.

General administrative expenses (in PLN million)



The increase in net impairment losses, which amounted to -PLN -546.6 million in 2014 (PLN -405.0 million in 2013 – up by 35.0%) resulted mainly from increase in write-downs of amounts due from the non-financial sector. The above-mentioned item was also significantly affected by the change in the sign of the IBNR of the non-financial sector from plus to minus. The allowances related to the Bank's exposure in Polbita amounted to PLN -24 million in 2013 and PLN -38.3 million in 2014.

Net provisions calculated in relation to the average balance of gross amounts due from customers (risk cost ratio) increased from 2.29% to 2.40%. The same ratio calculated excluding the allowances for assets held for sale related to the exposure in Polbita amounted to 2.24% at the end of 2014 (2.15% at the end of 2013).

Net impairment losses (in PLN million)

	1.01.2014-30.06.2014	1.01.2013-30.06.2013	% change y/y
Impairment losses on loans and advances to customers	-468 699	-388 517	20.6%
financial sector	-1 078	-1 064	1.3%
non-financial sector	-467 621	-387 453	20.7%
retail customers	-289 798	-201 662	43.7%
corporate customers	-177 823	-185 791	-4.3%
Debt securities	-2 174	-181	1101.1%
IBNR for customers without impairment losses	-31 566	5 494	
financial sector	165	804	-79.5%
non-financial sector	-31 731	4 690	
retail customers	-29 291	-1 007	2808.7%
corporate customers	-2 440	5 697	
central and local government institutions	0	0	
Provision for off-balance sheet liabilities	-957	2 324	
Property, plant and equipment and intangible assets	-4 896	-101	4747.5%
Impairment allowance on assets held for sale	-38 298	-24 000	59.6%
Net impairment losses	**-546 590**	**-404 981**	**35.0%**

Balance sheet

As at the end of 2014, the total assets of the Alior Bank Group amounted to PLN 30 167.6 million and were PLN 4 617.7 million (18.1%) higher than at the end of 2013.
The increase in total assets in 2014 was mainly due to an increase in loans and advances to customers of PLN 3 994.1 million y/y, and an increase in customer deposits of PLN 3 595.5 million on the side of equity and liabilities. The increase in total assets described above was the effect of implementing measures aimed at dynamic organic growth, which enabled the Bank to maintain a high rate of acquisitions of new customers and a high level of sales in 2014.
The tables below show the detailed items of assets, liabilities and equity at the end of 2014, with comparatives.

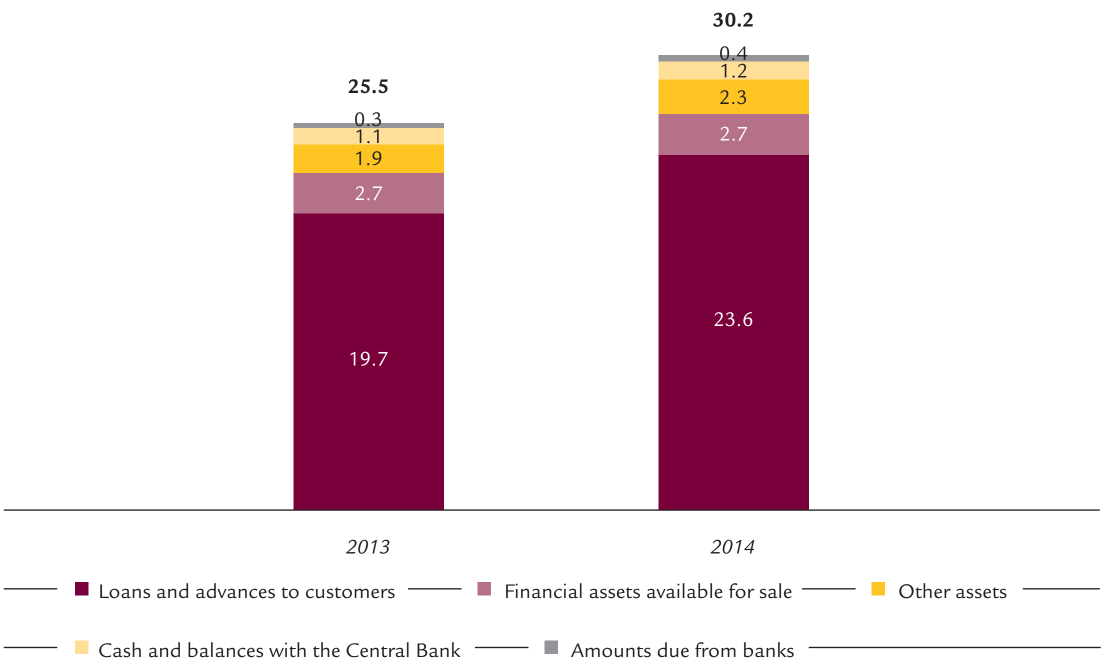
in PLN'000

ASSETS	As at 31.12.2014	As at 31.12.2013	Change y/y%
Cash and balances with the Central Bank	1 158 440	1 067 227	8.5%
Financial assets held for trading	476 821	243 291	96.0%
Financial assets available for sale	2 652 126	2 705 328	-2.0%
Hedging derivatives	80 205	12 099	562.9%
Amounts due from banks	449 378	253 670	77.2%
Loans and advances to customers	23 647 990	19 653 890	20.3%
Assets pledged as collateral for liabilites	927 191	687 736	34.8%
Property, plant and equipment	191 835	215 121	-10.8%
Intangible assets	215 564	188 050	14.6%
Investments in subsidiaries	0	0	
Non-current asset held for sale	908	38 335	-97.6%
Income tax asset	147 849	143 793	2.8%
Current	0	0	
Deferred	147 849	143 793	2.8%
Other assets	219 261	341 331	-35.8%
TOTAL ASSETS	30 167 568	25 549 871	18.1%

LIABILITIES AND EQUITY	31.12.2014	31.12.2013	% change y/y
Financial liabilities held for trading	349 033	184 090	89.6%
Liabilities to banks	1 049 162	827 976	26.7%
Liabilities to customers	24 427 988	20 832 459	17.3%
Hedging derivatives	4 777	0	
Provisions	8 311	4 871	70.6%
Other liabilities	747 073	1 134 973	-34.2%
Income tax liabilities	24 553	31 949	-23.1%
Current	24 553	31 949	-23.1%
Subordinated loans	541 595	348 821	55.3%
Total liabilities	27 152 492	23 365 139	16.2%
Equity	3 015 076	2 184 732	38.0%
Share capital (equity attributable to	3 013 163	2 184 732	37.9%
Shareholders)	699 784	635 830	10.1%
Supplementary capital	1 775 397	1 434 713	23.7%
Revaluation reserve	21 426	-16 777	-227.7%
Other capital	184 008	176 792	4.1%
Share-based payments – equity component	184 008	176 792	4.1%
Undistributed result from previous years	9 804	-273 728	
Current year profit/loss	322 744	227 902	41.6%
Non-controlling interests	1 913	0	
TOTAL LIABILITIES AND EQUITY	30 167 568	25 549 871	18.1%

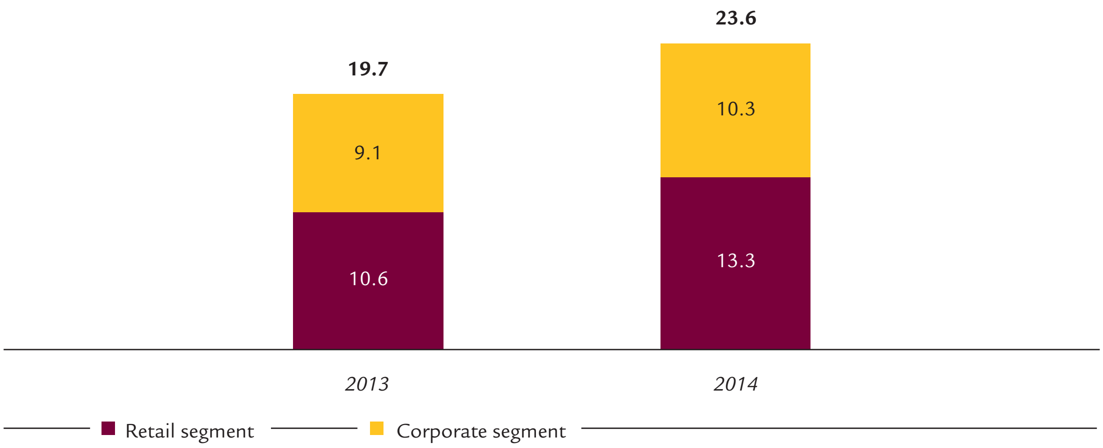
Loans and advances to customers are the core component of assets (PLN 23 648.0 million). Their share in the total assets as at the end of the year was 78.4% and increased by 1.5 p.p. compared with the end of 2013. Available-for-sale financial assets were another significant item of assets as at the end of 2014, and they amounted to PLN 2 652.1 million, representing 8.8% of the total assets (10.62% of assets in 2013).

Assets of the Alior Bank S.A. Group (in PLN billion)



The 20.3% increase in loans and advances to customers resulted mainly from an increase in the volume of loans and advances granted in the retail segment which went up by 25.7%. The volume of loans to the corporate segment went up by 14.0%. The structure of the portfolio of loans and advances to customers did not change substantially over 2014. As at the end of 2014, amounts due from the retail segment predominated – their share in the Group's loan portfolio was 56.2%. A year earlier the share of the retail segment in the Group's loan portfolio was 2.4 p.p. lower and amounted to 53.8%.

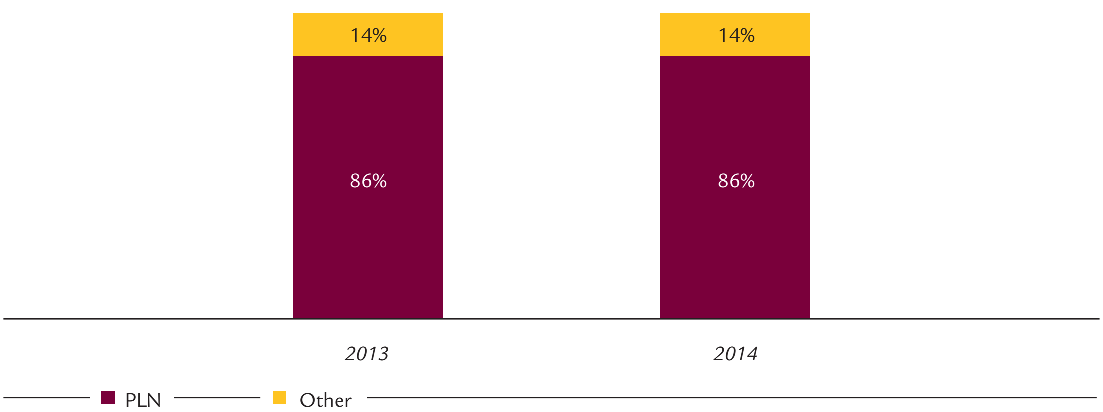
Loans and advances to customers (PLN billion)



Consumer loans with a volume exceeding PLN 6.2 billion (up by 18.6% y/y) were the main component of the loan portfolio in the retail segment. They represented more than 46.7% of all loans and advances to retail customers. The second item with the largest share in the loan portfolio of the retail segment were housing loans and mortgage loans (44.1%) with an aggregate volume of more than PLN 5.8 billion as at the end of 2014 (an aggregate increase of 40.0% y/y).

Operating loans represented the largest component of the corporate segment loan portfolio, i.e. 53.4%. Their balance increased during the year by 13.9% to more than PLN 5.5 billion. Investment loans were another significant item in the corporate segment loan portfolio, representing 40.0% of the said portfolio. Their balance at the end of 2014 increased by 22.8% to more than PLN 4.1 billion.

Structure of loans and advances to customers by currency



Compared with the end of 2013, the currency structure of loans and advances to customers as at the end of 2014 practically did not change.

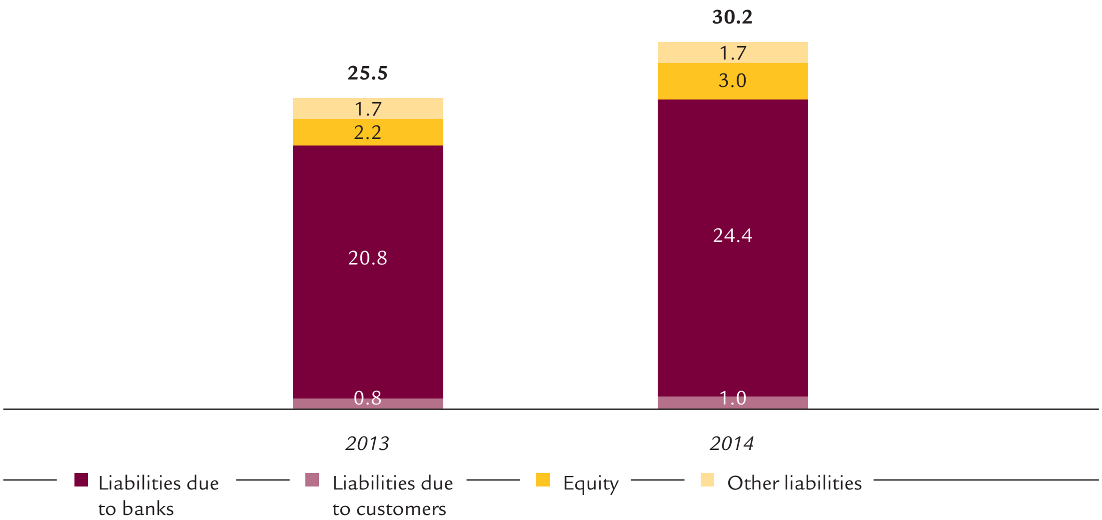
Structure of loans and advances to customers by geographical area (as at 31.12.2014)

Voivodeship	% of loans and advances
Mazowieckie	26%
Śląskie	11%
Dolnośląskie	11%
Wielkopolskie	10%
Małopolskie	9%
Pomorskie	7%
Łódzkie	5%
Podkarpackie	3%
Kujawsko-Pomorskie	3%
Lubelskie	3%
Zachodniopomorskie	3%
Warmińsko-Mazurskie	3%
Lubuskie	2%
Podlaskie	2%
Świętokrzyskie	2%
Opolskie	1%
TOTAL	100%

More than 1/4 of the loans granted by the Bank are loans granted to customers from the Mazowieckie Voivodeship. More than 20% of the loans are amounts due from the customers from the Śląskie and Dolnośląskie Voivodeships. The share of the Małopolskie and Wielkopolskie Voivodeships in the Bank's structure of loans is similar and amounts to 9% and 10% respectively.
Loans to the residents of the remaining voivodeships represent approx. 34% of the entire loan portfolio.

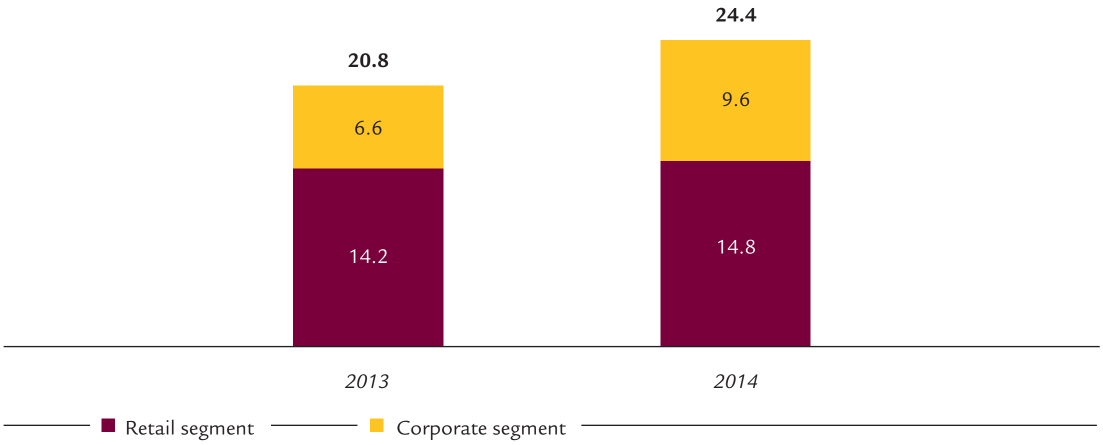
Deposits of the non-financial sector customers placed at the Bank are the main source of financing the Group's operations. As at the end of 2014, their share in the total assets was 81%.
The balance of equity as at the end of 2014 was more than PLN 3.0 billion and was PLN 0.83 billion, i.e. 38% higher than at the end of 2013. The increase was mainly a result of issuing G-series shares and covering a part of prior year losses with a net profit generated in 2013.

Equity and liabilities of the Alior Bank Group (in PLN billion)



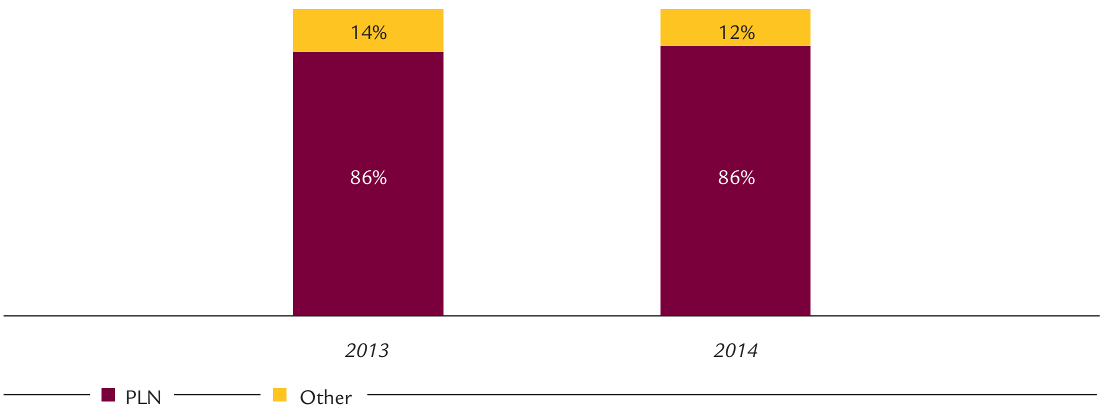
The main item in the structure of liabilities due to customers by type are liabilities due to the retail segment which represented 60.8% of the customer deposit portfolio as at the end of 2014. At the same time, it should be noted that liabilities due to the corporate segment grew in importance in the structure of liabilities by type over the last 12 months.

Liabilities due to customers (PLN billion)



The sum of liabilities due to the ten largest depositaries represents 5.2% of all customer deposits, which shows a strong diversification of the Bank's deposit base.

Structure of liabilities due to customers by currency



The currency structure of deposits as at the end of 2014 was similar to the structure of the deposit base as at the end of 2013. The share of PLN deposits increased by 2 p.p. during 2014. As a result, PLN deposits represented 88% of the whole deposit base.

Structure of liabilities due to customers by geographical area (as at 31.12.2014)

Voivodeship	% of liabilities
Mazowieckie	30%
Małopolskie	14%
Śląskie	9%
Dolnośląskie	7%
Wielkopolskie	7%
Pomorskie	6%
Podkarpackie	5%
Łódzkie	4%
Lubelskie	4%
Podlaskie	3%
Kujawsko-Pomorskie	3%
Zachodniopomorskie	2%
Świętokrzyskie	2%
Lubuskie	2%
Warmińsko-Mazurskie	1%
Opolskie	1%
TOTAL	100%

The funds deposited in the Bank mainly come from customers from the following voivodeships: Mazowsze (30%), Małopolska (14%) and Śląsk (9%). Customers from the remaining voivodeships deposited funds at the Bank which represent 47% of the total deposit base of the Bank.

Financial forecasts

The Alior Bank S.A. Group did not publish any forecasts of its results.

Chapter V.

V. OPERATIONS OF ALIOR BANK S.A.

Retail banking

In 2014, the operations in the individuals sector generated income before impairment losses of PLN 1 143.5 million. This income was PLN 200.9 million, i.e. 21.3%, higher than that generated in the prior year.

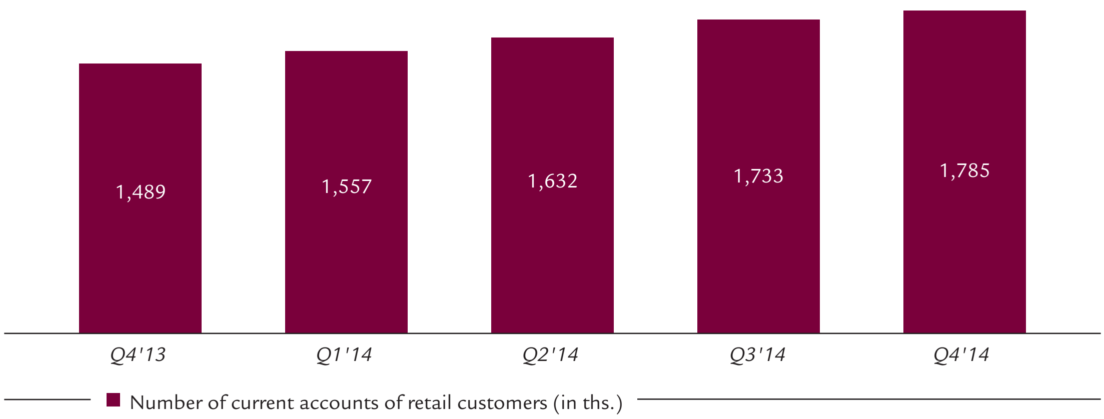
As at the end of 2014, the Group served 2 453.9 thousand individual customers. Compared with the end of 2013, the number of individual customers increased by PLN 453.9 thousand, i.e. by 22.7%.

Apart from serving retail customers, the individual customers segment also includes the operations related to Consumer Finance, the cooperation with T-Mobile Polska, the operation of the Brokerage House and the Private Banking programme.

The most important products offered to individuals include:

Current accounts

Alior Bank maintains high sales of current and savings accounts (ROR) – during the year, the number of these accounts increased by nearly 300 thousand. The Alior Bank offer is still predominant, but the percentage share of sales of T-Mobile Usługi Bankowe accounts (formerly Alior Sync) is growing.



In the first half of 2014, the Bank introduced new offers as part of the two brands owned. Under the Alior Bank brand it was: Konto Wyższej Jakości. It is the only free of charge account available on the market with a guarantee of unchanging fees for as long as 5 years. Moreover, active customers do not bear any costs of using the account - both the regular periodic fees and the transaction fees are nil. As part of the T-Mobile Usługi Bankowe offer, the personal account gained additional benefits addressed to the customers of T-Mobile Polska.

As a continuation of the offer simplification strategy initiated last year, the Bank decided to convert the products previously withdrawn: Konto zakupowe and Konto z programem Lotos Navigator – into Konto Rozsądne and Konto Osobiste, respectively.

Alior Bank maintains a policy of encouraging its customers to actively use the products. The changes in the Table of Fees and Commissions introduced by Alior Bank (in April and in November) are aimed at encouraging the customers to choose Alior Bank as their "main bank". It is worth noting that Alior Bank did not decide to remove the benefits attached to the accounts offered, leaving 3% CashBack on transactions concluded with the card to the Rachunek Rozsądny account and the assistance package "Pomocni Fachowcy" in the Personal Account.

Cash loan

The Bank's key product in the offer of non-secured loan products for individual customers is a cash loan, which can be designated either for any purpose or for the consolidation of financial liabilities (consolidation loan).

At the start of 2014, the Bank's operations in the scope of the cash loan were focused on continuing the campaign entitled: "Gwarancja Najniższej Raty" and offering to the customers an additional product benefit in the second quarter which involves guaranteeing the lowest instalments throughout the lending period.

Moreover, the Bank introduced new sales campaigns addressed to specifically selected target groups, aimed at increasing the customers' productization. These were for example: Pożyczka dla kobiet, Pożyczka wakacyjna, Pożyczka z kupnem and Pożyczka Zimowa cash loans.
The offer has been enriched with a number of temporary promotions aiming at gaining customers with a specific profile. The diversity of the offer helped considerably to increase the sales.

The Bank continued to undertake retention activities aimed at retaining customers at the Bank.
At the same time, the Bank continued to watch over the proper profitability of the loan, taking into account external factors in managing the pricing policy (including interest rate reductions), at the same time striving to maintain the competitiveness of the said product.

Credit cards and overdraft facilities

In 2014, Alior Bank S.A. continued its policy of limiting the credit card offer initiated in 2013. The Bank has three types of cards in its offer addressed to various target groups. The Gold Card is addressed to the mass individual customer segment, the World Card is dedicated to the mass affluent segment, whereas World Elite is dedicated to customers in the private banking segment. The cards are secured both with a magnetic strip and with a chip, and also enable making paypass transactions.
In 2014, the replacement of Silver cards for Gold cards was started in order to unify the Bank's card portfolio. By the end of 2014, Alior Bank S.A. launched 95.7 thousand credit card accounts, which were active at the end of 2014. At the end of 2013, the number was 91.8 thousand, which means a 4% increase in the number of credit card accounts. Alior Bank's market share amounts to 1.2% at the end of the third quarter of 2014.

As at the end of 2014, the Bank maintained 69.3 thousand accounts with a granted overdraft facility, which constitutes a 43% increase compared with the end of 2013. The increase results mainly from effective use of the combined lending process implemented in 2013, under which the customer is granted two products at the same time based on the same information and documents – a cash loan and an overdraft facility or a cash loan and a credit card.

Mortgage products

In 2014, Alior Bank granted a more than 10 thousand mortgage loans. The sales increase in the year 2014 vs. 2013 amounted to more than 50%.
In 2014, Alior Bank achieved a 5.7% market share, and in November it achieved a record market share in terms of monthly sales in its history of 7.44% (according to the data from the Polish Bank Association).

In 2014, Alior Bank developed specialist units – Mortgage Centres, which are dedicated to serving mortgage loan agents. The Mortgage Centres currently operate in the following cities: Warsaw, Kraków, Wrocław, Poznań, Łódź, Gdańsk, Szczecin, Katowice, Lublin and Olsztyn. A new service process was developed and implemented for these units and the supporting IT tools were automated. The sales of mortgage loans through Mortgage Centres constitute 60% of Alior Bank's sales. In 2015, Alior Bank will focus on further development of Mortgage Centres, among other things, through new improvements in the lending process.

In 2014, Alior Bank actively participated in selling MdM (Apartments for the Young) loans. Further sales of these loans are planned. The goals are to be executed, among other things, by applying a modified and simplified process for the MdM loans.

As part of the daily business, Alior Bank systematically takes actions aimed at increasing sales and maintaining the market share, while maintaining appropriate product profitability.

Deposit products

The Bank's deposit offer is mainly based on the Savings Account and different variants of the Standard Deposit. In the first half of 2014, the Bank introduced a promotional 2M offer, which resulted in an increased volume of deposits in the first quarter. Moreover, the promotional offer of the savings account was continued, thanks to which a 22% volume increase was achieved for the savings account in the first half of the year. In the second half of 2014, the Bank introduced special offer deposits for new funds with maturities of 4 and 7 months and 120 days. The Bank continued the promotion of "Lokata z inwestycją" (Investment-linked Deposit) thanks to which customers actively using investment products are entitled to open deposits for a period of 4 or 10 months. In order to gain long-term capital, in the second quarter the Bank introduced 2-year and 1-year deposits into its offer of term products, which ensured considerable growth of a stable deposit base. In December 2014, the Bank launched a campaign for new funds in Internet banking, ensuring preferential deposit terms to mobile customers, without the need to visit the Bank's branches.

Investment products

As far as investment products for individual customers are concerned, in 2014, fifteen subscriptions for products were conducted for a total amount of PLN 919.0 million, representing a 41% increase compared with a similar period of 2013. All these products have a 100% principal guarantee, excluding one issue limiting the customer's risk to 95%. The amount of interest depends on the behaviour of the indices, shares and investment funds on which they are based.
In 2014, fifteen products ended their life cycles, of which the best brought 13.30% profit to investors. Under the First Program for the issue of bank securities in 2014 Alior Bank issued 38 series with a total nominal value of PLN 1 050.65 million. Apart from the products with the principal guarantee based on the market index, they included two-currency and monetary certificates of deposit. The securities were offered in a public offering to corporate customers, Private Banking customers and to individual customers.
Under an open model of cooperation with insurers customers may invest in long-term regular savings programs. With the cooperation of insurance companies, two new insurance and investment programmes with one-off contribution were launched.

Consumer finance

In 2014, the Bank continued the acquisition of customers in the Consumer Finance sector. Based on the sale of retail loans through the extensive network of retail shops, the Bank continues to build the customer base which will be used to further develop the sales of loan products (mainly cash loans).
Increasing the scale of productization of the customers thus gained is one of the sources of strengthening the level of income generated.

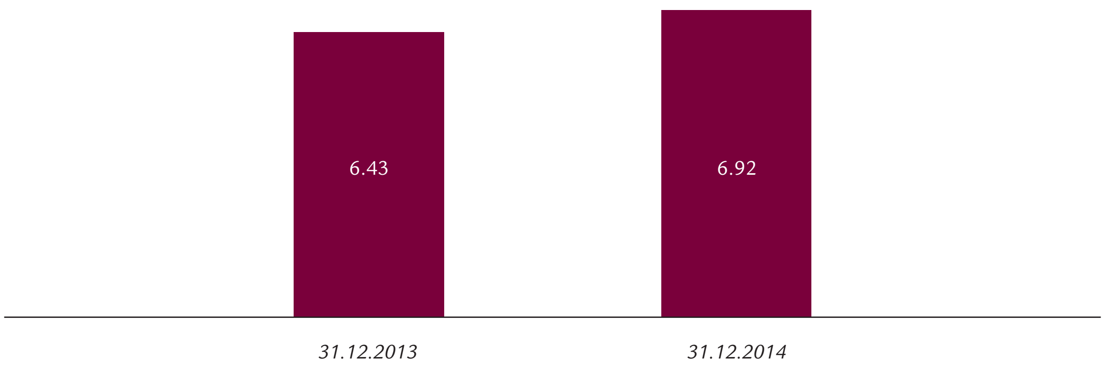
The advantages of Alior Bank's offer in the area of consumer finance include a new approach to sales processes, including mainly a break-through online instalment sale process. The Bank's offer is present in each of the 3 sales channels (stationary, direct and the above-mentioned online). Due to the most compact structure of sales, the instalment sale activity is based both on large instalment sale partners and on smaller enterprises, including also those operating locally. In each channel, Alior Bank cooperates with the largest retail sale leaders in the country (e.g. Euro RTV AGD, Allegro, Vorwerk, Zepter), thanks to which its offer is available throughout the country.

Consumer Finance products are available offered by more than 470 business partners and more than 1 000 shops.

Brokerage activities

As at 31 December 2014, the Brokerage Office of Alior Bank maintained nearly 78 thousand brokerage accounts (a 2% increase y/y). Customers' assets accumulated on brokerage accounts amounted to PLN 6.92 billion (up by 8% y/y).

Assets in brokerage accounts (in PLN billion)



Alior Bank S.A. cooperates with fifteen investment fund management companies (TFI) and offers 412 open investment funds.
Assets accumulated in FIO products via Alior Bank amounted to nearly PLN 1 106 million as at the end of December 2014, which represented an increase of approx. 65% compared with the balance at the end of 2013. Assets accumulated in FIZ products via Alior Bank approached PLN 454 million as at the end of December 2014 which represented an increase of approx. 141% compared with the balance at the end of December 2013. The total assets accumulated in investment funds via Alior Bank amounted to about PLN 1 560 million as at the end of December 2014, representing an increase of approx. 77% over the last 12 months. Moreover, as part of the asset management services offered in cooperation with DM Money Makers, the assets accumulated as part of this service via Alior Bank amounted to more than PLN 41 million as at the end of December 2014.

In October 2014, the Brokerage Office introduced to its offer an innovative portfolio investment advisory service under which it recommends to the Customers portfolios of investment funds, stock exchange instruments and mixed portfolios based on an assessment of an individual Customer's situation. In three months, the Brokerage Office concluded 1236 contracts with Customers for the provision of the service, and the value of assets declared for the service was PLN 66.1 million.

Moreover, in the second half of 2014, the Brokerage Office concluded 18 new contracts for the provision of market making services with issuers. As at the end of the first half of 2014, the Brokerage Office provided market maker services to 68 issuers and conducted market making activities in respect of 95 financial instruments.

Private banking

The private banking program is addressed to the most affluent individual customers who are inclined to entrust the Bank with assets exceeding PLN 400 thousand or those who intend to avail themselves of finance of at least PLN 1 million. They are served by six specialist private banking branches: in Warsaw, Katowice, Poznań, Kraków, Gdańsk and Wrocław.
As at the end of 2014, private banking employed 55 persons who developed financial solutions tailored to the needs of the individual customers based on a wide range of investment and lending products. The handling of non-financial assets of private banking customers under the name PB Wealth Care is executed from the operational side by Alior Services. The task of Alior Services is to establish contacts with trading partners providing services such as legal and tax advice or alternative investments.

The number of customers served as part of the programme at the end of 2014 exceeded 3.3 thousand.

Corporate banking

In the second half of 2014, the operations in the corporate customers sector generated income before impairment losses of PLN 711.2 million. This income was PLN 94.1 million, i.e. 15.2%, higher than that generated in the prior year.

As at 31 December 2014, the group handled 122.4 thousand corporate customer accounts. Compared with the end of the first half of 2013, the number of corporate customers increased by 3.3%.

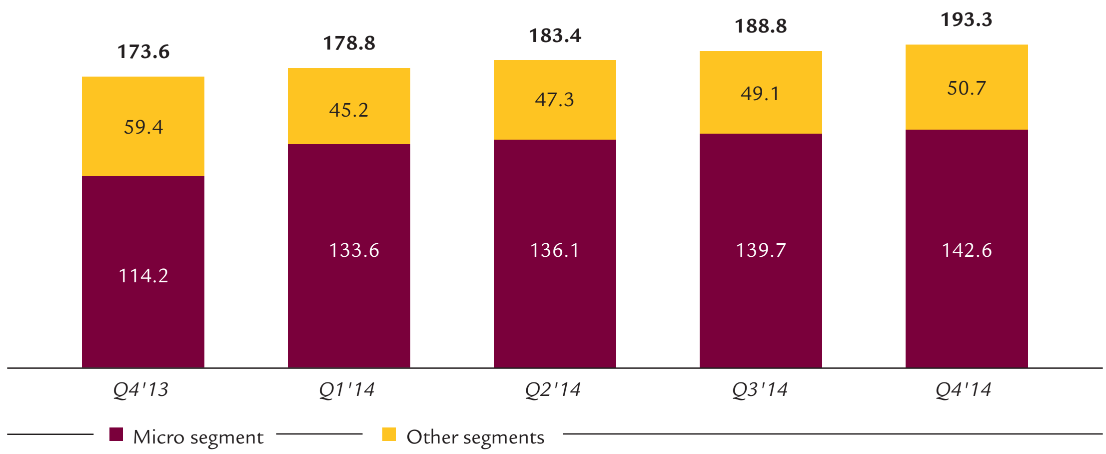
Alior Bank has a comprehensive offer for corporate customers addressed both to the smallest customers, including those developing their business (Alior Bank is a partner of the European Guarantee Fund within the scope of financing offer to start-ups) and to large business entities which use technologically advanced deposit and transaction solutions.
Alior monitors the exposure level of the individual corporate entities within the scope of risk adequacy, their concentration and security.

Accounts, settlements and deposits

Separate business account offers are addressed to the respective customer segments. For micro-businesses we propose: Rachunek Partner, Rachunek Inwestycyjny and Rachunek Wspólnota. For customers who maintain full books of account we propose a variety of accounting products reflecting the individual needs of the respective businesses. The standard products are Rachunek Biznes Komfort and Biznes Profil. Rachunek Biznes Optymalny is a product ensuring the possibility of full optimization of the scope and terms of services.

As at the end of 2014, Alior Bank maintained 193.3 company accounts (in PLN and in foreign currencies), of which 142.6 were micro-business accounts.

Number of corporate accounts (in thousands)



Business customers have access to many settlement products which facilitate the execution of both cash and cashless transactions.
Cash transactions may be executed in Alior Bank branches, and in the event of closed deposits – in several dozen night depositories. In addition, the Bank offers direct servicing of both cash withdrawals and deposits. In the area of cashless transactions, these are: execution of domestic transfers under the ELIXIR and SORBNET systems, irrespective of the amount, and Express Elixir instant transfers launched in May 2013, foreign transfers executed via KIR S.A. and cheap cross-border transfers/SEPA in euros.

For customers receiving large incoming payments, the Bank prepared a mass transaction processing service which enables easy identification of payments made by customers for the goods or services purchased. Analytical reports prepared by the Bank enable customers to fully integrate the solution with their financial and accounting or billing system.

In the second half of 2014, Alior Bank extended its offer of settlement products for MasterCard Business Debit PayPass, available both to businesses run by individuals and to companies. The card enables concluding all types of transactions, including paypass, and is the first card with PayPass technology in the offer for Alior Bank's corporate customers. The card holders, apart from high transactional limits, will appreciate the possibility of making air ticket and hotel reservations with an annulled (or reduced) reservation fee. The card is issued both to PLN and currency accounts (EUR, USD, GBP). Thanks to the Pakiet Bezpieczeństwa ("Security Package") service, the Bank takes on the responsibility for unauthorized transactions concluded without the Customer's knowledge. Firms interested in using the card as a business card for their employees may order an unlimited number of cards for a specified list of employees. Thanks to a detailed transaction history and individual transaction limits attached to each card separately, the firms may have increased control over expenses, for example, those related to business trips.

Again, Alior Bank was a pioneer on the payments market by offering to its Corporate Customers the only mPOS terminals available on the market. It is a solution addressed to small and medium enterprises, which so far – due to high transaction processing costs and unattractive periodic fees – did not accept credit card payments. mPOS is a modern device, small in size, which through connection with a smartphone or tablet with an installed mPEP payment application becomes a fully-fledged card terminal enabling the conclusion of transactions with the use of a magnetic belt or microprocessor (chip) as well as making PayPass and PayWave payments. Thanks to a joint promotion with Polskie ePłatności and MasterCard, customers who accept the offer will become the device owners for a symbolic fee of PLN 1 (the market value being PLN 399) and until the end of 2015 will receive reimbursement of commission for cleared transactions with a total value of up to PLN 2 000 per month. The mPOS terminals for Alior Bank's Corporate Customers bring small entrepreneurs closer to leading edge market solutions, thus eliminating barriers to the development of the scale of their operations.

Loans to corporate customers

The credit offer of Alior Bank, designated for ongoing and investment funding, is addressed both to micro-firms, including entities commencing business activities, and to small, medium and large enterprises. For customers from the micro segment, the Bank has a credit offer based on a simplified lending process. SMEs and large corporations have a more specialized product offer to choose from, enabling more flexibility in structuring optimum financing.

In the first half of the year, Alior Bank extended its product offer, among other things, to include financing for entities starting business activities, by introducing ongoing and investment funding even up to PLN 100 000 with guarantees from the European Investment Fund for this customer group. Alior Bank is a partner of the European Investment Fund and has obtained a guarantee line of PLN 250 million for the financing of entities which start business activities.

Moreover, the Bank developed the credit offer for the micro segment based on standardized loan products with automatic lending processes, with the lending decision made at Branch level, thus ensuring feedback to the customers regarding the possibilities of financing even within one business day. Additional new products have been introduced into the offer for the micro segment: Szybki Kredyt Inwestycyjny and Łatwy Kapitał, which ensure to the customers a simplified way to finance purchases of vehicles, machines, equipment or conduct modernization and other development activities under the so-called "business system" procedure, even up to 500 000. The lending activity in the micro segment increased more than twice in 2014 compared with the prior year, and the volume of new sales in the segment was more than PLN 600 million.

Alior Bank has also actively developed the product offer for higher customer segments, including Medium and Large Enterprises, by introducing into its offer products such as Limit Wielowalutowy, which provides a possibility of flexibly financing the ongoing operations using a bank overdraft, a guarantee or letter of credit and settling these transactions in multiple currencies, under one loan agreement.

The enterprise support programme in the SME segment of Bank Gospodarstwa Krajowego was a significant element of the lending activity in 2014. Alior Bank actively offered sales of BGK de minimis guarantees, thus increasing the availability of financing to entrepreneurs through additional external loan repayment security for the borrower. As at the end of 2014, more than 5 400 entrepreneurs availed themselves of the de minimis guarantee offer at Alior Bank with a guarantee volume of PLN 1 289 million. Alior Bank was distinguished by BGK in the category of the Programme Leader for: "The highest sales of de minimis guarantees without payment demand". Moreover, the programme of de minimis guarantee handling at Alior Bank was positively assessed by the Supreme Audit Office (NIK) during the control conducted by NIK at Alior Bank in the fourth quarter of 2014.

Treasury activities

In 2014, the activities of the treasury segment generated income before impairment losses of PLN 173.9 million. The result was PLN 70.9 million, i.e. 68.8% higher than that achieved in the prior year.

In 2014, the Bank engaged in treasury activities in the following areas:

- foreign exchange transactions, from immediate currency exchange to combined option structures adequate to the customer's needs and knowledge about these instruments;

- interest rate hedging transactions ensuring stabilization of the costs of financing to customers;
- commodity price fluctuation hedging transactions;
- liquidity management – by offering a wide range of products which enable depositing cash surpluses on attractive terms;
- conducting educational activities to increase customer awareness of the products offered and their related risks;
- securing the Bank's liquidity risk within the set limits – by concluding transactions on the interbank market, including currency swaps, security purchase/sale transactions and REPO transactions;
- currency and interest rate risk management by concluding transactions on the interbank market, including currency spots/forwards, interest rate swaps and options and commodity derivatives;
- hedge accounting – securing interest rate risk resulting from fluctuations in cash flows from assets with a variable interest rate, using PLN IRS transactions.

Capital investments

The table below shows the capital investment of Alior Bank. All securities were acquired with the Bank's own funds:

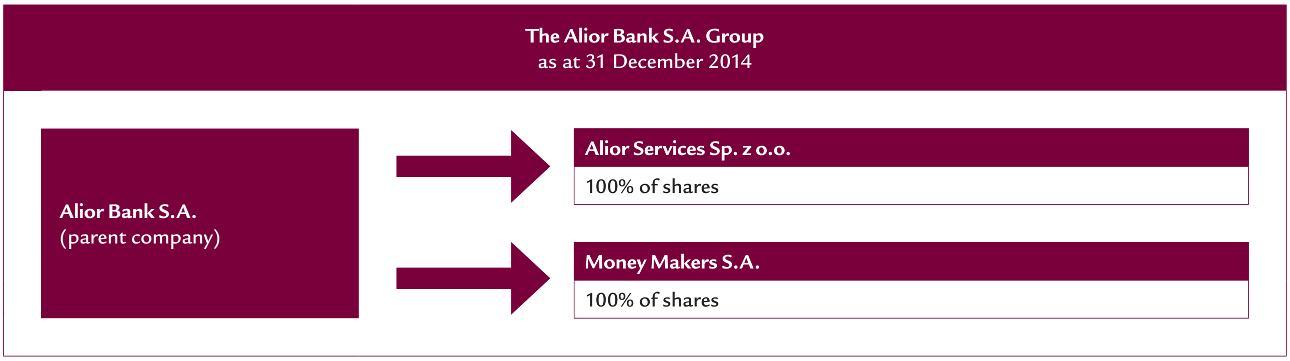
1. Shares
   - Securities held for trading representing equity rights, admitted to trading on the WSE;
   - Securities held for trading representing equity rights, not admitted to public trading.
2. Bonds: corporate bonds issued by domestic and foreign issuers, acquired in connection with the Bank's function of market marker.
3. Derivative instruments: forward contracts for PKOBP shares and the WIG20 index, quoted on the WSE, purchased/sold in connection with the Bank's market maker function.

Capital investments

	as at 31.12.2014		as at 31.12.2013	
	number	market/nominal value in PLN	number	market/nominal value in PLN
Shares	1 282 019	2 729 201	6 195 993	1 971 163
listed	1 271 019	2 723 801	6 194 883	1 861 163
non-listed	11 000	5 400	1 110	110 000
Bonds	2 607	945 993	1 194	418 261
Derivatives	265	639 834	30	361 967

Chapter VI.

VI. BUSINESS OVERVIEW OF THE ALIOR BANK S.A. GROUP COMPANIES



As at 31 December 2014, the Alior Bank S.A. Group is composed of the following companies: Alior Bank S.A. as the parent company and the subsidiaries in which the Bank holds majority interests. In the period since the publication of the previous interim report, there were no changes in the structure of the Alior Bank S.A. Group.

The consolidated financial statements comprise the financial statements of the Bank and the financial statements of the following entities. The Bank evaluated its exercise of control in accordance with the provisions of IFRS 10 and defined its status as a parent company towards the companies listed below. All subsidiaries are consolidated under the acquisition accounting method.

1. Alior Services Sp. z o.o. (previously Alior Raty sp. z o.o. - the change in the company's name entered on 23 May 2014 by the District Court for Kraków-Śródmieście in Kraków, 11th Business Department of the National Court Register) is a company formed on 3 February 2012. As of 31 October 2013, the company discontinued its operations within the scope of providing financial intermediation services. In January 2014, the Management Board of Alior Bank S.A made a decision that the Company will continue in operation in business areas other than before.

   - The Company's objectives:
     a. using sales opportunities for products and non-financial services;
     b. extending and making more attractive the offer for Private Banking customers in order to strengthen the competitive position.

   - The Company's operations:
     a. seeking out and gaining external partners for cooperation in offering non-banking services;
     b. arranging business relationships for clients and external partners.

   - The Company's planned revenues comprise commission for intermediation in non-banking services.

The Company also continues operations within the scope of meeting the obligations towards customers under the contract with TU Ergo Hestia.

2. Money Makers S.A. is a Company whose activities focus on services related to asset management. The Company's total assets as at 31 December 2014 and its result for the year amounted to PLN 4 890 thousand and PLN -1 780 thousand respectively. At the moment of the business combination, the Group measured all non-controlling interests in the subsidiary at the proportionate share of non-controlling interests in the net identifiable assets of the acquiree.

On 26 August 2014, the Bank concluded a conditional contract for selling 100% of shares in Polbita Sp. z o.o. (presented in the balance sheet as assets held for sale) with CEPD N.V., a subsidiary of Pelion S.A. The conditions for passing the title to the shares in Polbita Sp. z o.o. included, among others, CEPD N.V. obtaining approval for the transaction (approval of concentration) from the President of the Office of Competition and Consumer Protection. In connection with the above-mentioned event, a revaluation write-down was recorded in respect of the non-current assets sold of approx. PLN 38 million. At the same time, the Bank's Management Board informed that the said event does not affect the level of operating income or expenses generated by the Bank. On 24 October 2014, the Bank's Management Board informed that the last condition suspending the execution of the contract for selling 100% of shares in Polbita Sp. z o.o. had been fulfilled. Pursuant to the contract, the share ownership title passed to CEPD N.V. on 31 October 2014.

Chapter VII.

VII. EVENTS AND CONTRACTS SIGNIFICANT TO THE BUSINESS OPERATIONSOF THE BANK'S GROUP

Significant events

- On 2 January 2014, the District Court for the capital city of Warsaw, 13th Business Department of the National Court Register in Warsaw registered the share capital increase by way of the issue of G-series ordinary bearer shares, and the amendments to the Company's Articles of Association. The Bank's share capital after the registration amounts to PLN 699,412,610.00 thousand and comprises 69,941,261 shares with a nominal value of PLN 10 each. The purpose of increasing the Bank's share capital by issuing the G Series Shares was to enable the Bank to achieve its strategic objectives and continue the development of its operations taking into account the recommendations of the Polish Financial Supervision Authority concerning bancassurance, and maintaining the capital adequacy ratio at a level higher than that specified in the Banking Law. In the opinion of the Bank's Management Board, depriving the current shareholders of all pre-emptive rights to the G Series Shares was justified and served the Bank's interests due to the fact that issuing shares under a private subscription was the fastest and most convenient method for obtaining capital. The funds from the issue were used to finance the Bank's general operations and to diversify the sources of finance.

- On 23 January 2014, an Extraordinary General Shareholders' Meeting of the Bank was held. Apart from regulatory issues, the Extraordinary General Shareholders' Meeting passed a resolution on granting approval of the potential sale of an organized part of an enterprise, which is associated with the contractual terms contained in the cooperation contract dated 11 December 2013 concluded between the Bank and T-Mobile Polska S.A. with its seat in Warsaw. Moreover the Extraordinary General Shareholders' Meeting decided to change the composition of the Bank's Supervisory Board and appointed professor Sławomir Dudzik as its member. Those resolutions were related to engaging in strategic cooperation with T-Mobile Polska S.A.

- As of 26 February 2014. In its current report No. 16/2014, the Bank's Management Board informed of having taken the decision relating to changes in the organizational structure of the Head Office which resulted in reducing the number of employees and determining the principles for the related group layoffs. Automation and increasing the efficiency of processes, as well as the consistently pursued strategy for cost optimization required adapting the number of employees to the new organizational structure of the Head Office in force as of 1 March of this year and the Bank's ad hoc needs. Therefore, the Bank's Management Board decided to reduce the number of employees in the supporting entities. The group lay-off program (including the costs related to the severance packages) is part of the Bank's project for its cost structure optimization, which should result in economies of approx. PLN 50 million in the years 2014-2015. Restructuring of the supporting entities which took place from the end of February to June 2014 covered 260 full time jobs at the Head Office, which constitutes 4% of the total number of employees at the Bank as at 24 February 2014. The intention of the Bank's Management Board was to ensure severance packages reflecting the number of years with the Bank to all dismissed employees. The restructuring costs did not have a material impact on the Bank's results and business model. They were recorded gradually, as the employment optimization process progressed, and accounted for in the Bank's interim financial statements for the first and second quarter of 2014. The actions taken will contribute to a significant increase in the Bank's effectiveness and to reducing the C/I ratio below 45% in 2016. Optimization of the organizational structure and employment in the Head Office does not mean that the strategy will be changed or the rate of growth of the Bank hindered.

- As of 26 February 2014, the Bank's Management Board in its current report No. 17/2014, supplemented by the current report No. 18/2014 dated 6 March 2014 published information on the decisions taken with a material impact on the Bank's results in 2013. As a result of the determinations with the Office of the Polish Financial Supervision Authority ("OPFSA") relating to the manner of performing the recommendations of OPFSA relating to the accounting treatment of sales revenue from sales of insurance, the Management Board decided to modify the approach to accounting for credit-linked bankcassurance revenues introduced in the third quarter of 2013. As a result of the arrangements with OPFSA the Bank's Management Board decided to account for 12% to 15% of revenues from bancassurance linked to cash loans as one-off revenues. In the 4th quarter of 2013 revenues recognized on a one-off basis on bancassurance related to cash loans amounted to 13%. The above concept of amending the fair value model assumptions for cash loans complies with the guidelines of OPFSA. The correctness of "input data" presented by the Bank was verified by the Bank's auditor. The Bank's Management Board decided to account for 18% to 22% of revenues from bancassurance linked to mortgage loans as one-off revenues. In the 4th quarter of 2013 revenues recognized on a one-off basis on bancassurance related to mortgage loans amounted to 20%. In the opinion of the Bank's Management Board this change had a positive impact on the Bank's results for 2013, i.e.
  - the net profit increased by approx. PLNM 18;
  - the Bank's equity as at 31 December 2012 increased by approx. PLNM 34.

  The Bank's Management Board emphasized that the above-mentioned change in the manner of accounting for bancassurance revenues will have no impact on the Bank's business model and growth potential. The Bank's Management Board decided to set up an impairment allowance for non-current assets held for sale of PLNM 24 gross. The amount of the impairment allowance was determined based on a conservative measurement of the said assets.

- On 21 March 2014, after the end of the session, the annual revision of the WIG20 index took place. The Management Board of the Warsaw Stock Exchange informed of the fact in its communiqué dated 10 February 2014. Not even a year and a half passed from the debut of Alior Bank on the stock exchange when its shares became part of the WIG20 index – the index of twenty largest and most liquid companies listed on the Warsaw exchange.

- On 11 April 2014, Alior Bank S.A. issued 180,000 unsecured, dematerialized E Series coupon bearer bonds with a nominal value of PLN 1,000 each, in the total nominal value of PLN 180,000,000. The bonds were issued pursuant to the relevant legal regulations in force in Poland. The interest on the bonds was set at 6M WIBOR plus a fixed margin, and will be payable semi-annually. The Bonds will be redeemed at the nominal value on 11 April 2016. Pursuant to Resolution No. 99/2014 of the Management Board of BondSpot S.A. dated 24 April 2014 the bonds were entered to the Alternative Trading System on Catalyst. The Bonds, denominated in PLN, were issued under the Own Bond Issue Scheme of Alior Bank S.A., of which the Bank informed in its current report No. 16/2013 dated 19 March 2013. As part of the Bond Issue Scheme, on 28 June 2013, Alior Bank also issued 146,700 unsecured, dematerialized, coupon bearer D series bonds with a nominal value of PLN 1,000 each, and with a total nominal value of PLN 146,700,000. The funds from the issue were used to finance the Bank's general operations and to diversify the sources of finance.

- On 15 May 2014, the Annual General Shareholders' Meeting of the Bank was held. Apart from regulatory issues, the Annual General Shareholders' Meeting passed resolutions related to closing the financial year ended 31 December 2013 and approved: the financial statements, the Bank's Directors' report, the report on the activities of the Supervisory Board, the appropriation of profit, designating it for offsetting prior years' losses and utilization of the Bank's supplementary capital. All Management and Supervisory Board Members were given a vote of approval for the fulfilment of their duties in 2013.

- On 26 August 2014, the Bank concluded a conditional contract for selling 100% of shares in Polbita Sp. z o.o. (presented in the balance sheet as assets held for sale) with CEPD N.V., a subsidiary of Pelion S.A. The conditions for passing the title to the shares in Polbita Sp. z o.o. included, among others, CEPD N.V. obtaining approval for the transaction (approval of concentration) from the President of the Office of Competition and Consumer Protection. In connection with the above-mentioned event, a revaluation write-down was recorded in respect of the non-current assets sold of approx. PLN 38 million. At the same time, the Bank's Management Board informed that the said event does not affect the level of operating income or expenses generated by the Bank. On 24 October 2014, the Bank's Management Board informed that the last condition suspending the execution of the contract for selling 100% of shares in Polbita Sp. z o.o. had been fulfilled. Pursuant to the contract, the share ownership title passed to CEPD N.V. on 31 October 2014.

- On 15 September 2014 the Bank's Management Board was notified by Alior Lux S.a.r.l & Co. S.C.A. in which it was pointed out that the Polish Financial Supervision Authority expressed its approval of prolonging until 30 June 2016 the deadline indicated in the Bank's prospectus concerning Carlo Tassara's obligation to sell the shares held in the Bank. In that period the percentage shareholding of the Bank's shares by Carlo Tassara cannot be lower than 25%.

- On 19 September 2014, 22 September June 2014, and 13 October 2014, the Bank repurchased a total of 131,600 C Series Bonds issued by the Bank on 14 February 2012 to redeem them. The total nominal value of the repurchased bonds was PLN 131,600,000 (one hundred and thirty million six hundred thousand zloty). Redemption of the acquired C Series bonds leads to the definite expiry of all rights and obligations vested in them.

- In its current report No. 49/2014 the Bank's Management Board informed of issuing 321,700 subordinated, unsecured dematerialized F Series coupon bearer bonds with a nominal value of PLN 1,000 (one thousand) each ("Bonds") with a total nominal value of PLN 321,700,000 (three hundred and twenty-one million seven hundred thousand zloties) on 26 September 2014. The issue price of each F Series Bond corresponded to its nominal value. The Bonds, denominated in PLN, were issued under the Own Bonds Issuance Scheme of Alior Bank S.A., of which the Bank informed in its current report No. 16/2013 dated 19 March 2013. The issue was performed pursuant to art. 9 clause 3 of the Act on Bonds. The interest on the Bonds was set at 6M WIBOR plus a fixed 3.14% margin, and will be payable semi-annually. The Bonds will be redeemed at nominal value on 26 September 2024. The Bank intended to introduce the Bonds to quotations in the Alternative Trading System on the Catalyst operated in accordance with the Act on Trading in Financial Instruments by BondSpot S.A. or the Warsaw Stock Exchange. In accordance with the Issuer's consolidated financial statements for the period from 1 January 2014 to 30 June 2014, the value of liabilities incurred as at 30 June 2014 amounted to PLN 24,302,008 thousand. Prospects relating to liabilities until the final redemption of the Bonds: the Issuer's total liabilities until Redemption Date will not exceed PLN 55,000,000 thousand. By decision of the PFSA funds from the issue of the F Series subordinated bonds were included in the calculation of Tier II capital.

- In its current report No. 60/2014 dated 26 October 2014 the Bank's Management Board informed of having received a notification about the result of the Stress Test and the European Asset Quality Review from the Office of the Polish Financial Supervision Authority ("OPFSA") on 25 October 2014.
  The Stress Test conducted in accordance with the restrictive guidelines of the European Banking Authority (EBA) showed the strong equity position of Alior Bank S.A. To-date, this was the most serious exam the Bank had to pass. It confirmed that the Bank not only meets the most stringent prudence standards stipulated by the law relating to capital adequacy, but also that its capital adequacy in times of an economic crisis exceeds the minimum level indicated in the worst case scenario by 1.27 percentage

points, thus guaranteeing: a stable basis for the Bank's further development, security of its depositaries and further increase in the Bank's shareholder value.
The European Asset Quality Review showed the difference between the assumptions of the advanced models adapted to the internal lending processes of the Bank and the general models forming the basis for the review conducted in accordance with the EBA guidelines. In the opinion of the Bank's Management Board the models used by Alior Bank S.A. to determine the amount of impairment allowances are adequate to the scale and specific nature of its activities and they were positively verified by two renowned audit firms.

The differences referred to above related to two issues:

- identification of the premises for impairment in respect of one of the corporate customers;
- models of group allowances for individual customers.

As at 31 December 2013 (the audited period) the Bank did not identify any premises for impairment in respect of the indicated corporate customer. In accordance with the Bank's published financial statements, the premise was disclosed in the accounts on 31 March 2014. Currently, this customer is subject to restructuring and is performing the restructuring program in accordance with the assumptions, and thus the exposure does not require further allowances.
After acquainting itself with the results of the Pillar the Bank's Management Board planned an additional review of the internal group models for assessing impairment allowances. Using the prudential approach to managing the Bank the Management Board is currently considering setting up an additional allowance for the differences indicated in the review of ca. PLNM 10 in the fourth quarter of 2014 and allocating PLNM 30 in the process of assessing the internal capital adequacy – under the Pillar 2 of the New Capital Accord (NCA) – Basel II, in respect of model risk. It should be emphasized that this will have no impact on the level of capital, but only on its allocation. Active dialogue with OPFSA is also planned to ensure compliance with all the respective recommendations.
In the opinion of the Bank's Management Board the result of the EBA Asset Quality Review is satisfying and will not have a material impact on the Bank's financial position in the fourth quarter of 2014.

Significant contracts

- In the current report no. 15/2014 the Bank's Management Board informed about taking up bonds issued by a group company of one of the Bank's customers on 31 January 2014. The Bank acquired 120 5-year collateralized bonds with a nominal value of PLN 500,000 each, in the total amount of PLN 60,000,000. As a result of the said taking up of the shares, the value of the Bank's total exposure to the customer's group increased to PLN 260,000,000. The highest value contract signed with the Bank's customer is the conditional contract Multi - currency Revolving Facility concluded on 24 January 2014. This contract was concluded for a period of 4 years. Its total value is PLN 400,000,000 and the Bank's share in the aforementioned financing is PLN 200,000,000 (50% of the full amount of the financing). Pursuant to the Contract, the financing is in the form of a renewable loan with the highest repayment priority. The loan is secured with a full package of the highest ranking collateral on shares, businesses (including bank accounts, trademarks and other assets) of the key group companies of the customer. The Contract contains suspending conditions, which must be met for the customer to be able to use the financing under the Contract. One of the suspending conditions is the repayment of the full amount of the customer's debt in respect of the contract, of which the Bank informed in current report no. 18/2013 of 29 March 2013. The customer fulfilled the above-mentioned suspending condition on 31 January 2014 and repaid all its liabilities to the Bank. The contract is based on the standard LMA. The remaining contractual terms do not deviate from what is commonly applied to such agreements. The total amount of the Bank's exposure to the customer's group exceeds 10% of the Bank's equity.

- In the current report No. 21/2014 dated 28 March 2014 the Bank's Management Board informed of concluding a loan contract for a non-renewable loan of EUR 60,000,000, i.e. PLN 250,956,000 with one of the Bank's customers on 27 March 2014. The loan is non-renewable and is earmarked for repayment of the existing debt and financing the customer's current operations. The agreement was concluded for 29 months with the option of extending it. The loan is ultimately repayable on 20 December 2019. Interest was determined at 3M EURIBOR plus the Bank's margin. The receivables in respect of the financing granted were secured, among other things, by a mortgage with the highest priority, and a registered pledge on shares. The remaining contractual terms do not deviate from what is commonly applied to such agreements.

- The Bank's Management Board informed that on 20 October 2014: (i) negotiations on determining the terms and conditions for acquiring the shares of Meritum Bank ICB S.A. with its seat in Gdańsk ("Meritum") from Innova Financial Holdings S.à r.l, WCP Coöperatief U.A. and the European Bank for Reconstruction and Development (the "Sellers") by the Bank were finalized; (ii) a preliminary agreement was concluded by and between the Bank and the Seller for the sale of Meritum shares ("Preliminary Sale Contract") and (iii) an agreement for the subscription of the new series of the Bank's shares ("Share Subscription Agreement") was concluded by and between the Bank and Innova Financial Holdings S.à r.l and WCP Coöperatief U.A.

Significant events relating to the Bank's products

- As of 1 April 2014 the offer of Alior Rachunki bez Opłat (Bills at no Charge) changed and a fee of PLN 2 is collected from customers who pay their bills at the Bank's branches and who do not receive their remuneration, pension, disability pension or scholarship on their Bank account. The fee is collected once a month and relates to an unspecified number of payments to and transfers from the account under the Alior Rachunki bez Opłat program. If in a given month a customer does not pay any bills in the Bank's branch, the fee is not collected.
  At the same time, all holders of Alior Rachunki bez Opłat accounts may pay their bills at no charge in over 600 of the Bank's outlets marked with the logo Alior Bank Express and with the logo Alior Bank Partner.

- On 23 May 2014, Konto Wyższej Jakości (Higher Quality Account) was included in the offer, which is characterized by no payments whatsoever (assuming a one-off inflow into the account in a given month of at least PLN 2,500 or concluding card transactions for at least PLN 700). The immutability of these conditions is covered by a 5-year guarantee.

- Since 1 June 2014 the Bank has offered a loan with the lowest instalment guarantee, which is valid not only on granting the loan but also throughout the entire term of the loan. Based on the above-mentioned guarantee, Alior Bank will offer lower instalments both before a customer drawing a loan and at any time of the loan's duration. The Bank will beat down offers of other banks and ensure better lending conditions.

- As of 1 November 2014 the Fee and Commission Tariff for Alior Bank's individual customers changed. The changes did not relate to those customers who have Konto Wyższej Jakości accounts, or active customers who transfer their remuneration, disability pension or pension to their Bank account. The modification of the Fee and Commission Tariff is aimed at encouraging the widest possible circle of the Bank's customers to select Alior Bank as their basic bank. The new terms and conditions will become binding for Alior Bank's old customers no earlier than as of 1 January 2015.

Significant events after the balance sheet date

- On 8 January 2015, pursuant to the decision of the Polish Financial Supervision Authority, Carlo Tassara S.p.A. was considered to be the Parent Company of Alior Bank within the meaning of Art. 4 clause 1 item 8 letter a of the Banking Law.

- On 9 January 2015, the European Bank for Reconstruction and Development reduced its capital exposure to the Bank. Pursuant to the EBRS communiqué, it is very pleased with Alior Bank's achievements over the past two years, especially in respect of its growth, innovation and strong position on the banking market. As a shareholder, EBRD is convinced that the Bank's prospects and possibilities will allow it to reinforce its profitability and market position. Despite reducing its shareholdings in the Bank, EBRD intends to continue supporting the Bank's strategy and its initiatives.

- On 16 January 2015, the Management Board of Alior Bank S.A. received a notification from Genesis Asset Managers, LPP. Pursuant to the notification, on 9 January the customers of Genesis took up 100,000 of the Bank's shares, which constituted a 0.14% increase in the number of shares held, to 5,113,021 shares, which constitutes 7.30% of the Bank's share capital and entitles Genesis to 3,502,490 votes at the Bank's General Shareholders' Meeting, which represents 5.03% of the total number of votes.

- On 16 January 2015, the Management Board of Alior Bank S.A. received a notification according to which the open pension fund Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK informed that as a result of the purchase transactions of shares in Alior Bank S.A. concluded on 9 January 2015 it increased its share in the total number of votes in the Company to over 5%.
  After concluding and settling the transaction referred to above, as at 13 January 2015 Aviva OFE holds 3,806,451 of the Company's shares which constitute 5.44% of the share capital (issued shares) of Alior Bank S.A., which entitle to exercising 3,806,451 votes at the General Shareholders' Meeting, i.e. 5.44% of the total number of votes.

- On 5 February 2015 the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register in Warsaw, registered the increase of the share capital by means of issuance of ordinary series D bearer shares and the amendment to the Bank's Statute.

- On 10 February 2015 the Polish Financial Supervision Authority's made a decision that no obstacles had existed to object against the Bank acquiring shares of Meritum Bank ICB S.A. in a number resulting in exceeding a 50% share in its share capital and the total number of votes at the general meeting of Meritum. Moreover on 11 February 2015 the Polish Financial Supervision Authority granted permission for the amending of the Bank's Charter, made pursuant to Resolution No. 3/2014 on: a conditional increase in the Bank's share capital through the issue of series H ordinary bearer shares with the full exclusion of the pre-emptive right of current shareholders of the Bank and the amending of the Bank's Charter, adopted by the Extraordinary General Meeting of the Bank on 2 December 2014.

- On 12 February 2015 the court issued a decision on share capital decrease of the company Centrum Obrotu Wierzytelnościami Alior Services spółka z ograniczoną odpowiedzialnością s.k.a. and on withholding of shares resulting in the bank returning to be a single shareholder.

- On 16 February 2015 the District Court for the Capital City of Warsaw, XIII Commercial Division of the National Court Register in Warsaw, Registered : (i) a conditional share capital increase of the Bank by no more than PLN 23.554.980, through the issuance of no more than 2,355,498 of series H ordinary bearer shares with a nominal value of PLN 10 each, with the total nominal value of PLN. Moreover on 16 February 2015 the Management of the National Depository for Securities resolved to register in the

NDS up to 2,355,498 series H ordinary bearer shares in the Bank with the nominal value of PLN 10 each and to assign the code of "PLALIOR00045" thereto, on the condition that the company operating the regulated market decides to introduce those shares to trading on the same regulated market on which the Bank's other shares assigned with the code of "PLALIOR00045" are traded, no later than on the day of each registration of the Series H Shares in the NDS.

On 18 February 2015 the Management Board of the Bank informed that it will exercise the right for the early buyout of all remaining series C bonds, issued on 14 February 2012, marked ISIN code PLALIOR00011. Number of Bonds involved in the (early buyout) amounts to 148.400, its total nominal value amounts to 148.400.000. Date of the demand for early buyout and the date of the determination of right to benefits from Bonds has been determined to 25 February 2015, and date of the early buyout has been determined to 11 March 2015. Trading of series C bearer bonds was suspended starting from 20 February 2015.
On 25 February 2015 the Management Board of the Bank submitted request for an early buyout of series C bonds.

- On 18 February 2015 Alior Bank executed with Innova Financial Holdings S.à r.l, WCP Coöperatief U.A. and European Bank for Reconstruction and Development the share sale agreement concerning the shares in Meritum pursuant to which Alior Bank purchased 12.382.746 shares in Meritum with total nominal value of PLN 30 each representing 97.9% of the share capital in Meritum and 95.0% of the total number of votes at the general meeting of Meritum,in exchange for an aggregate price of PLN 352,541,731.72.
  In connection with execution of the Meritum Bank Shares Sale Agreement Alior entered with Investors: Innova Financial Holdings S.à r.l and WCP Coöperatief U.A. into agreements on the acquisition of series D subscription warrants of the Bank following which the Bank offered to Investors the Series D Subscription Warrants of the Bank, and each of the Investors accepted the Bank's offer and took up, free of charge, the Series D Subscription Warrants of the Bank. The Series D Subscription Warrants of the Bank entitle the holders to take up Series H Shares in the Bank issued under conditional share capital increase of the Bank, pursuant to Resolution No. 3/2014 of the Extraordinary General Meeting of the Bank of 2 December 2014. Exercising their rights arising from the Series D Subscription Warrants of the Bank, on 19 February 2015 the Investors filed representations on the acquisition of the Bank's series H ordinary bearer shares and paid for Series H Shares in the Bank with a cash contribution (the issue price of one series H share paid for in this manner was PLN 73.30) in the aggregate amount of PLN 172,658,003.40.

- Furthermore on 19 February 2015 the Bank informed on intention of merging with the Bank's subsidiary – Meritum, in which the Bank holds shares representing 97.9% of the Meritum share capital and 95.0% of the total number of votes at the MEritum General Meeting. The merger will take place pursuant to Article 492 § 1 Item 1 of the Commercial Companies Code through the transfer of all the assets of Meritum as the target company to the Bank as the surviving company (consolidation through acquisition). The completion of the merger will be contingent on: obtaining the consents and permits required by law and connected with the merger, including the permit of the Polish Financial Supervision Authority to the merger and the adoption of resolutions by the Bank's General Meeting and the Meritum General Meeting concerning the merger, and in particular resolutions voicing consent to the merger plan.

- On 23 February 2015 the Management Board of the Warsaw Stock Exchange adopted resolution No. 181/2015, in which it stated that pursuant to § 19 sections 1 and 2 of the WSE Rules 2,355,498 series H ordinary bearer shares of the Bank, with a nominal value of PLN 10 each are admitted to trading on the main market of the WSE. In addition, pursuant to § 38 sections 1 and 3 of the WSE Rules, the Management Board of the WSE resolved to introduce as of 25 February 2015, under ordinary procedure, the Series H Shares to trading on the main market, on condition that on 25 February 2015 those shares are registered by the National Depository for Securities and assigned the code of "PLALIOR00045".

- On 25 February 2015 the National Depository of Securities registered 2.355.498 series H ordinary bearer shares of the Bank, with a nominal value of PLN 10 each and assigned the ISIN code of "PLALIOR00045". At the same time the condition in the form of the registration with the NDS of the Series H Shares on 25 February 2015, was fulfilled. At the same time a share capital of the Bank has been increased to the amount of PLN 723 338 640.

Chapter VIII.

VIII. REPORT ON THE RISK EXPOSURE OF ALIOR BANK

Effective risk management is a precondition for maintaining the high level of safety of funds which were entrusted to the Bank, and ensuring a robust, sustainable increase in profits.
The main types of risks important for the Bank include: credit risk, operational risk, market risk, including foreign exchange risk, interest rate risk and liquidity risk.
Moreover, the Bank recognizes business risk, model risk, compliance risk and reputation risk.

Market risk and liquidity risk management

Market risk is defined as the likelihood of the Group incurring potential losses in the event of unfavorable changes in market prices (share prices, currency exchange rates, profitability curves), market factors (volatility in financial instrument valuations, the correlation of price changes between particular instruments), and customer behaviour (early deposit withdrawals, early loan repayments).

The process of managing market and liquidity risks is based on achieving, inter alia, the following goals:
- significantly mitigating the volatility of results and changes in the economic value of the Group's equity;
- developing a structure of assets and liabilities (banking book) which is optimal in terms of profitability and the potential impact on the economic value;
- providing customers with core treasury products in order to help them manage the risk underlying their operations (i.e. hedging);
- guaranteeing the solvency and full availability of liquid funds at any moment and even under the assumption of the occurrence of negative market scenarios;
- ensuring that the processes applied by the Bank comply with the regulatory requirements regarding market risk management and the level of equity required for that purpose.

The market and liquidity risk management process is carried out within the framework of the Group's relevant risk management policies covering identification, measurement, monitoring and reporting of risks. It also pertains to control over treasury transactions by determining and verifying the principles on which they are concluded, organized and assessed.

There is a clear segregation of duties, competencies and responsibilities, and the principles are specified in internal regulations. The key role in this respect is played by the Financial Risk Department which prepares independent cyclic reports using the risk models and measures adopted by the Bank and submits them to appropriate units, including – periodically – to members of the Management Board, Supervisory Board and ALCO. The duties of the Department include, among other things:
- defining market and liquidity risks management policies;
- analysing and reporting the Bank's risk profile;
- determining the amount of economic capital to cover the market and liquidity risks;
- recommending current activities related to managing the banking book risk;
- creating all regulations which define the process of concluding treasury transactions on the interbank market and with the Bank's customers, including developing model documentation;
- coordinating the process of introducing new Treasury products and assessing the related risk;
- supporting and servicing ALCO operations.

The Treasury Department is responsible for carrying out treasury transactions with the Bank's customers, and the Interbank Transaction Team is exclusively responsible for concluding transactions on the interbank market and to maintain open trading book positions, and conclude treasury transactions on the Bank's account. The transactions may be concluded to manage trading book risk positions within the limits set up, and pursuing the Bank's policy in respect of managing the banking book risk within the limits set up.
The Operations Department is responsible for the independence of ad hoc controls of internal treasury operations, including transaction settlements. The Operations Department operates as an entity fully independent of the Treasury Department. The leak-proof and accurate supervision conducted by the Operations Department is the basis for mitigating the operating risk of the Bank's treasury operations.
Supervision over the above-mentioned entities of the Bank was separated up to the level of Management Board Member which is an additional factor guaranteeing their independent operations. The full organizational structure and segregation of competencies have been defined in detail by the Bank's Management Board in the Head Office Organizational Regulations. The Management Board, the Supervisory Board and the ALCO take an active role in managing market risks.
The Assets and Liabilities Committee (ALCO) controls market risk, including liquidity risk, on a current basis. It takes all the respective decisions, unless these were previously qualified as being under the sole competence of the Management Board or the Supervisory Board.
ALCO's duties include, among other things:

- current control over market risk management, both related to the trading and the banking book, including issuing decisions relating to the risk management of both books;
- accepting the Bank's operational limits on the monetary and capital markets;
- current control over the Bank's liquidity management, both related to the trading and the banking book;
- commissioning actions to acquire sources of finance for the Bank's operations and supervising the financing plan;
- issuing decisions on managing the model portfolios.

The Bank's basic market and liquidity risks management strategy assumptions as stipulated for a given budget year take the form of an Asset and Liability Management Policy developed by the Financial Risk Department and submitted by the Management Board to the Supervisory Board for acceptance as part of acceptance of the annual budget. It remains binding until a consecutive update.
The Supervisory Board exercises supervision over risk management, including, but not limited to:

- annual determination of the Bank's strategy in respect of market risk management by accepting the Asset and Liability Management Policy;
- acceptance of the Bank's market risk management strategy, including the key risk limits;
- control over compliance of the Bank's policy in respect of risk acceptance with the Bank's strategy and financial plan through a regular review of the Bank's market risk profile based on the reports received;
- recommendation of actions aimed at changing the Bank's risk profile.

Information on the nature and level of risk is submitted to the Supervisory Board by the Management Board, with the exception of the results of internal control of the market risk management system which is submitted by the Director of the Internal Audit Department.

The Bank's Management Board is responsible, among other things, for:

- supervising the market and liquidity risk management process, monitoring and reporting risks;
- determining the appropriate organization and segregation of duties in the process of concluding treasury transactions;

- accepting policies and instructions regulating market and liquidity risk management within the Bank and efficient operation of the identifications systems;
- setting detailed limits for mitigating the Bank's risk and ensuring appropriate mechanisms for their monitoring and notifying cases of exceeding limits.

The Group's market and liquidity risk exposure is officially mitigated by a system of limits which are updated periodically, introduced by resolutions of the Supervisory Board or the Management Board; the limits cover all measures of market risk, their level is monitored and reported by the Group's organizational entities independent of the given entity's business. There are three types of limits at the Group which differ in terms of their role and the way they operate: basic limits, supplementary limits, and stress-test limits. Market risk management focuses on potential changes in the economic results; unquantifiable risks related to treasury operations are also mitigated through the quality requirements in force at the Group, related to the risk management process (the internal control system, implementation of new products, analysis of legal risk, analysis of operating risk).

Currency risk

Foreign exchange risk is defined as the risk of potential loss caused by movements in foreign exchange rates. The Group additionally identifies the impact of foreign exchange movements on the Group's results in the long term, which could occur in the event of converting future foreign currency income and expenses at a potentially less favourable exchange rate. The risk related to future results may be managed under the model currency portfolio.
The basic purpose of foreign exchange risk management is to identify those areas of the Group's operations which may be exposed to foreign exchange risk and thus, to undertake to mitigate the resulting potential losses to the maximum extent. The Bank's Management Board specifies the currency risk profile, which must be consistent with the applicable financial plan of the Group.

Under the foreign exchange risk management process, the Group is obliged to monitor and report the amounts of all its currency positions and VaR, assessed in accordance with the adopted model, within the set limits. The Group closes each significant currency position with a counter position on the market, thus eliminating the related foreign exchange risk. Open currency positions are maintained within the limits set by the Supervisory Board. Additionally, the Group conducts periodical analyses of potential scenarios which are aimed at providing information on the Group's exposure to risk in the event of foreign exchange fluctuation shocks.

Apart from managing current foreign exchange risks, the Group may also conduct hedging transactions in respect of future highly probable foreign exchange cash flows (e.g. cost of rent, net interest income denominated in foreign currencies). The purpose of such transactions is to limit the fluctuations of results in the current calendar year to a maximum of 60%.

To conclude, the key foreign exchange risk tools in the Alior Bank Group include:
- internal procedures for foreign exchange risk management;
- internal models and measurements of foreign exchange risk;
- foreign exchange risk limits and threshold values;
- limitations on foreign exchange trading transactions;
- stress tests.

The basic tool for the measurement of foreign exchange risk at the Group is the „Value at Risk" model ("VaR Model"), which enables determining the possible amount of loss stemming from the then current foreign currency positions as a result of fluctuations in foreign exchange rates, measured using an assumed confidence level and time horizons (holding period). The Group determines VaR using the variance-covariance method, using a confidence level of 99%. This amount is determined on a daily basis for particular areas responsible for accepting and managing risk, both on an individual and on an overall basis.

As at the end of December 2014, the maximum loss on the Group's currency portfolio specified in accordance with the VaR Model with a 10-day holding period could amount to PLN 129,450.70, assuming a confidence level of 99%.

	as at 31.12.2014	as at 31.12.2013
Holding period [days]	10	10
VaR [zł]	129 450.70	35 149.42

VaR statistics on the currency portfolio assuming a 10-day holding period for 2014 and 2013 (in PLN'000).

VaR	as at 31.12.2014	as at 31.12.2013
Min	7.98	7.98
Average	57.75	57.75
Max	301.31	301.31

The Bank's currency position and the utilization of currency limits as at 31 December 2014.

Utilization of the limit (in millions of currencies)		
Currencies	Limit	Utilization
PLN (gross)	16.0	5.3
PLN (net)	8.0	4.3
Group A		
EUR	1.2	0.9
USD	1.7	0.1
CHF	0.8	-0.1
GBP	0.8	0.1
Group B		
PLN (net)	2.3	0.1
AUD	0.4	0.0
CAD	0.4	0.0
CZK	2.3	-0.8
DKK	1.7	0.0
NOK	1.7	0.2
RUB	3.5	0.8
SEK	1.7	0.1
Others	1.7	0.1
Goods	1.7	0.0

The Bank's currency position and the utilization of currency limits as at 31 December 2013.

Utilization of the limit (in millions of currencies)		
Currencies	Limit	Utilization
PLN (gross)	14.0	2.2
PLN (net)	7.0	0.7
Group A		
EUR	1.0	0.3
USD	1.5	-0.1
CHF	0.7	0.0
GBP	0.7	0.0
Group B		
PLN (net)	2.0	0.0
AUD	0.3	0.0
CAD	0.3	0.0
CZK	2.0	-0.4
DKK	1.5	0.0
NOK	1.5	0.0
RUB	3.0	-0.1
SEK	1.5	0.1
Others	1.5	0.2
Goods	1.5	0.1

The assumption that the changes in risk factors in the VaR Model will have a normal distribution may in practice lead to underestimating the losses in extreme scenarios (the so-called "fat tail phenomenon"). Therefore, the Bank conducts stress tests.

The utilization of the stress-test limit for currency positions calculated as the maximum loss the Bank could incur in the event of the most unfavorable daily foreign exchange rate change of those which have been incurred within at least the last four years, totaled, as at 31 December 2014 amounted to PLN 191,628.38 and as at 31 December 2013 amounted to PLN 20,235.41. Statistics of the stress-test of the currency position in 2014 (in PLN'000) were as follows.

Stress-test statistics of the currency position in 2014 (in PLN'000)

Minimum	Average	Maximum
5.42	89.08	433.05

Stress-test statistics of the currency position in 2013 (in PLN'000)

Minimum	Average	Maximum
2.38	42.28	167.40

Interest rate risk

Interest rate risk is defined as the risk of a negative impact of the changes in the levels of market interest rates on the current financial result or the net present value of the Bank's equity. As part of its policy of mitigating the trading book risk, the Bank pays particular attention to specific aspects of interest rate risk that are associated with the banking book, such as:

- repricing risk (i.e. the mismatch of the interest rate tenors of assets and liabilities);
- basis risk, which is defined as the extent to which non-parallel changes in different reference indices that have similar repricing dates can affect the Bank's income;
- modelling accounts with an unspecified maturity date or with an interest rate set by the Bank (e.g. for sight deposits);
- the impact of non-interest bearing items on the risk (e.g. capital, fixed assets).

One of methods of estimating the Group's exposure to interest rate risk is the determination of BPV. BPV represents the estimated change in the value of a given transaction or position as a result of a one basis point change at a given point of the yield curve. BPV values are measured daily for all currencies and at each point of the curve. The BPV estimates as at the end of 2014 are presented in the table below (in PLN'000).

Estimated BPV as at the end of 2014 and 2013

Currency status as of 31.12.2014	To 6 months	6 months-1 year	1 year-3 years	3-5 years	5-10 years	Total
PLN	-48.6	44.5	393.7	-202.0	-3.0	184.6
EUR	-17.5	-11.8	-12.8	11.6	0.1	-30.4
USD	9.9	6.9	2.0	0.0	0.0	18.7
CHF	0.2	-0.5	-1.3	0.0	0.0	-1.6
GBP	1.0	0.8	0.3	0.0	0.0	2.1
Others	-1.0	-2.0	-2.7	0.0	0.0	-5.7
Total	-56.0	37.9	379.2	-190.4	-2.9	167.7

Currency status as of 31.12.2013	To 6 months	6 months-1 year	1 year-3 years	3-5 years	5-10 years	Total
PLN	-26.4	-61.4	-74.2	-92.3	-3.5	-257.8
EUR	-6.4	-0.1	-17.4	-7.8	4	-27.7
USD	9	5.6	0.6	0	0	15.2
CHF	0.4	-0.8	-1.9	-0.7	0	-3
GBP	1.4	1.2	0.6	0	0	3.2
Others	-1	-2.8	0	0	0	-3.8
Total	-23	-58.3	-92.3	-100.8	0.5	-273.9

Estimated BPV as at the end of 2014 and 2013

Book	Minimum	Average	Maximum
Banking book	-724.26	-283.63	-20.42
Trading book	-39.68	-11.50	14.76
ALCO	9.79	271.13	532.71
Total	-463.00	-24.00	473.29

For the purpose of managing interest rate risk, the Group specifies trading operations which cover securities and derivative contracts concluded for trading purposes, and banking operations, which cover other securities, own issues, loans, deposits and derivative transactions used to hedge banking book risk. The Group also performs analyses of possible scenarios which cover, among other things, the impact of specific changes in interest rates on the future interest results and the economic value of capital. As part of these scenarios the Group implements internal limits, the utilization of which is measured daily. Utilization of the limit for changes in the economic value of capital assuming a parallel movement of the interest rate curves of +/- 200 b.p. and non-parallel movements in scenarios of +/- 100/400 b.p. (assuming 1M/10Y tenors, and between them, the shifted linear interpolation) as at the end of December 2014 (in PLN'000) is presented below.

Scenario (1M/10Y)	Change in economic value of capital
+400 /+100	-93 885
+100 /+400	-44 490
+200 /+200	-55 556
-200 /-200	53 122
-100 /-400	39 335
-400 /-100	57 620

The table below shows the statistics for 2014 of the index of change in net interest income for 100 b.p. increase/drop in interest rate scenarios in a 1-year time horizon (in PLN'000).

Change in net interest income (in PLN'000)

Scenario	+100 bp	-100 bp
Minimum	-65 054	-72 752
Average	-9 011	-55 915
Maximum	25 389	-18 624

Liquidity risk

The Group defines liquidity risk as the risk of the potential inability to fulfill its obligations, on conditions favorable for the Group and at an acceptable cost, from all of the balance sheet and off-balance sheet positions of the Group. Therefore, the Group's liquidity risk management policy consists of maintaining its own liquidity in such way that it is possible, at any time, to discharge all payment obligations with cash in hand, through the expected contractual inflows from transactions with specified maturity dates or by selling transferable assets and at the same time minimizing liquidity costs.

Specifically, as part of its management of liquidity risk, the Group pursues the following goals:

- ensuring, at all times, that there is a capacity for the timely settlement of all obligations;
- maintaining basic liquidity provisions, in case the liquidity situation suddenly deteriorates;
- determining the scale of liquidity risk accepted by the group, by setting internal liquidity limits;
- minimizing the risk of exceeding the defined liquidity limits;
- monitoring the Group's liquidity to maintain liquidity and be able to activate a relevant emergency plan when necessary;
- ensuring that the processes applied at the Group comply with the regulatory requirements regarding liquidity risk management.

The goals set out above are pursued independently by appropriate organizational units, the competencies and responsibilities of which are clearly defined in the internal regulations. The Group applies the following measures in the process of liquidity management:

- develops liquidity procedures and policies, including the financing plan for consecutive years of the Group's operations;
- manages the Group's emergency plans with regard to liquidity;
- monitors liquidity limits;
- conducts periodical analyses of the categories and factors which impact the current and future liquidity levels (in the form of reports).

Among liquidity management measurements, the Bank takes into account the following ratios and related limits for the following types of liquidity:

- financial liquidity – the ability to finance assets and discharge liabilities on a timely basis in the course of the Group's everyday activities or in other conditions which may be anticipated, without the need to incur losses. In its liquidity management activities, the Group specifically focuses on a vista and current (up to 7 days) liquidity analysis;
- short-term liquidity defined as the ability to discharge all monetary liabilities which mature within 30 consecutive days;
- medium-term liquidity understood as the ability to meet all liabilities which mature within 6 months;
- long-term liquidity – monitoring the ability to meet all monetary liabilities which mature in a period longer than 12 months.

As part of its management of liquidity risk, the Group also carries out analyses of the maturity profile in the longer term, which to a large extent depends on the assumptions adopted in respect of the development of future cash flows related to asset and liability items. These assumptions specifically take into account:

- stability of liabilities without specified maturities (e.g. current accounts, deposits withdrawals and renewals, level of their concentration);
- option to shorten maturities of specific asset items (such as mortgage loans with an early repayment option);
- option to sell assets (liquid portfolio) and are accepted at the level of the ALCO or the Bank's Management Board.

The maturity analysis of realigned assets and liabilities as at the end of 2014 is presented in the table below (amounts in PLNM):

12/31/2014	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
ASSETS	**383**	**3 230**	**1 230**	**1 583**	**2 295**	**3 023**	**4 985**	**13 438**	**30 168**
Cash and Nostro accounts	15	63	54	51	71	92	162	949	1 457
Amounts due from banks		6				145			151
Loans and advances to customers	212	344	1 019	1 532	2 180	2 766	4 600	11 005	23 658
Securities	156	2 816	156		44	21	224	152	3 569
Other assets								1 332	1 332
LIABILITIES AND EQUITY	**-188**	**-2 125**	**-1 281**	**-1 383**	**-2 088**	**-2 658**	**-3 530**	**-16 915**	**-30 168**
Liabilities from banks	-11	-884				- 131	-43		-1 069
Liabilities from customers	-177	-1 239	-1 256	-1 196	-1 601	-2 031	-3 013	-12 274	-22 786
Own issues		-3	-25	-188	-487	-495	-474	-492	-2 163
Other liabilities								-4 149	-4 149
Balance-sheet gap	**195**	**1 104**	**-51**	**200**	**208**	**365**	**1 456**	**-3 476**	

Accumulated balance – sheet gap	**195**	**1 299**	**1 248**	**1 447**	**1 655**	**2 021**	**3 476**		
Derivative instruments – inflows		2 559	1 335	280	442	1 287	263	3	6 169
Derivative instruments – outflows		-2 509	-1 325	-278	-436	-1 306	-258	-2	-6 115
Derivative instruments – net		50	10	3	6	-19	4		54
Guarantee and financial lines		-779	-779		389	1 168			
Off-balance sheet gap		**-729**	**-769**	**3**	**395**	**1 149**	**4**		**54**
Total gap	**195**	**375**	**-820**	**202**	**603**	**1 515**	**1 460**	**-3 476**	**54**
Total accumulated gap	**195**	**570**	**-250**	**-48**	**556**	**2 070**	**3 530**	**54**	

The amounts presented in the table above only account for the flow of capital. Interest, adjustments, allowances are shown under "Other assets" and "Other liabilities".

To identify the realigned liquidity gap, the Group uses model weights of the core deposits/loan repayments, determined based on the implemented statistical model and historical observations of balances of particular products.

The Group maintains the liquidity buffer at a high level, investing in debt securities issued by the government and by the highest ranking corporations, which are highly liquid, within the predefined financial limit plan. This level is controlled by the ratio of liquid assets to the deposit base which as at 31 December 2014 exceeded 11%.

Additionally, the Group conducts liquidity stress-tests and prepares a plan for acquiring funds in emergency situations, specifies and verifies its liquid asset sale policies, taking into consideration the costs of maintaining liquidity.

In accordance with Resolution No. 386/2008 of the Polish Financial Supervision Authority dated 17 December 2008, the Group specifies:

- the short-term liquidity gap (i.e. the minimum surplus of current liquidity) defined as the difference between the total of the base and supplementary liquidity reserve as at the reporting date, and the value of unstable external funds. As at 31 December 2014, the surplus amounted to PLN 1,310 million;
- the ratio of coverage of non-liquid assets with own funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk to non-liquid assets;
- the ratio of coverage of non-liquid assets and assets with limited liquidity with own funds and stable external funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk, and stable external funds to the total of non-liquid assets and assets with limited liquidity;
- the short-term liquidity ratio defined as the ratio of the total of the base and supplementary liquidity reserve as at the reporting date to the value of unstable external funds.

These ratios as at 31 December 2014 amounted to: 5.99; 1.11; 1.54.

Additionally, in accordance with the requirements of the said Resolution, the Group performs an in-depth analysis of financial stability and source of funding structure, including the level of core deposits and concentration for term and current deposits. Additionally, the Group monitors the volatility of balance-sheet and off-balance sheet items, and specifically the value of forecast outflows in respect of the guarantees granted to customers.

On a monthly basis, the Group also analyses the concentration of the deposit base aimed at indicating the potential risk of excessive dependency on those sources of funding which are insufficiently diversified.

To assess the level of concentration, the Group sets a HCI (High Concentration Indicator) calculated as the ratio of funds accumulated by the largest depositaries to the value of the deposit base. As at 31 December 2014, HCI amounted to 3.97%, which indicates a low level of concentration. The HCI statistics for 2014 are shown in the table below.

High Concentration Indicator (HCI) in 2014

Minimum	Average	Maximum
2.76%	3.85%	4.84%

To limit concentration risk, the Group diversifies the structure of the deposit base into retail, business, financial customers, central and local government institutions, monitoring and reporting the share of each of the groups in the entire deposit base on a monthly basis.

In 2014 the Group's liquidity remained at a safe level. Liquidity was strictly monitored and maintained at an adequate level by adapting the deposit base and initiating additional sources of finance depending on the developments in the lending activity and other liquidity needs.

Operational risk management

Operational risk management objectives and policies

The purpose of managing the Group's operational risk is to minimize its operational risk exposure. In accordance with the definition of the Basel Committee for Banking Supervision operational risks refer to possible losses resulting from failure to deploy internal processes, staff, systems or to external threats.
The Group has a formalized operational risk management system according to which it counteracts operational events and incidents and mitigates losses if the risk materializes. The principles and structure of operational risk management in the Group are based on the Banking Law, the provisions of resolutions and recommendations issued by the Polish Financial Supervision Authority and the Bank's Operational Risk Management Policy approved by the Management Board and the Supervisory Board.
In its Operational Risk Management Policy the Group specified – among other things – the operational risk management strategy, including the Group's risk appetite, the operational risk management system and the principles for operational risk management, which cover:

- identification;
- assessment and measurement;
- counteracting;
- controlling;
- monitoring; and
- reporting operational risk.

The Group uses the standard method to calculate the capital requirement in respect of operational risk.

The following operate under the Group's risk operational management system: the Supervisory Board, the Management Board and the Operational Risk Committee.
The Management Board, which participates in Alior Bank's risk operational management process, is responsible for the correct functioning of the operational risk management and control processes, and specifically supports the process:

- by accepting the Bank's policy in this respect;
- by determining competences and segregation of duties in the operational risk management process;
- by appointing and approving the composition of the Operational Risk Committee;
- by approving the level of internal operational risk limits;
- by conducting regular assessment of the operational risk management process and the level of use of internal operational risk limits;
- by creating and developing an organizational structure in the area of effective operational risk management.

The Supervisory Board supervises the adopted strategy with reference to operational risk, which, among other things:

- approves the Management Board's competencies necessary to manage operational risk;
- approves the Policy specifying the overall operational risk management strategies;
- approves and assesses the pursuit of strategies and – if necessary – orders that it be revised;
- periodically assesses the level of risk on the basis of information submitted by the Bank's Management Board and Operating Risk Committee;
- recommends actions to be taken to mitigate risk or change the operational risk profile of the Bank.

The Operational Risk Committee advises and supports the Management Board in effective risk management. The Operational Risk Committee monitors the level of exposure to operational risk on a current basis and assesses the current operational risk position at Bank level. It also participates in the operational risk management process, among other things, by:

- assessing the operational risk of the Bank's projects;
- approving or recommending changes in business continuity plans;
- determining the scope of self-assessment of operational risk by the Bank;
- approving assumptions for conducting stress tests in respect of operational risk and their results.

It also issues the necessary recommendations and decisions to counteract operational issues, and if such are identified, mitigates their effects.

The process of mitigating operational risk is one of the most important elements of operational risk management as the decisions regarding the mitigation of this risk have a direct impact on its profile. On the basis of the recommendations of the Operational Risk Committee regarding the Bank's operating areas especially exposed to operational threats, the Bank's Management Board takes decisions on the Bank's further actions aimed at mitigating or accepting the operational risk, or on discontinuing operations which are exposed to operational risk. The Management Board may decide to insure the identified operational risk.

The Operational Risk Team is responsible for on-going control and monitoring of operational risk. This entity is also responsible for:

- developing and implementing appropriate operational risk methodologies and controls;
- giving opinions on and consulting the assessment of operational risk of the Bank's projects, products and procedures (new and modified);
- monitoring the level of use of internal operational risk limits;
- accumulating high quality data on events and operational results;
- monitoring internal and external events;
- monitoring the level of the Bank's risk using the tools used by the Bank, such as the level of key risk indices (KRI) and self-assessment;
- preparing cyclic reports relating to the operational risk level at the Bank.

The duty to monitor and mitigate operational risk in day-to-day activities relates to all employees and organizational entities of the Bank. The Bank's employees control the risk level on a current basis in respect of the processes they are responsible for, and actively minimize the risk exposure, taking action to avoid/limit operating losses. They are responsible for current registration of events and financial operational effects relating to their areas of operation, they define and report the Key Risk Indicator (KRI) levels and the level of tolerance for processes especially exposed to operational risk, they also participate in the self-assessment process commissioned by the Operational Risk Committee.

Recording events/incidents and operating losses

The Group records the events, incidents and operating losses, which enables it to effectively analyse and monitor operational risks in accordance with the internal instruction specifying the recording principles. The records are maintained using the OpRisk system which supports operational risk management and which enables registering, analyzing and monitoring data.
In 2014 a total of 2212 operational losses were recorded with a total value of PLN 4,626 thousand. Compared with 2013 the value of operational losses was reduced by PLN 256 thousand.
In 2014 the value of recoveries / operating income on operational risk amounted to PLN 629 thousand.

Credit risk management

Credit risk management objectives and policies

Credit risk management and maintenance of that risk at a safe level is of fundamental importance for the stability of the Bank's activities. Credit risk is controlled by applying the Group's regulations, especially a lending methodology appropriate to individual customer segments, product and transaction types, or the principles of setting and monitoring loan security measures, and debt collection processes. The Group is taking steps to fully centralize and automate these processes as part of the existing system infrastructure while simultaneously using available external and internal information about the customers.

Credit risk is mitigated within the scope of limitations imposed by external regulations and by internal policies determined by the Group, in particular, those relating to credit exposure to one customer, group of entities related by capital or type of internal organization, or to industry sectors.

Credit risk management is based on the credit risk management system integrated with the Bank's operating processes. The components of credit risk management are, in particular:

1. identification;
2. measurement;
3. monitoring;
4. reporting and controlling.

The process thus identified enables proactive supervision over current and potential risks and effective use of risk management methods and instruments.

The credit risk management system identified internal and external factors indicative of credit risk occurrence. Such factors may be found in certain areas of the Group's business, namely:

1. Customers – examination of individual customers and groups of customers, verification of homogenous customer groups for quality of the constructed loan portfolio;
2. Products – the area covers all the risks potentially related to a specific product (on a one-off basis or for the entire loan portfolio);

3. Collaterals - verified in this area of business is the correctness of collateral acceptance, collateral value and timeliness, and the correctness of the preparation of documentation related to the collateral, as well as any subsequent update of collateral value. Significant to the mitigation of credit risk is an examination of the efficiency of implementing the amended regulations on legal collateralization of loans and the application of binding procedures in this area;
4. Processes and regulations – verification of quality and efficiency of the crediting process, loan administration, monitoring, debt collection and restructuring processes, and cooperation with external debt recovery agencies, as well as verification of the compliance of the Bank's regulations underlying the said processes with the applicable laws;
5. Systems – in particular, verification of credit-support systems and systems supporting debt monitoring and collection, as well as the efficiency of the use of those systems;
6. Distribution channels – verification of the effectiveness (and harmfulness) of the Bank's distribution channels;
7. Employees – examination of proper use of credit competencies granted to employees individually, detection of possible irregularities in the lending process;
8. External conditions – examination of the following external factors, specifically: interest rates level; foreign exchange rates; cash supply volume; unemployment rate; changes on the labour market; economic climate;
9. Credit risk management effectiveness – periodic verification of the effectiveness of the system assumptions concerning the Bank's credit risk management policies.

The Group analyzes risk both individually and on a portfolio basis, and undertakes actions which lead to:
- minimizing the credit risk in respect of individual loans at a stipulated rate of return;
- reducing the overall credit risk resulting from the Bank's defined credit portfolio.

To minimize the risk of a single exposure the Group each time when granting the exposure:
1. assesses creditability and creditworthiness taking into consideration, among other things, a detailed analysis of the source of repayment of the exposure;
2. assesses collaterals, including the verification of their formal, legal and economic aspects, also taking into consideration their LTV adequacy.

Additionally, to strengthen risk controls over individual exposures, the Group regularly monitors customers, taking actions aimed at minimizing risk if increased risk factors are discovered.

In respect of minimizing credit risk resulting from holding specific portfolios, the Group:
1. defines and controls concentration limits;
2. monitors early warning signals from the EWS system;
3. regularly monitors the loan portfolio, controlling all credit risk parameters (such as PD, LTV, CR);
4. regularly performs stress tests.

Capital management (ICAAP)

Alior Bank manages capital in a manner enabling safe and at the same time effective functioning.
To ensure the security of operations, the Bank defines, within the scope of its risk appetite, appropriate levels of offset of potential unexpected losses in respect of material risks identified under the ICAAP process and risks under the regulatory capital calculation procedures by available capital (and Tier 1 capital).

Under the ICAAP process the Bank identifies and assesses the materiality of all types of risks to which it is exposed in connection with its operations.

Material risks as at 31.12.2014
1. Credit risk – insolvency
2. Credit risk – industry concentration
3. Credit risk – Customer concentration
4. Credit risk – currency concentration
5. Operational risk
6. Liquidity risk
7. Interest rate risk in respect of the Banking Book
8. Market risk
9. Model risk
10. Reputation risk
11. Business risk

The Bank assesses internal capital using external risk assessment models for particular risks identified as material for the Bank. Internal capital is assessed in respect of:

- credit risk based on the CreditRisk+ methodology as 99.95 quantile of the distribution of losses on the credit portfolio;
- market risk and interest rate risk in respect of the banking book, based on the VaR methodology;
- liquidity risk based on the liquidity gap model on the assumption of stress conditions;
- operational risk based on the model accounting for the rate of return on assets in the banking sector.

The total designated internal capital and the calculated regulatory capital are secured by the value of available capital (and Tier 1) in consideration of appropriate safety buffers.

Capital ratios of the Bank's Group as at 31.12.2014

Capital adequacy ratio	Tier1 ratio	Ratio of offsetting internal capital by available capital
12.80%	11.23%	1.85%

Taking into consideration the need to secure sustainable growth of its scale of operations, the Bank will expand the available capital base using various channels, i.e. reinvesting profits, issuing subordinated debt, and issuing new shares on the stock exchange.

The Bank's available capital base is expanded while ensuring operating effectiveness, that is realizing the stipulated return on the capital entrusted by shareholders.

Chapter IX.

IX. CONTINGENT LIABILITIES

The Group grants contingent liabilities to its individual customers in respect of renewable limits in checking (ROR) accounts. These liabilities are granted for an unspecified period, but at the same time, the adequacy of inflows of funds to the accounts is monitored.
Contingent liabilities for business customers include:

- current account limits (for a period of 12 months);
- guarantees, mainly for a period of 6 years;
- credit cards for an unspecified period (with simultaneous monitoring of adequacy of cash inflows and portfolio or individual monitoring);
- guarantee limits;
- loans launched in tranches for a period of up to 2 years.

The amounts of guarantees shown in the table below reflect the maximum loss which may be incurred and which would be disclosed as at the balance sheet date if the customers defaulted on all their liabilities.

As at 31.12.2014 the number of active guarantees granted by Alior Bank was 2,748, amounting to PLN 1,539,975 thousand. In the 1st quarter of 2014, the Bank issued 1 286 guarantees totalling PLN 582 524 thousand.
The Bank takes care to maintain a correct timing structure of the guarantees issued. Active guarantees which mature in a period shorter than two years (of 1,989) amount to PLN 812 031 thousand. Guarantees which mature by the end of 2015 (of 1 455) amount to PLN 512 161 thousand.

Off-balance sheet liabilities granted (in PLN'000)

Off-balance sheet contingent liabilities granted to Customers	as at 31.12.2014	as at 31.12.2013
Off-balance sheet liabilities granted	7 786 373	7 078 830
Relating to financing	6 246 398	5 735 711
Guarantees	1 539 975	1 343 119

Off-balance sheet contingent liabilities granted to Customers – by Customer by Customer

by Customer	as at 31.12.2014
entity 1	233 928
entity 2	127 700
entity 3	101 000
entity 4	81 807
entity 5	70 181
entity 6	50 000
entity 7	50 000
entity 8	30 504
entity 9	30 000
entity 10	29 800
Other	735 056

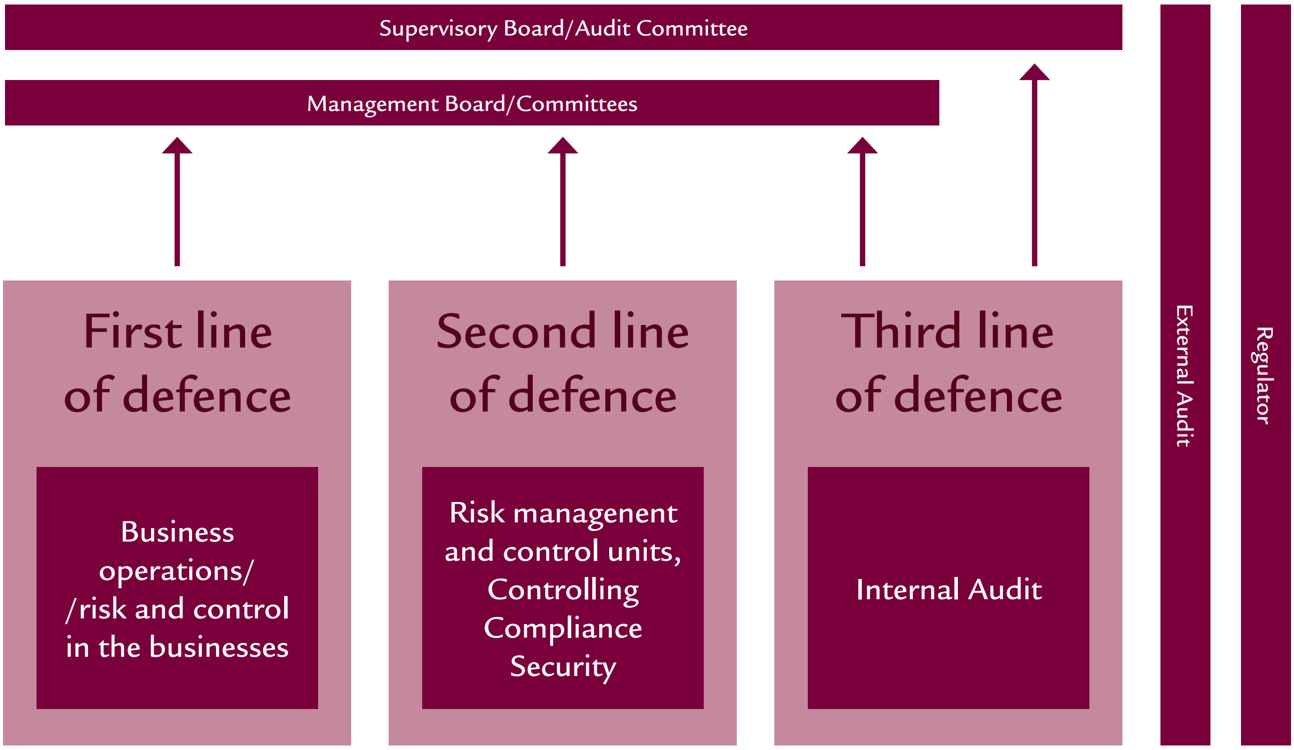
Off-balance sheet contingent liabilities granted to Customers – by Customer by Customer

by type	as at 31.12.2014
credit lines	6 106 310
import letters of credit	83 058
loan promises	57 030
guarantees	1 539 975
Total	7 786 373

The Bank was not a warrantor or guarantor of any bonds in 2014 (there were no off-balance sheet liabilities in respect of bonds).

Chapter X.

X. INTERNAL CONTROL SYSTEM



Alior Bank S.A. has an internal control system which comprises all control processes that support management. The system is designed to support decision-making processes and thus to contribute to ensuring: the achievement of the Bank's strategic objectives, operational effectiveness and efficiency, reliability of financial reporting, maintaining risks at acceptable levels, the safeguarding of assets, compliance with the law, internal regulations and good banking practices set out in the recommendations of the banking supervision, control over all units and areas of operation, efficient communication in cases of operational risks, quick identification and elimination of irregularities, mismanagement and fraud. The internal control system includes solutions relating to:

- internal procedures (policies, instructions, professional methodologies);
- controls (such as: the four eyes principle, the system of limits, independent counting, segregation of duties);
- organizational structure (e.g. segregation of roles and responsibilities, decision-making policies);
- identification and management of operational risk and non-compliance risk.

The internal control system at Alior Bank S.A. comprises institutional controls and functional controls. Institutional controls are carried out by employees of the Internal Audit Department and by consultants, both internal and external, after obtaining the relevant authorization from the Director of a given Department or the President of the Bank's Management Board. The Internal Audit Department is responsible for providing objective, independent evaluations of the areas audited, supporting the Bank's management processes by identifying and assessing significant risks and contributing to improving the risk management and control systems, the compliance of audit findings with the applicable law and the Bank's internal regulations, proper safeguarding of the audit documentation against unauthorized access. This consists of the day-to-day analysis of the course and results of work of specific employees and teams. The main tasks of the functional controls include:

- checking whether the processes at the Bank are conducted as designed; analysing whether the procedures are performed by employees with relevant competencies and professional qualifications and whether there is a conflict of interests;
- monitoring the accuracy and correctness of records and financial reporting;
- checking compliance with internal regulations, including limits, physical access security measures, scopes of authorizations.

The functional controls are performed in the form of self-control, vertical and horizontal functional control and the automatic performance of processes executed by the IT systems.

Compliance risk management

Compliance risk management is aimed at minimizing the risk of incurring legal sanctions, financial losses or losing reputation or reliability due to the failure of the Bank, entities acting on its behalf (including subsidiaries) or its employees to comply with the provisions of the law, regulatory requirements, internal regulations and standards adopted by the Bank, including ethical standards. The compliance team ensures proper compliance risk management, in particular:

- is responsible for compliance and the consistency of internal regulations with the provisions of the law, regulatory requirements, good market practices:
- identifies, assesses, monitors and reports compliance risk and takes action to eliminate risk or minimize its effects;
- participates in the identification and assessment of risk related to developing new business models, creating and offering products and services;
- participates in maintaining solutions enabling controlling relations with customers cooperation with whom may be exposed to reputation risk, and counterparties;
- participates in resolving conflicts of interest, makes sure there is transaction monitoring and that irregularities in employee transactions in financial instrument markets are discovered, that confidential information is correctly treated, and verifies the correctness of the Bank's operations in the area covered by the MiFID directive;
- maintains compliance registers (own transactions, conflict of interests);
- sends reports on existing non-compliance and remedies which have been or will be implemented to minimize the effects of the identified events to the Bank's Management Board and Supervisory Board, and at least once a year reports to the Supervisory Board on the Bank's risk management compliance, including informing on tangible losses, legal sanctions, supervisory sanctions or loss of reputation which arose as a result of non-compliance;
- ensures advisory and on-going assistance to the Bank's employees in the compliance area;
- exercises the tasks of the Personal Data Administrator;
- investigates claims relating to violations of ethics by the Bank's employees and promotes business ethics.

Chapter XI.

XI. RATING

As part of the preparations for the initial public offering, Alior Bank S.A. promised the Polish Financial Supervision Authority to take immediate action from the start of 2013 to obtain a rating awarded by a renowned international rating agency.
On 5 September 2013, Fitch Ratings Ltd. granted the BB rating with a stable perspective to Alior Bank S.A. The rating was maintained without change in accordance with the assessment from 19 May 2014.

The full rating granted to the Bank by Fitch is as follows:

1. Long-Term Foreign Currency IDR: BB stable perspective;
2. Short-Term Foreign Currency IDR: B;
3. National Long-Term Rating: BBB+(pol), stable perspective
4. National Short-Term Rating: F2(pol);
5. Viability Rating (VR): bb;
6. Support Rating: 5;
7. Support Rating Floor: ‘No Floor’.

Definitions of the Fitch ratings are available on the Agency’s website: www.fitchratings.com, where ratings, criteria and methodologies are also published.

Chapter XII.

XII. CORPORATE SOCIAL RESPONSIBILITY

Relations with customers

Alior Bank plays a key role on the banking market in terms of maintaining and promoting high service quality standards, as confirmed by various awards and distinctions. From the beginning of its existence Alior Bank has been an organization focused on Customer needs, providing beneficial advice and tailoring products to Customer needs. The Bank analyses the needs of its stakeholders and flexibly tailors its strategy to market expectations, both in terms of the product offer, distribution network, employing experts and the service process.

Relations with employees

To promote good employee relations Alior Bank is implementing a new HR strategy which accounts for the specific nature of a large and dynamic organization. The new formula is based on active support of common business goals and help in the employees' personal development.

New employees attend a specially prepared program aimed at ensuring effective introduction to the Bank's structures and getting to know and adapt to their scope of responsibilities. Additionally, each branch employee has a dedicated mentor and internal coach. Such model translates not only into the effectiveness of a professional, but also of the whole organization, ensuring comfort for the employee and the highest quality service for the Customer.

Additionally, all Alior Bank employees may participate in various training programs conducted both by internal and external trainers. The Bank enables a wide range of training – product, sales, general development and many others. In the prior year employees participated in more than 300,000 hours of training.

A professional management system and wide range of incentive programs enables correct directing of professionals and allows them to dynamically develop their careers. Selected tools, such as the iAlior portal and the communication platform ZineINC, enable all employees to state and pursue their own innovative ideas. Thus the Bank has become an organization which facilitates professionals participation in new projects and cooperation in implementing innovations, which are often their own initiative.

Educational, cultural and charity activities

Alior Bank is a socially responsible corporation and as such for many years it has supported local communities undertaking many initiatives.. Such activities are aimed not only at aiding the completion of various programs, but also spreading knowledge on corporate social responsibility and sustainable growth among employees, customers, business partners and the Bank's shareholders. Moreover, year on year, more internal initiatives are being combined with external actions. Employees more often propose projects which in their opinion are important and reflect the values represented by the Bank.

In March 2014, Alior Bank supported the action "Czytam w podróży ... Herberta" ("During trips I read... Herbert") aimed at promoting reading and promulgating the works of one of the most outstanding Polish poets of the twentieth century. As part of cooperation with the Zbigniew Herbert Foundation, the Bank's employees actively participated in the initiative, promoting the works of the author of "Mr Cogito" and encouraging people to read while travelling, both going to school, work and on a dream holiday.

In spring 2014 Alior Bank became a partner in the action "Ojcowie na start" On your marks, fathers"), organized by the Parents' Association "Na Fali". The purpose of the event was to promote an active lifestyle among children and adolescents by participating in a bicycle race. Bank employees and their children also participated in the race.

Moreover, the Alior Running Team took up the running challenge initiative "Bank challenge" during the relay race Accreo Ekiden, at the same time supporting the charity project of the troop of philanthropists Kompania Wrażeń in the Bator Tabor Polska Foundation. Alior Bank was represented by two teams which rivalled against employees of other banks not only during the race but also in the amount of funds raised. The money collected was earmarked for holidays for terminally ill children.

Alior Bank also began cooperating with the "Wspólnota Pokoleń" ("Community of Generations") Foundation as patron of the Dialog Międzypokoleniowy (Inter-generation Dialogue) project, the aim of which is – among other things – promotion of pro-democratic and pro-freedom education among the young generations and support of persons and entities actively involved in actions commemorating Polish history.

Once more Alior Bank became involved in the "Mikołajkowy Blok Reklamowy" ("Christmas Advertising Block") – a charity campaign of the Polsat Foundation. The Bank's Christmas spot entitled "Pług" ("Plough"), promoting a loan with Guarantee of Lowest Instalment, was broadcast in the advertising time slot the income of which is earmarked for the charges of the Foundation. "Mikołajkowy Blok Reklamowy" had an audience of almost 7 million in 2014. Initial assessments show that over PLN 1.5 million were collected, and the full amount will be transferred for the purpose of treating and rehabilitating sick children.

Sponsoring activities

In August 2014, based on the agreement concluded with the Polish Football Association (PZPN), Alior Bank was awarded the title of "Official Sponsor of the Polish Football Representation". Apart from marketing benefits the Bank's cooperation with PZPN also covers completion of strategic projects addressed to the representation's fans. Alior Bank became the official sponsor of the multimedia platform "Łączy nas piłka" ("Bound by Football"). The portal is not only a source of valuable information on the representation team, league matches and youth and amateur football, but thanks to its social functions is also a tool which activates and involves the football community and football fans.
The key element related to the "Łączy nas piłka" platform is the new Karta Kibica – Fan Card. The Fan card is available to football fans as of November 2014. The card is not only an identifying tag and replaces the traditional paper match ticket, but is also used as a pre-paid payment card, which enables the conclusion of pay-pass transactions at the stadium during the match, but also in any other places in the world which accepts card payments.

Prizes and awards

In 2014 Alior Bank S.A. gained several prizes and awards. The main ones comprise:

- 3 awards for Alior Bank in the "Złoty Bankier 2013" rating. For the second year in a row Alior Bank triumphed in the category "Best Cash Loan". Alior Sync – the virtual branch of Alior Bank (which – since May 2014 – has been operating under the new T-Mobile Usługi Bankowe (T-mobile banking Services) brand, where the services are provided by Alior Bank, was awarded two statuettes in the category "Best

Mobile Banking" and "Best Internet Payment Method" in recognition of the innovation of the solutions offered by the Bank;

- the title "Best Bank in Poland in 2014" awarded by the international financial magazine "Global Finance". Alior Bank received a prestigious award in the annual ranking of financial institutions from developing countries, as an institution which best adapts products and services to the specific nature of the Polish market;
- first place in the ranking "Europe Structured Product Awards 2014" in the category "Best in Product Performance in Poland". Alior Bank was recognized by international experts from the StructuredRetail-Products.com service for above-average investment results on the offered structured products;
- the "Best small and medium Bank of 2013" award in the competition "Liderzy Świata Bankowości" (Leaders of the Banking World") organized as part of the Banking Forum, one of the most important events in the banking and financial sector. Alior Bank was considered the best financial institution with equity of up to PLN 3 billion;
- the "Superbrands 2013/14" title – Alior Bank was awarded in two categories: finance and insurance, and in the category of financial services for business. the awards granted to Alior Bank confirmed by "Superbrands 2013/2014 Certificates" attest to the Bank being one of the strongest brands elite;
- the title "Best European Retail Bank in 2014" awarded in the international competition organized by "Retail Banker International" for retail banks. Alior Bank received this prestigious title as the first bank in the history of the competition;
- Four awards for Alior Bank employees in the "Polish National Sales Awards" competition, the most important event on the Polish market dedicated to representatives of sales departments.

Chapter XIII.

XIII. CONTROLS APPLIED IN THE PROCESS OF PREPARING FINANCIAL STATEMENTS

The financial statements are prepared in the Financial Department in accordance with the Bank's accounting policy adopted by the Management Board and the organization of the Bank's accounting. The policies specify the principles for recording business events in the Bank to reflect in a true, fair and clear manner the assets and financial position of the Bank and its financial results.

As a result of recording those events, the Bank's books of account are created, which form the basis for preparing financial statements.

In the process of preparing financial statements, the following risks were identified:

- risk of incorrect input data;
- risk of incorrect presentation of data in the financial statements;
- risk of using incorrect estimates;
- risk of lack of integration of the operating systems used at the Bank and operating and reporting applications.

To limit the above-mentioned risks, the structure of the process of preparing the financial statements was defined, constituting two layers: the application layer and the factual layer.

The application part of the process consists of the flow of data from the Bank's operating systems through predefined interfaces to the statutory reporting system database.

The application layer is subject to controls compliant with the IT security system policy adopted by the Bank.

The controls cover specifically:

- user management;
- management of the production and development environment;
- integrity of the data transfer systems, including the correctness of operation of the interfaces in terms of completeness of data transfer from operating systems to the reporting environment.

For the purpose of correct management of the process of preparing financial statements, a description of the process was prepared in accordance with the policies adopted by the Bank, which includes all actions contained in the process and their operators. Moreover, the description indicates key control points. The key controls embedded in the process of preparing financial statements include, but are not limited to:

- controlling the quality of financial statements input data, supported by data control applications; a series of principles for ensuring the correctness of data are defined in the applications, as well as the error correction path and strict monitoring of the quality of data;
- controlling the mapping of data from source systems to the financial statements, which ensures correct presentation of data;
- performing analytical reviews based on specialist knowledge, aimed mainly at confronting business knowledge with the financial data and discovering potential signs of incorrect presentation of data or incorrect input data.

The accounting policies include a description of the estimates adopted by the Bank, in accordance with professional judgement and assumptions resulting from IAS/IFRS, which affect presentation of the amounts of income, costs, assets and liabilities as at the balance sheet date. However, due to uncertainty associated with professional judgement and estimates, the amounts of assets and liabilities may change in the future in line with the ultimate effects of transactions.

To eliminate the risk of incorrect estimates, among other things, the following solutions were adopted:

- to estimate loan impairment, the Bank uses models and processes approved by the Bank's Management Board; all models and processes are subject to embedded controls and periodical monitoring and validation, which enables verifying the models' functional assumptions, adequacy of parameters and correctness of implementation;

- to measure financial instruments which are quoted on active markets or which are measured based on such quotations – the required functionality was implemented in the basic systems, and additionally, controls were implemented to be operated by market risk management unit;
- to measure financial instruments which are not quoted on active markets, valuation models were implemented which had been independently checked beforehand and calibrated based on available quotations for these types of transactions;
- to estimate provisions for pension and disability pension one-off benefits – the preparation of estimates was commissioned to an independent actuary;
- to estimate the provision for employee and management bonuses – calculations are applied in accordance with the bonus regulations adopted by the Bank and the Bank's forecast results.

Accounting policies are described in detail in the Annual Consolidated Financial Statements, in the section "Accounting policies".

The implemented organizational structure of the Bank enables segregating duties between the Front-office, Back-office, Risk and Finance. Additionally, the implementation of appropriate internal controls compels the Bank to implement transaction and financial data control in the back office and support units. This area is assessed independently and objectively by the Internal Audit Department both in terms of adequacy of the internal control system, risk management, and in terms of corporate governance.

Chapter XIV.

XIV. CORPORATE GOVERNANCE

The Management Board hereby represents that in 2014 the Bank and its authorities abided by the adopted corporate governance principles specified in WSE Best Practices. Additionally, pursuant to the resolution of the Supervisory Board dated 29 December 2014, Corporate Governance Principles for Supervised Institutions were adopted for use.

Scope of corporate governance

In accordance with the Regulations of the Warsaw Stock Exchange (Giełda Papierow Wartościowych w Warszawie S.A.) (“WSE”), Alior Bank, as a company quoted on the WSE, is obliged to comply with the principles of corporate governance specified in WSE Best Practices. WSE Best Practices consist of a set of recommendations and proceeding policies which refer specifically to the authorities of listed companies and their shareholders.

The text of the above set of rules is published on the website of Giełda Papierów Wartościowych w Warszawie S.A. at http://corp-gov.gpw.pl.

Within the competencies granted to the Management Board of the Bank by the Articles of Association, and based on generally binding legal regulations, ultimately the Management Board intends to oblige Alior Bank to comply with all the regulations specified in the Best Practices.

Moreover, the Bank’s Management Board has made efforts to ensure that the information policies addressed to investors, both individual and institutional, are as consistent with their expectations as possible.

However, currently the Bank’s Management Board does not stipulate the participation of shareholders in the General Shareholders’ Meeting using means of electronic communication (Principle No. 10 of Section IV of Good Practices). Current non-compliance with this rule as set out in WSE Best Practices is due to the absence of a regulation stipulating this in the current version of the Bank’s Articles of Association (as required by the Commercial Companies’ Code), and the absence of appropriate market practice and experience related to applying this rule, which in consequence could lead to factual and legal doubts and complications.

Changes in the basic principles of management

In order to amend the Bank’s Articles of Association, the General Shareholders’ Meeting must pass a relevant resolution, which must subsequently be registered in the National Court Register. Amendments to the Articles of Association require a majority of three quarters of the votes. Moreover, pursuant to Art. 34.2 of the Banking Law, in specific cases amendments to the Bank’s Articles of Association must be approved by the Polish Financial Supervision Authority.

In 2014 the following amendments were made to the Bank’s Articles of Association and registrations of the share capital of the Bank, based on the resolutions passed by the General Shareholders’ Meeting, relating to:

- increasing the Bank’s share capital by PLN 63,582,960.00 as a result of the issue of G series shares. The Bank’s share capital after registration amounts to PLN 699,412,610.00 and comprises 69,941,261 shares with PLN 10.00 par value each. The increase in the Bank’s share capital was registered on 2 January 2014.
- an increase in the Bank’s share capital by way of issuing a total of 37,105 ordinary D series bearer shares with a total nominal value of PLN 371,050, on the basis of partial settlement of the Incentive Scheme. On 30 September 2014, 20,100 of the Bank’s shares were registered with the National Securities Deposit, and on 30 December 2014, 17,005 shares were registered with the National Securities Deposit. The increase was registered by the court on 16.07.2004.

- Moreover on 2 December 2014 the Extraordinary Shareholder's Meeting passed a resolution on conditional share capital increase of the Bank by issue of ordinary H series bearer shares without granting a pre-emptive to the current shareholders of the Bank and change in the Bank's charter and referred to a conditional share capital increase of the Bank by way of issuing ordinary bearer H series shares by an amount not higher than PLN 23,554.980, by way of issue of no more than 2,355.498 shares. On 25 February 2015 the National Depository of Securities registered 2,355.498 shares in NDS.

The structure of the Company's share capital after registration of the amendments is as follows:

- 50,000,000 ordinary A series shares;
- 1,250,000 ordinary B series shares;
- 12,332,965 ordinary C series shares;
- 6,358,296 ordinary G series shares;
- 37,105 ordinary D series shares; and
- 2.355.498 ordinary H series shares.

Pursuant to the provisions of the Bank's Articles of Association all the existing shares are ordinary bearer shares. No special rights or limitations are attached to the existing shares. The rights and obligations associated with shares are in compliance with the law. Securities issued by the Bank do not grant any special control powers to their holders.
There are no limitations to exercising voting rights carried by the Bank's shares in the Bank's Articles of Association.
The Bank's Articles of Association do not contain any limitations to transferring ownership title to the Bank's shares. Such limitations result from the original incentive plan described below.

Shareholders of Alior Bank S.A.

In accordance with the notifications received, the following shareholders of Alior Bank had more than a 5% interest in share capital as at 27 February 2015:

- Alior Lux S.a r. l. & Co S.C.A. together with Alior Polska Sp. z o.o.;
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK
- Genesis Asset Managers LLP

Shareholders holding more than 5% of the Bank's shares as at 27 February 2015.

Shareholder	Number of shares / votes	Nominal value of shares held	% share in share capital	Share in total number of votes
Alior Lux S.a r.l. & Co. S.C.A. (including Alior Polska sp. z o.o.)	18 318 473	183 184 730	25.32%	25.32%
Genesis Asset Managers LLP	5 113 021	51 130 210	7.07%	4.84%
Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK	3 806 451	38 064 510	5.26%	5.26%
Other shares	45 095 919	450 959 190	62.34%	64.58%
Total	72 333 864	723 338 640	100%	100%

In the period from the date of the previous periodic report, the Bank's Management Board received notifications of changes in the number of shares held by the Bank's shareholders referred to above.

On 16 January 2015, the Bank's Management Board received a notification from Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK, which indicated that as a result of the transactions to purchase shares in Alior Bank S.A. concluded on 9 January 2015, it increased its total number of voting rights above 5%. After concluding and settling the transaction Aviva OFE holds 3,806,451 of the Bank's shares which constitute 5.44% of the share capital (issued shares) of Alior Bank S.A. which entitle to exercise 3,806,451 votes at the General Shareholders' Meeting, i.e. 5.44% of the total number of votes.
On 16 January 2015, the Bank's Management Board received a notification from Genesis Asset Managers, LLP, which indicated that as a result of the transactions to purchase shares in Alior Bank S.A. concluded on 9 January 2015, it increased its total number of voting rights above 5%. After concluding and settling the transaction Genesis holds 5,113,021 of the Bank's shares which constitute 7.30% of the share capital (issued shares) of Alior Bank S.A. which entitle to exercise 3,502,490 votes at the General Shareholders' Meeting, i.e. 5.03% of the total number of votes.

In accordance with the information received from the European Bank for Reconstruction and development dated 13 January 2015 EBRD reduced the number of shares held and as at the date of publication of the report it holds 3,514,035 shares, constituting 5.02% of the Bank's share capital.

On 2 December 2014 the Extraordinary Shareholder's Meeting passed a resolution on conditional share capital increase of the Bank by issue of ordinary H series bearer shares without granting a pre-emptive to the current shareholders of the Bank and change in the Bank's charter and referred to a conditional share capital increase of the Bank by way of issuing ordinary bearer H series shares by an amount not higher than PLN 23,554.980, by way of issue of no more than 2,355.498 shares. On 25 February 2015 the National Depository of Securities registered 2,355.498 shares in NDS.

According to the best knowledge of the Management Board of the Bank, European Bank for Reconstruction and Development holds shareholding in 3.514.035 shares of the Bank, which due to the share capital increase constitute 4.86% of total shares of the Bank. As at day of the report the Management Board did not receive a notification from EBRD under Article 69 of the Act on Public Offering.

Moreover, in the reporting period, a total of 37,105 ordinary D series bearer shares with a total nominal value of PLN 371,050 were issued, on the basis of partial settlement of the Incentive Scheme. Therefore, the percentage shareholdings in the Bank's share capital changed.

In accordance with the best knowledge of the Management Board, in the period from submitting the previous periodic report there were no changes in the structure of shareholdings with over 5% of the total voting rights apart from the ones referred to above.

Shareholders who were Members of the Bank's Management Board as at 27 February 2015

Shareholder	Number of shares / votes	Nominal value of shares held	% share in share capital	Share in total number of votes
Wojciech Sobieraj	71 322	713 220	0.10%	0.10%
Katarzyna Sułkowska	2 851	28 510	0.00%	0.00%
Krzysztof Czuba	168	1 680	0.00%	0.00%
Witold Skrok	168	1 680	0.00%	0.00%
Michał Hucał	70	700	0.00%	0.00%

In the period from the date of the last interim report, there were no changes in the number of the Bank's shares held by the Bank's Management Board Members.

Shareholders who were Members of the Bank's Supervisory Board as at 27 February 2015

Shareholder	Number of shares / votes	Nominal value of shares held	% share in share capital	Share in total number of votes
Helene Zaleski	210 774	2 107 740	0.30%	0.30%
Małgorzata Iwanicz-Drozdowska	1 465	14 650	0.00%	0.00%
Niels Lundorff	90 000	900 000	0.13%	0.13%

In the period from the date of the last interim report, there were no changes in the number of the Bank's shares held by the Bank's Supervisory Board Members.

Management option scheme

On 13 December 2012, based on a power of attorney granted in the Resolution of the Supervisory Board of Alior Bank S.A. of 10 December 2012, a preliminary allocation of A, B and C series Subscription Warrants was performed. The said Subscription Warrants entitle their holders to acquire the Bank's shares, in accordance with a Resolution of the General Shareholders' Meeting of Alior Bank S.A. no. 28/2012 of 19 October 2012 on the conditional increase in the Bank's share capital and issue of subscription warrants. The Warrants were allocated as follows:

- Wojciech Sobieraj – 666,257 Warrants;
- Niels Lundorff – 366,437 Warrants;
- Krzysztof Czuba – 266,500 Warrants;
- Artur Maliszewski – 266,500 Warrants;
- Katarzyna Sułkowska – 266,500 Warrants;
- Witold Skrok – 266,500 Warrants;

Detailed data applied to the warrants granted is presented in the table below:

Name and surname	Number* A series warrants granted	Number** A series warrants deffered	Number of B and C series warrants initially allocated
Wojciech Sobieraj	177 669	44 417	444 172
Krzysztof Czuba	35 533	53 300	177 666
Michał Hucał	26 650	26 650	133 250
Niels Lundorff	122 146	–	244 292
Artur Maliszewski	17 767	35 533	–
Witold Skrok	35 533	35 533	177 666
Katarzyna Sułkowska	53 300	35 533	177 666
Total	468 598	230 967	1 354 712

* Warrants granted are being transfered in 4 tranches resulting from clauses in „Policy of variable components of remunaration for the Management Staff in Alior Bank S.A." Value of tranches is accordingly: 49.9%, 16.7%, 16.7%, 16.7%.

** Granting of deffered warrants is depended on completing individual targets by the entitled person in 2014.

The new incentive scheme is also addressed to a group of the Bank's key managers who are not Management Board members.
Principles of performance of the Incentive Scheme have been determined in the Incentive Scheme Program adopted with a Resolution of the Supervisory Board of Alior Bank S.A.
Under the new incentive scheme it is anticipated that three tranches of subscription warrants (A, B and C series) and the corresponding three tranches of new shares in the Bank (D, E and F series) with a total nominal value of up to PLN 33,312,500 will be issued, including:

- up to 1,110,417 A series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 D series shares in the Bank starting in the period of five years from the first anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,416 B series subscription warrants, which shall entitle their holders to acquire up to 1,110,416 E series shares in the Bank starting in the period of five years from the second anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,417 C series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 F series shares in the Bank starting in the period of five years from the third anniversary of the first quotation of the Bank's shares on the WSE.

The eligible persons will be able to take up subscription warrants on the condition that the change in the price of the Bank's shares on the WSE in the reference period (calculated as the difference between the Final Price of the Shares Offered and the average closing price from 30 trading session days preceding the first (for A series subscription warrants), second (for B series subscription warrants) or third (for C series subscription warrants) anniversary of the first quotation of the Bank's shares on the WSE) exceeds the change in the WIG-Banki index in the same period (calculated as the difference between the WIG-Banki index as at the day of the first quotation of the Bank's shares on the WSE and the average closing value of the WIG-Banki index from 30 trading session days preceding the day of the first, second or third anniversary of the first quotation of the Bank's shares at the WSE (as appropriate).
The issue price of the shares will amount to the average price of the Bank's shares in the Public Offering calculated by dividing the net proceeds from the Public Offering by the total number of Offered Shares allocated in the Public Offering, increased by 10% (in the case of D series shares), 15% (in the case of E series shares) or 17.5% (in the case of F series shares).
The new management option scheme will be settled in the same way as the original incentive plan (which is described below), i.e. it will affect the Bank's financial result as a component of employee costs and will be recognized, in the same amount, as an increase in equity under other capital – share-based payment – equity component. At the day of the start of the plan its value amounted to PLN 24,692 thousand. In 2014 the cost in the amount of PLN 7,376 thousand was recognized.
The value of the plan has been determined based on the fair value model. The fair value of warrants per shares has been determined based on the shares simulation model and WIG-Banki index value. It has been provided that share price and index are changing according to the proccess of geometric Brownian motion, assuming: long-term share price of the Bank volatility, long-term WIG-Banki index value volatility, correlation between the share price and index value in the period of simulation, dividend rate and risk-free interest rate. Estimated volatility and correlation has been made based on the historical and comparable data (when no historical data available). Right to execute A, B and C-series warrants in the period of 5 years, in the 1, 2 and 3 year after the date of issue respectively, are included in the model.
On 9 April 2014 and on 16 December 2014 the Bank's Supervisory Board passed resolutions on approving the vesting of subscription warrants for the first period of assessment under the Alior Bank S.A. Incentive Scheme. Pursuant to the provisions of the resolution, 713,140 A series subscription warrants were allotted, and the vesting of 262,614 was deferred and conditioned on the achievement of goals by those vested in 2014.
To avoid change of the program's value, 134 663 A-series warrants has not been allocated.

The Management staff in the Bank under Policy of variable components of remuneration, is being offered and granted with every pool of warrants in four tranches respectively, the first tranche of subscription warrants of 49.9%, three further of 16.7% of the warrants number for the particular period of evaluation provided conditions of Policy of variable components of remuneration of Alior Bank S.A. are met.
Eligible persons will be offered and granted with B and C – series Subscription Warrants: not later than on 30 June 2016 or after the day when package of shares owned by entities of Carlo Tassara S.p.A. Group is sold – depending on which of the above will happen first.

As at the date of publication of this report the Bank's Management Board completed the procedures for increasing the Bank's share capital by two issues of new D series ordinary shares with a nominal value of PLN 371,050, constituting 1.1% of all exercisable rights vested in the participants of the Subscription Warrant Scheme. New issues constitute 0.05% of all shares in issue and relate to the Bank's managers who are not Members of the Management Board. Representations on exercising the rights vested in them by the Bank in respect of A Series Subscription Warrants and taking up a total of 37,105 (thirty-seven thousand one hundred and five) ordinary D Series bearer shares with a nominal value of PLN 10.00 (ten zloties) each, with a total nominal value of PLN 371,050 (three hundred and seventy-one thousand fifty zloties), at an issue price of PLN 61.84 (sixty-one zloties and 84/100) per one D Series share, were submitted on 29 August 2014 and 28 November 2014. On 15 October 2014 and on 5 February 2015 the District Court for the Capital City of Warsaw, 13th Business Department of the National Court Register in Warsaw registered the share capital increase through the issue of D series ordinary bearer shares and the amendments to the Bank's Articles of Association.

The original incentive scheme

On 14 December 2012, as a result of a settlement of the original incentive scheme (established based on the contract dated 25 August 2008), 105 managers of Alior Bank, including the Management Board Members received (indirectly via LuxCo 82 s.a.r.l.) 2,414,118 shares of Alior Bank. The remaining 1,299,909 shares of the Bank resulting from the settlement of the existing incentive plan were transferred by the Carlo Tassara Group to Lux- Co 82 s.a.r.l. on 30 June 2014. LuxCo 82 S.a.r.l. is a company operating under the Luxembourg law, controlled by the management of Alior Bank and representing the interests of the participants of the incentive scheme. The whole incentive scheme exercised through Luxco 82 covered 3,714,027 Alior Bank S.A. shares.
The Alior Bank S.A. Management Board Members were bound by a lock-up in respect of 30% of the incentive shares over a period of 9 months and in respect of 70% of the incentive shares over 24 months counted from 14 December 2012. The incentive shares vested in remaining plan participants who are not Management Board Members were covered by a lock-up until the end of January 2013 in respect of 30% of the shares; and over 12 months counted from 14 December 2012 in respect of 70% of the shares.
In connection with partial expiry of the lock-ups, on 14 May 2013, LuxCo 82 s.a.r.l. sold 405,683 of the Bank's shares, on 1 October 2013 – a block of 678,856 shares and on 31 March 2014 –1,171,474 of the Bank's shares.
As at 31 December 2014 LuxCo 82 s.a.r.l. held 1,458,012 shares, which represents 2.084% of all votes at the General Shareholders' Meeting.

Alior Bank S.A.'s bodies

Management Board

Composition of the Bank's Management Board as at 31 December 2014		Composition of the Bank's Management Board as at 01 January 2014	
Wojciech Sobieraj	– CEO	Wojciech Sobieraj	– CEO
Krzysztof Czuba	– Deputy CEO	Krzysztof Czuba	– Deputy CEO
Michał Hucał	– Deputy CEO	Michał Hucał	– Deputy CEO
Witold Skrok	– Deputy CEO	Artur Maliszewski	– Deputy CEO
Katarzyna Sułkowska	– Deputy CEO	Witold Skrok	– Deputy CEO
		Niels Lundorff	– Deputy CEO
		Katarzyna Sułkowska	– Deputy CEO

On 9 April 2014, Mr Niels Lundorff and Mr Artur Maliszewski resigned from applying for appointment to the Management Board for the next 3-year term of office. On 9 April 2014 the Supervisory Board passed a resolution (Resolution No. 41/2014) on appointing the following persons to the new term of office of the Bank's Management Board: Mr Wojciech Sobieraj as CEO and Mr Krzysztof Czuba, Mr Michał Hucał, Mr Witold Skrok and Ms Katarzyna Sułkowska as Deputy CEOs.

Wojciech Sobieraj CEO	Wojciech Sobieraj has been the President of the Board of Alior Bank S.A. since April 2008. He was Vice President of the Management Board of Bank BPH S.A. from 2002 to 2006, where he was responsible for the retail banking division. While employed at Bank BPH S.A., he also held the posts of Chair of the Supervisory Boards of Górnośląski Bank Gospodarczy S.A. and BPH Bank Hipoteczny S.A. Previously, in the years 1997-2002, he was an employee, manager and partner of The Boston Consulting Group (BCG) in Boston and London and one of the creators of the BCG office in Warsaw, where he was partner and Vice President. He was also the head of the BCG financial services division in Central and Eastern Europe, an expert on mergers and acquisitions and the banking payments market. Between 1991 and 1994, Wojciech Sobieraj was the owner of Central European Financial Group in New York, which analysed Eastern European capital markets. In that period he gained a broker's license on Wall Street and worked as an assistant in the Department of Finance and Operations at New York University. He graduated from the Warsaw School of Economics. In 1993, he entered the Stern School of Business at New York University, and in 1995 he obtained a degree as Master of Business Administration.
Krzysztof Czuba Deputy CEO	Krzysztof Czuba has been Vice President of the Management Board of Alior Bank S.A. since June 2009. Since receiving his banking license, he has been responsible for strategic advisory services and handling projects related to the launch of the retail offering. He was involved, among other things, in the organization of the activities of the Retail Regions and Branches and prepared the assumptions to the project for starting up the Bank's agencies. Furthermore, he exercised control over the implementation of the Bank's branches' acquisition and finance plans. He worked for Bank BPH from 1994 to 2007, where he held the posts of: Branch Manager, Macroregion Retail Banking Director, followed by the Bank's Managing Director responsible for the Sales and Distribution Area in the Retail Banking Division. In the years 2003-2004 he was member of the Supervisory Board of Śrubex S.A., and in the years 2007-2008 he was Deputy Chairman of the Supervisory Board of ZEG S.A. In 1995 he graduated in Management from the Kraków University of Economics. He participated in a number of training courses, including: the General Management Programme for Managers of the HVB/BACA Group organized in cooperation with the Executive Academy of Wirtschaftsuniversitat (2006) and Professional Banking Cyber School organized by Finance & Trainer in Switzerland (2006).

Michał Hucał Deputy CEO	Michał Hucał has been Vice President since February 2013. From 2012 he served as Director of the Product Development Department. In the years 2008-2012, he was Director of the Retail Banking Development Department. He played a leading role in creating innovative products and services for retail and business customers, which gave Alior Bank the highest growth in terms of the number of customers on the Polish banking market. In 2003-2007, Michał Hucał worked in Bank BPH S.A., where he held the position of Director of Personal Accounts and Savings since 2005. Michal Hucał graduated from the Faculty of Law and Administration at the University of Warsaw.
Witold Skrok Deputy CEO	Witold Skrok has been Vice President since December 2011. Before, from May 2008, he worked for Alior Bank as Finance Area Director. Between 2006 and 2008, he was Managing Director & CFO at Bank BPH. In the same period, he was also a Member of the Supervisory Board of Gornośląski Bank Gospodarczy S.A. and collaborated with the Centre for Social and Economic Research (CASE). Between 2004 and 2006, he performed the role of Reporting and Management Information Department Director of Bank BPH S.A. where he was responsible, among others, for establishing a common reporting platform for obligatory reporting and management information. In 2001, he took the position of Controlling Department Director at Bank BPH S.A. In 2000, he became Controlling Department Deputy Director at Powszechny Bank Kredytowy. In 1991–2000, he worked at the Ministry of Finance's Financial Policy and Analyses Department. In 1999, he was appointed Department Director. Between 1998 and 2000, he also performed the role of Member of the Supervisory Board of Bank Powszechna Kasa Oszczędności S.A. He graduated from the Warsaw School of Economics and completed a number of courses, such as the Visiting Program Partners and Financial Programming and Policy at the IMF Institute in Washington and other training courses in banking, finance and tax.
Katarzyna Sułkowska Deputy CEO	Katarzyna Sułkowska has been Vice President since December 2011. Before, between January 2008 and November 2011, she managed the Credit Risk Department at Alior Bank. In her role, she was responsible for developing credit policies, product principles and methodological assumptions, designing and implementing credit check processes, and monitoring and collection processes. In 2002–2007, she was Managing Director of the Retail Collection Department at Bank BPH S.A., where she was responsible, among others, for managing the integration process of two collection structures of Bank BPH and Bank PBK, for the implementation of the new process-based approach and the IT system to support the process. She was also responsible for performing one of the first bundled debt sale transactions. Between 1998 and 2001, she worked for Citibank Polska where she was Head of the Collection Department. She began her career at the Regional Accounting Chamber in Kraków in the Information, Analyses and Training Department. She graduated from the Kraków University of Economics with a degree in finance and banking (1997). Subsequently, she completed a number of various training courses in Poland and abroad and participated in conferences on debt servicing and credit management.

Composition of the Management Board

Pursuant to the Articles of Association, the Management Board is composed of at least three members. Members of the Management Board are appointed for a joint term of three years. The Supervisory Board appoints and dismisses Members of the Management Board in a secret ballot. At the request of the CEO the Supervisory Board appoints Deputy CEOs. The appointment of two Members of the Management Board, including the CEO, requires the consent of the PFSA. The Supervisory Board applies to the Polish Financial Supervision Authority to grant its consent to appointing those two Members of the Management Board.
Moreover, the Supervisory Board informs PFSA of the composition of the Management Board and changes in its composition, immediately after its appointment or a change in its composition. The Supervisory Board also informs the PFSA of members of the Management Board who are responsible specifically for credit risk management and internal audit. Currently, with the consent of PFSA, the CEO is Wojciech Sobieraj and the Deputy CEO is Katarzyna Sułkowska. The Supervisory Board is authorized to suspend individual or all members of the Management Board for important reasons and to delegate members of the Supervisory Board – for a period of no longer than three months – to temporarily perform the functions of members of the Management Board who had been removed from the Board, have resigned or for other reasons are unable to perform their functions. A member of the Management Board may also be removed or suspended from performing his duties by resolution of the General Shareholders' Meeting.

Competencies of the Management Board

The Management Board manages the Bank's affairs and represents the Bank. The Management Board is authorized in all matters which are not reserved for the competencies of other Bank's bodies by legal regulations or provisions of the Articles of Association. All issues outside the normal operations of the Bank require Management Board resolutions. The Management Board decides specifically on the following in the form of resolutions:

- it specifies the Bank's long-term operating plans and strategic goals;
- it determines the Bank's short- and long-term financial plans and monitors their progress;
- it monitors the Bank's management system, including the management reporting system used to control the Bank's operations on a current basis;
- it accepts the Bank's operating principles, policies and regulations, and specifically in respect of prudent and stable management of the Bank, risk management, lending operations, investment activities, the Bank's management system, asset and liability management, accounting, the Bank's funds, human resources management and internal control principles;
- it determines the size of the bonus pool for the Bank's employees and its general break-down;
- it grants proxy powers;
- it takes decisions relating to the issue of bonds by the Bank, with the exception of exchangeable bonds or bonds with pre-emptive rights; it accepts the subscription, acquisition and sale of shares in companies by the Bank;
- it takes decisions about incurring liabilities, managing assets, encumbering or leasing assets (and renting them), whose total value in respect of one entity exceeds 1/100 of the Bank's share capital, in recognition of art. 8 clause 2 of the Management Board Regulations;
- it approves the investment plan and accepts each capital expenditure of the Bank (purchase or sale of fixed assets or property rights) with a value exceeding 1/100 of the Bank's share capital, in recognition of art. 8 clause 2 of the Management Board Regulations;
- it accepts issues relating to the organizational structure of the Bank's head office, including the creation and liquidation of the Bank's organizational entities and organizational units of the Bank's head office;
- it takes decisions on establishing and liquidating the Bank's branches;
- it takes decisions as to paying out interim dividend to the shareholders, after obtaining the approval of the Supervisory Board;
- it accepts all documents presented to the Supervisory Board or to the General Shareholders' Meeting;
- it considers all other issues which are brought for examination by the Supervisory Board, the General Shareholders' Meeting, members of the Management Board, the Bank's organizational entities, or committees or teams appointed in accordance with the Bank's internal regulations;
- it takes decisions on all other issues within the scope of the Bank's operations, if this is required by other regulations or if such decisions could have a significant impact on the financial position or image of the Bank. The Commercial Companies Code prohibits the General Shareholders' Meeting and the Supervisory Board from giving binding orders to the Management Board regarding the management of the Bank's operations. Additionally, members of the Management Board and Supervisory Board are liable to the Bank for losses following from any action or omission which is against the law or provisions of the Bank's Articles of Association.

In accordance with the regulations of the Commercial Companies Code and the Bank's Articles of Association, decisions relating to issuing or redeeming shares are within the competencies of the Bank's General Shareholders' Meeting.

The Bank's Management Board, on the basis of the Resolution of the General Shareholders' Meeting no. 28/2012 dated 19 October 2012 on the conditional increase in the Bank's share capital and issue of subscription warrants (regulating the principles for issuing D, E and F series shares with the right to take them up by holders of subscription warrants, that is participants of the Incentive Scheme who are members of the Bank's Management Board, the Bank's officers, members of Management Boards of the Bank's subsidiaries and partners from Alior Doradztwo Prawne) will have the competencies to:

- offer and issue subscription warrants to participants of the Incentive Scheme other than members of the Bank's Management Board (with reference to members of the Management Board, the competencies lie with the Supervisory Board);
- take all the necessary actions related to launching the new shares and admitting them to trading on a regulated market operated by the WSE immediately after they have been issued;
- conclude an agreement with KDPW on registering the newly-issued shares and, immediately after their issuance, to take all other actions related to their dematerialization.

A detailed description of the actions conducted by the Management Board for the purpose of the issue under the Incentive Plan will be included in the Regulations of the Incentive Scheme approved by the Supervisory Board.

Competencies of the CEO

Competencies of the CEO include specifically:

- managing the work of the Management Board;
- convening Management Board meetings and presiding over them;
- presenting the position of the Management Board to the Bank's bodies and to third parties;
- issuing internal regulations relating to the Bank's operations and authorizing other members of the Management Board or the Bank's employees to issue such regulations;
- exercising other rights and obligations in accordance with the Regulations of the Management Board.

Principles of Management Board operations

The Management Board acts on the basis of the Bank's Articles of Association and the regulations passed by the Management Board and approved by the Supervisory Board. The Management Board takes decisions in the form of resolutions at Management Board Meetings, or by way of a circular resolution. Management Board resolutions are passed by an absolute majority of votes of those members of the Management Board present at Management Board meetings, with the exception of resolutions on appointing a proxy, which requires the unanimous vote of all members of the Management Board. As a rule, resolutions are passed by open vote. However, the person presiding over the Management Board meeting may order a secret ballot; a secret ballot may also be ordered at the request of at least one member of the Management Board. In the event of an equal number of votes, the President of the Management Board has the casting vote. In accordance with the Regulations of the Management Board, in order for the resolutions passed by the Board to be valid, at least one-half of the members of the Management Board have to be present at the meeting and all members have to have been properly informed of the meeting. Declarations may be made on behalf of the Bank by the following persons:

- two members of the Management Board jointly;
- one member of the Management Board jointly with a proxy or a plenipotentiary;
- two proxies jointly;
- plenipotentiaries acting independently or jointly within the limits of the power of attorney granted to them.

Description of Management Board activities in the financial year 2014

In the financial year 2014 the Management Board held 46 meetings and passed 372 resolutions regarding, among other things, approval of the financial plan for the financial year 2014, approval of the Bank's IT and IT security strategy for the years 2014–2016, adopting and changing regulations, instructions, policies, methodologies and other internal regulations which standardize the principles of the Bank's operations and principles of providing services by the Bank, introducing products and services to the Bank's offer, including new treasury products, determining and cancelling transaction limits and concentration limits, accepting requests for financing, issuing subordinated bonds, issuing Bank securities, continuing cooperation with T-Mobile Polska SA, appointing PricewaterhouseCoopers Spółka z o.o. as the Bank's registered auditor, disposing of shares in Polbita Sp. z o.o., conducting tenders and preparing requests addressed to the Supervisory Board and to the Bank's General Shareholders' Meeting.

Supervisory Board

Composition of the Bank's Supervisory Board as at 31.12.2014		Composition of the Bank's Supervisory Board as at 01.01.2014	
Helene Zaleski	– Chair of the Supervisory Board	Helene Zaleski	– Chair of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	– Deputy Chair of the Supervisory Board	Małgorzata Iwanicz-Drozdowska	– Deputy Chair of the Supervisory Board
Sławomir Dudzik*	– Member of the Supervisory Board	Lucyna Stańczak-Wuczyńska	– Member of the Supervisory Board
Marek Michalski	– Member of the Supervisory Board	Marek Michalski	– Member of the Supervisory Board
Niels Lundorff**	– Member of the Supervisory Board	Krzysztof Obłój	– Member of the Supervisory Board
Krzysztof Obłój	– Member of the Supervisory Board		
Stanisław Popów**	– Member of the Supervisory Board		

* On 23 January 2014 the Extraordinary General Meeting of the Bank changed the composition of the Bank's Supervisory Board and appointed Mr Sławomir Dudzik member of the Supervisory Board.

** On 22 October 2014, the Extraordinary General Meeting of the Bank changed the composition of the Bank's Supervisory Board and appointed Niels Lundorff and Stanisław Popów members of the Supervisory Board.
As of 8 September 2014 Ms Lucyna Stańczak-Wuczyńska, resigned as Member of the Supervisory Board.

Helene Zaleski Chair of the Supervisory Board	Represents the investor – the Carlo Tassara Group. From 1994 to 2000, she was an advisor to the Management Board of Carlo Tassara S.p.A. Between 1990 and 1994, she worked for AGF Ubezpieczenia Życie, AGF's affiliate office in Poland. In 1989, she obtained a diploma in statistics (specialization accounting and insurance statistics) at the Institute of Statistics of the Pierre and Marie Curie University in Paris.
Małgorzata Iwanicz-Drozdowska Deputy Chair of the Supervisory Board	She has been with the Warsaw School of Economics since 1995, where she received her academic degrees, including the title of Professor in Economic Sciences in 2009. She is a recognized expert in the analyses of bank operations, banking risk, financial security network and financial stability. She was actively involved in banking practice in the years 1993-2007 (Polski Bank Rozwoju S.A. and the Bank Guarantee Fund). She also works with the Institute for Market Economics and the Warsaw Institute of Banking. She has work experience in Belgian and German banks, as well as the Federal Deposit Insurance Corporation (FDIC) in the USA. She is the author and co-author of more than 100 publications on banking and the financial services market and takes part in numerous Polish and international research projects.

Sławomir Dudzik Member of the Supervisory Board	Legal counsel and tax advisor; professor at the Faculty of Law and Administration at the Jagiellonian University; partner in the T. Studnicki K. Płeszka Z. Ćwiąkalski J. Górski sp.k. law firm in Kraków; author of many publications on administrative law, UE law (including competition law, State aid for enterprises); he has represented the Firm's clients in many disputes with the competition protection authority and regulatory bodies, including the largest Polish dispute on competition regarding payment cards.
Marek Michalski Member of the Supervisory Board	Deputy Dean of the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw, head of the Faculty of Private Business Law at the Faculty of Law and Administration of the Cardinal Stefan Wyszyński University in Warsaw and President of the Arbitration Court at the National Depositary, Krajowy Depozyt Papierow Wartościowych S.A. (The Polish National Depository for Securities); until 2008, he was also a member of the Council of the Warsaw Stock Exchange. Previously, Prof. Marek Michalski was the Director of the Legal Office at the National Depositary, Krajowy Depozyt Papierow Wartościowych S.A., as well as advisor to the Minister of the Treasury. He took part in legislative work on securities trading, investment funds, compensation certificates, commodities exchanges and reprivatisation. He is the author and a co-author of more than 100 academic publications on matters of securities and financial instruments, public trading in securities, banking law, capital market law, commercial law and joint stock companies.
Niels Lundorff – Member of the Supervisory Board	He began his professional career in 1987 as an IT software designer in one of the largest Danish IT companies. Over the next four years he was an auditor at KPMG in Kopenhagen and Prague, where he participated in international projects. Until November 2007 we was with the New Un Credit Group. He began his career in the corporation in 1993 being appointed Director of the Accounting and controlling Department in Bank Austria in the Czech Republic. In the years 1995–1999 he was Vice President of the Management Board of Bank Austria Creditanstalt in Slovakia, where he was responsible for finance, credit risk, treasury and legal issues, payments and UK and Scandinavian customer acquisitions. In 1999 he was appointed Managing Director of PBK S.A. in Poland, responsible for the Finance Area. In 2001 he became a member of the Management Board of PBK S.A. and BPH S.A., where he was responsible for, among other things, finance, credit risk, credit risk restructuring and market risk. In June 2005 he was appointed Vice President of the Management Board of BPH Bank responsible for finance, market risk, the bank's capital exposure to other entities and for implementing the standards introduced by the Basel II Accord. In October 2006 he filled the position of Director in the risk control area and was responsible for developing the credit policy at the UniCredit Group in Milan. In the years 2008 - 2014 Niels Lundorff filled the position of Vice President of Alior Bank responsible for credit risk, finance, finance risk management, investor relations, HR management and CF.
Krzysztof Obłój Member of the Supervisory Board	He is social advisor to the President of the Republic of Poland and a known specialist in organizational strategy and international management. He lectures at the Faculty of Management at Warsaw University and at the L. Koźmiński Business School. He has also lectured at renowned international universities, including the University of Illinois at Urbana Champaign and Yale University, the French ESCP-EAP and Ecole Nationale des Ponts et Chaussees, the English Henley-on-Thames College, BI Norwegian School of Management, Bodo Graduate School of Management and the Slovenian Bled School of Management. He is the author of many publications on organization and management and his books and articles have been published in the USA and throughout Europe including Poland. He advises Polish and international enterprises on strategy, as well as organizational structure and culture. He also has extensive experience in corporate governance. He has been chairperson or member of supervisory boards of such companies as Agora-Gazeta S.A., Orlen S.A., Dwory S.A., Ambra S.A., Polmos Lublin S.A., Eurobank S.A. and NFI Foksal S.A. He is currently a member of the supervisory boards of Impel S.A., Prochem S.A. and MCI Management SA.
Stanisław Popów Member of the Supervisory Board	In the years 1985–1989 he was with BNP, in International Finance, Capital Markets and Risk Management Departments, in Paris and London. In the years 1989–1991 he participated in the establishment of the Risk Management Department for the CEE and Africa at JP Morgan in London. In consecutive years he was employed in managerial positions in the Bankers Trust in London and Warsaw, and filled the position of President of the Management Board of Bank of America in Poland and was Member of the Supervisory Boards of Bank Współpracy Europejskiej S.A. (currently Meritum Bank) and Family Finance. Since 2003 he has been CEO of Finacorp Sp. z o.o., operating in the area of corporate investment advisory services. Stanisław Popów graduated from the Sorbonne in Paris and Institut d'Etudes Politiques de Paris, from the faculty of Economics and Finance.

Competencies of the Supervisory Board

The Supervisory Board constantly supervises the Bank in all aspects of its operations. Its duties include assessing the Directors' Report on the Bank's operations and the Bank's financial statements for the prior financial year, both in terms of their compliance with the books of account, and other documents, and the actual status, as well as assessing the requests of the Management Board in respect of the distribution of profit or offset of loss, and submitting an annual report on the results of this assessment to the General Shareholders' Meeting. The Supervisory Board represents the Bank in concluding agreements with members of the Management Board and in disputes with members of the Management Board, unless these competencies are granted to a plenipotentiary appointed by a resolution of the General Shareholders' Meeting.
In accordance with the Articles of Association, the competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations, comprise:

- assessing periodical information relating to internal controls;
- examining and approving the Directors' Reports and the financial statements of the Bank's Group;
- appointing and dismissing Management Board members;
- applying to the Polish Financial Supervision Authority to grant consent to appointing two Members of the Management Board, including the President of the Board;
- concluding and changing agreements with members of the Management Board;
- passing the Regulations of the Supervisory Board;
- approving the Management Board Regulations determined by the Management Board;
- determining the remuneration of the members of the Management Board employed on the basis of an employment contract or another agreement;
- representing the Bank in issues between members of the Management Board and the Bank;
- suspending individual or all Management Board members in the performance of their duties for important reasons;
- delegating members of the Supervisory Board – for a period of up to three months – to perform the functions of members of the Management Board who have been dismissed, have resigned or are unable to perform their functions for other reasons;
- giving opinions on requests of the Management Board relating to the Bank's establishing or acquiring shares in companies, and selling shares if such investments are of a long-term and strategic nature;
- giving opinions on the Bank's long-term development plans and its annual financial plans;
- passing – at the request of the Management Board – regulations for the creation and use of funds stipulated in the Articles of Association;
- approving the requests of the Management Board to purchase, encumber or sell real estate or shares in real estate, or perpetual usufruct of land, if their value exceeds PLN 5,000,000;
- approving the requests of the Management Board on incurring liabilities or managing assets whose total value in respect of one entity exceeds 5% of the Bank's own funds;
- supervising the implementation and monitoring of the Bank's management system, including specifically supervision over managing compliance risk and assessing the adequacy and effectiveness of the system at least once a year;
- approving the principles for maintaining internal controls and procedures for estimating internal capital, equity management and equity planning;
- approving the Bank's operating strategy and principles of prudent and stable management of the Bank;
- approving the Bank's Organizational Regulations and the overall organizational structure of the Bank adapted to the size and profile of the risks incurred;
- accepting the overall level of the Bank's risks;

- approving the assumptions of the Bank's policy in respect of compliance risk;
- approving the Bank's information policy;
- appointing the independent registered auditor.

Principles of operation of the Supervisory Board

The Supervisory Board acts on the basis of the Bank's Articles of Association and the regulations passed by the Supervisory Board. Supervisory Board meetings are convened when necessary, at least three times in each financial year. Resolutions of the Supervisory Board are passed by an absolute majority of votes unless the legal regulations or the Articles of Association stipulate otherwise, by an open vote, or by means of a circular vote. A secret ballot is ordered in respect of personal matters or at the request of at least one member, by order of the Chairman of the Supervisory Board. In the event of an even number of votes, the Chairman of the Supervisory Board has the casting vote. For the resolutions to be valid, at least one-half of the members of the Supervisory Board have to be present and all members have to be notified. The Supervisory Board may establish permanent and ad hoc committees.

Description of Supervisory Board activities in the financial year 2014

In 2014 the Supervisory Board held 5 meetings and passed 90 resolutions relating, among other things, to: assessing the financial statements and the Bank Directors' Report for 2013, requests relating to the distribution of profit and approving the activities of members of the Management Board in 2013, approving the Supervisory Board's Report on activities in 2013, approving the Bank's financial plan, changing the Bank's asset and liability management policies, approving changes in certain regulations and procedures at the Bank, granting consent to financing entities in cases following from the Articles of Association and credit competence principles in force at the Bank, approving Management Board requests addressed to the Bank's General Shareholders' Meeting, changing the composition of the Supervisory Board's Audit Committee, updating the Organizational Regulations of Alior Bank SA, and approving the Management Board decision on continuing cooperation with T-Mobile Polska S.A.

Supervisory Board committees

In accordance with the Articles of Association and the Regulations of the Supervisory Board, the Supervisory Board may – by way of a resolution – establish permanent and ad hoc committees. In such cases, the Supervisory Board determines the regulations of such committees, their composition and purpose.

The Remuneration Committee was established on the basis of a resolution of the Supervisory Board on 7 December 2011, to apply the principles for determining policies relating to variable compensation components for persons holding managerial positions at the Bank, adopted by a resolution of PFSA no. 258/2011 dated 4 October 2011 which came into force on 31 December 2011.

The Remuneration Committee:

- gives its opinion on the policy regarding variable compensation components in accordance with the principles of stable and prudent risk, equity and liquidity management, and specifically taking into consideration the Bank's and its shareholders' long-term interests;
- gives its opinion on the acceptability of paying variable compensation components in the part relating to deferred payment terms of such components;
- gives its opinion and monitors variable compensation payable to persons holding managerial positions at the Bank, related to risk management and the Bank's compliance with the binding legal regulations and internal regulations;
- gives its opinion on the classification of positions which is subject to the variable compensation components policy.

The Remuneration Committee is composed of:

Helene Zaleski;
Marek Michalski;
Krzysztof Obłój.

In the financial year 2014, the Remuneration Committee held one meeting (on 19 March 2014), at which it assessed the results of the work of persons employed in managerial positions covered by the Variable Compensation Components Policy and gave its opinion on the list of persons vested with subscription warrants under the Incentive Scheme.

The Audit Committee of the Supervisory Board was appointed to meet the requirements of the Act on registered auditors and their self-government.
The Audit Committee is composed of:

Helene Zaleski;
Małgorzata Iwanicz-Drozdowska;
Lucyna Stańczak-Wuczyńska (on 24.10.2014 the Supervisory Board appointed Mr Stanisław Popów member of the Audit Committee in place of Ms Lucyna Stańczak-Wuczyńska, Member of the Bank's Supervisory Board).

In the financial year 2014 the Audit Committee held 4 meetings (on 4 February 2014, 19 March 2014, 4 June 2014, 29 October 2014) during which the audit unit was reviewed in the light of the requirements of Recommendation "H" of PFSA, assumptions for the audit plan for 2014, proposals for changes in internal control procedures following from the review of the Internal Audit Department (IAD), assessments following from an independent review of IAD performed by PwC and the time schedule for meeting the recommendations following from the review, the IAD report from the control for the second quarter of 2014 was presented. Its tasks relating to monitoring the financial reporting process, efficiency of internal control systems, internal audit and operational and compliance risk management were completed. As part of its meetings, the Committee monitored the performance of the audit tasks and monitored the independence of the registered auditor, meeting up and holding discussions with the registered auditor of the Bank's financial statements.

General Shareholder's Meeting

The manner of operation of the General Shareholders' Meeting and its basic rights, as well as the shareholders' rights and the manner in which they are exercised are specified in: the Regulations approved by resolution of the Annual General Shareholders' Meeting of 19 June 2013, the Bank's Articles of Association and the relevant provisions of the law, including the Commercial Companies Code and the Banking Law.

The General Shareholders Meeting is being convened as ordinary or extraordinary meeting. The General Meeting is convened by the Bank's Management Board unless the applicable legal regulations, the Bank's Articles or these Rules of the General Meeting stipulate otherwise.

General Meeting is held at the Bank's registered office or another venue indicated in the announcement convening the General Meeting.
General Meetings of the Bank's Shareholders shall be convened by announcement on the Bank's website and in the manner stipulated for communication of current information in line with the generally applicable regulations. The announcement should be published at least twenty six days prior to the date of the General Meeting.

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

Shareholders may attend the General Meeting of Shareholders and exercise their voting right in person or by a proxy.

Resolutions of the General Meeting of Shareholders shall be passed by an absolute majority of votes, unless provisions of the Code of Commercial Companies or the Bank's Articles of Association stipulate otherwise.

In accordance with the Commercial Companies Code and the Articles of Association of Alior Bank S.A., amendments to the Bank's Articles of Association require that a resolution be passed by the General Shareholders' Meeting and entry into the register. The resolution of the General Shareholders' Meeting on amending the Articles of Association is passed by a majority of three-quarters of all votes.

General Shareholders' Meetings in 2014

In 2014, two General Shareholders' Meetings took place, at which a total of 37 resolutions were passed.

- The General Shareholders Meeting (23 January 2014), apart of resolutions of a formal nature, adopted a resolution regarding the sale of an organised part of enterprise and adopted a decision on appointment as the new Member of the Supervisory Board Mr Sławomir Dudzik.
- The General Shareholders Meeting (15 May 2014), apart of resolutions of a formal nature, adopted resolutions relating to closing a financial year 2013 and relating to approval of: Financial Statement of the Bank and the Capital Group of the Bank, Management Board Report on Operations of the Bank and the Capital Group of the Bank, distribution of profit, use of the share premium account and acknowledgment on the fulfilment of duties to all of the Members of the Management Board and Supervisory Board of the Bank.
- The Extraordinary Shareholders Meeting (22 October 2014, resumed after an adjournment on 31 October 2014) apart of resolutions of a formal nature, adopted a resolution on determining number of the Members of the Supervisory Board of the Bank and made a decision on appointment as new members of the Supervisory Board Mr Stanisław Popów and Mr Niels Lundorff.
- The Extraordinary Shareholders Meeting (2 December 2014) apart of resolutions of a formal nature, passed a resolution on conditional share capital increase of the Bank by issue of H series ordinary bearer shares without granting a pre-emtive rights to the shareholders of the Bank, issue of D series subscription warrants z without granting a pre-emtive rights to the shareholders of the Bank and changes in the Bank's charter.

Remuneration of members of the Management Board and the Supervisory Board of Alior Bank S.A. in 2014

Remuneration of members of the Management Board of Alior Bank S.A. in 2014 (in PLN'000)

Management Board	Period	Remuneration	Medical care/ life insurance	Remuneration surcharges	Compensation paid in respect of the non-competition clause/ early termination of employment contract	Total
Wojciech Sobieraj	01.01.2014- -31.12.2014	2160	0.4	88		2248
Katarzyna Sułkowska	01.01.2014- -31.12.2014	1092	0.5	28		1121

Witold Skrok	01.01.2014--31.12.2014	1049		52		1101
Michał Hucał	01.01.2014--31.12.2014	914		48		962
Krzysztof Czuba	01.01.2014--31.12.2014	1092	0.4	53		1146
Niels Lundorff *	01.01.2014--20.04.2014	660	0.1	40	2160	2860
Artur Maliszewski **	01.01.2014--30.04.2014	362	0.2	30	1232	1624
Cezary Smorszczewski ***		0	0	0	1260	1260
Total		7 329	1,6	339	4 652	12 321

* Resigned as member of the Management Board as of 21.04.2014.

** Termination of employment contract as of 30.04.2014.

*** Resigned as member of the Management Board as of 11.02.2013; termination of employment contract as of 15.02.2013. The amount equal to PLN 1 260 ths. was paid in the year 2014.

Remuneration of members of the Supervisory Board of Alior Bank S.A. in 2014 (in PLN'000)*

Supervisory Board	Period	Remuneration	Medical care	Remuneration surcharges	Total
Małgorzata Iwanicz-Drozdowska	01.01.2014--31.12.2014	120	0.00	0.00	120
Marek Michalski	01.01.2014--31.12.2014	120	0.00	0.00	120
Krzysztof Obłój	01.01.2014--31.12.2014	120	0.00	0.00	120
Lucyna Stańczak-Wuczyńska	01.01.2014--08.09.2014	83	0.00	0.00	83
Niels Lundorff	22.10.2014--31.12.2014	23	0.00	0.00	23
Helene Zaleski	01.01.2014--31.12.2014	120	0.00	0.00	120
Sławomir Dudzik	23.01.2014--31.12.2014	113	0.00	0.00	113
Stanisław Popów	22.10.2014--31.12.2014	23	0.00	0.00	23
Total		723	0	0	723

* The remuneration also includes remuneration due but not paid in 2014.

Contracts concluded with members of the Management Board

Contracts with members of the Management Board are concluded for an unspecified period. The contracts may be terminated by each of the parties giving three months' notice, with effect as at the end of the respective calendar month.

In the event of an employment contract with a Management Board Member being terminated by the Bank before the end of his/her term, the Management Board Member shall be entitled to receive compensation in an amount no lower than six times the gross basic monthly remuneration and no higher than twelve times the gross basic monthly remuneration.

The contracts include non-competition clauses on the basis of which members of the Management Board cannot undertake any competitive activities within 12 months of the date of termination of the contract. Therefore, members of the Management Board are entitled to receive compensation which totals the equivalent of their gross remuneration for 12 months.

Employment contracts signed with Members of the Management Board

Management Board Member	Position	Compensation for terminating the contract before the end of the term of office	Period of compensation for not being appointed for the next term of office (in months)	Period of compensation in respect of the non-competition clause (in months)	Period of violation of the non-competition clause (in months)
Wojciech Sobieraj	CEO	No less than 6 and no more than 12 times the gross basic monthly remuneration	0	12	12
Katarzyna Sułkowska	Deputy CEO	No less than 6 and no more than 12 times the gross basic monthly remuneration	0	12	12
Witold Skrok	Deputy CEO	No less than 6 and no more than 12 times the gross basic monthly remuneration	0	12	12
Hucał Michał	Deputy CEO	No less than 6 and no more than 12 times the gross basic monthly remuneration	0	12	12
Krzysztof Czuba	Deputy CEO	No less than 6 and no more than 12 times the gross basic monthly remuneration	0	12	12
Niels Lundorff	Deputy CEO	No less than 12 times the remuneration	12	18	24
Artur Maliszewski	Deputy CEO	No less than 6 and no more than 12 times the gross basic monthly remuneration	6	12	12

Registered audit company

In respect of the review of the condensed interim financial statements for the period from 1 January to 30 June 2014 and for the audit of the annual financial statements for 2014. The Alior Bank Group uses the services of PricewaterhouseCoopers Sp. z o.o. with which it concluded a contract on 06.06.2014. The contract was signed for a period of 3 years.

The auditor's fee in PLN in 2013/ 2014 for:

	2013	2014
Audit of the annual financial statements	450 000	430 000
Other assurance services, including review of the financial statements	387 000	150 000

Alior Services Sp. z o.o. used the audit services of Mazars Audyt Sp. z o.o. for its audit of the financial statements for the year 2014. The fee for the audit was PLN 18,200.

As at day of the report's announcement, in connection with the annual financial report's audit for the year 2014, Money Makers S.A. established provisions amounted to PLN 35 000 for services of Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k.

Chapter XV.

XV. ASSESSMENT OF OPERATIONS OF ALIOR BANK AND ITS PROSPECTS FOR 2015

Assessment of the Alior Bank S.A. Group

In 2014 the Alior Bank Group earned a net profit of PLN 322.0 million, achieving return on equity (ROE) of 12.4%. The Management is of the opinion that in view of many factors which had a negative impact on the operations of banks in Poland (concerns about the sustainability of economic growth, a record low level of interest rates, regulatory changes resulting in a drop in income with a simultaneous increase in bank overheads) the above financial result is satisfactory. It forms a solid basis for a consistent and safe increase in the scale of the Bank's operations in future years.

In 2014, the main source of the Group's revenues was the net interest income which despite the pressure from low interest rates, thanks to the dynamic growth in lending activities and effective management of the Bank's pricing policy, increased year on year by PLN 217.2 million, to PLN 1,215.8 million. In 2014, the main sources of the Group's revenues also included net commission and fee income which increased by PLN 73.0 million year on year and had a 18.6% share in the revenues generated by the Bank in 2013. Additionally, the trading result constituting 14.3% of all revenues, and in particular the result achieved in connection with the foreign exchange transactions and interest rate transactions exercised on behalf of customers, had a material impact on the Group's revenues in 2014.

Strict control of costs which increased by only 9.2% year on year also had an impact on the result.

In the opinion of the Bank's Management Board, the financial results earned by the Company allow the presumption that as at the date of this Report the Bank will be able to achieve its strategic goals for 2016, i.e. a 4% share in the market, the Cost/Income ratio as a level no higher than 45% and ROE at a level no higher than 16%.

The Alior Bank S.A. Group development prospects

In accordance with the information provided in Chapter II – the External environment of the Bank's operations – in 2015 maintenance of favourable factors for the strong growth of Poland's economy is anticipated.

In effect, Poland's GDP is expected to grow robustly in 2015 and 2016. A strong labour market will contribute to increased consumption. Additionally, the use of EU funds will support the infrastructural expenses of the public sector. Unemployment will drop by 1 p.p. per annum, mainly in consequence of an increase in the number of employees at the same participation rate. In 2014 inflation dropped below zero and will remain at this level until early 2015.

The most important external factors affecting the GDP growth and inflation in Poland include primarily the stability and scale of recovery in the Eurozone, the possibility of considerable appreciation of the Euro, the potential bankruptcy of Russia leading to risk aversion, and potential escalation of the Ukraine-Russia conflict. Sustainability of higher growth in the Eurozone, Poland's key trading partner, also depends on the unresolved conflict between Russia and Ukraine and the impact of sanctions imposed as a result of the conflict. Additionally, the drop in turnover in global trade and the slowing of growth in developing countries raises additional concerns as to the expected growth of the global economy.

Taking the external factors referred to above into consideration, to achieve its strategic goals Alior Bank intends to continue implementing the existing projects and to initiate new ones aimed at extending and optimizing the product offer, and to maintain a consistently dynamic rate of acquiring new customers. These actions constitute the basis for the Bank's strategy which stipulates increasing the Bank's in-depth relationships with the existing customers and gaining new ones within the existing distribution network.

The key processes which will have an impact on the Bank's operations include the process of its merger with Meritum Bank. The combination of Meritum Bank's experience, in particular in the cash loans segment and in banking for micro- and small enterprises, with the operations of Alior Bank, will enable achieving effective business synergies and creating a bank with promising development perspectives.

Additionally, a factor that will have a material impact on the Bank's operations in 2015, will be the continuation of processes aimed at dynamic acquisition of customers and maintaining high sales volumes in sales of cash and mortgage loans (in respect of retail customers) and working capital and investment loans (in respect of business customers).

The following will support customer acquisition and the generated level of sales:

- developing banking activities as part of cooperation with T-Mobile Polska under the brand: T-Mobile Banking Services delivered by Alior Bank. In 2015, further new products to be introduced under our cooperation combining banking services with telecommunications services, including products for small businesses, and access channels will be developed. Alior Bank's ambition is to acquire 2 million customers over the next five years based on the above initiative. The planned return on equity in the third year should reach 16%, growing to approx. 40% in the fifth year.

- continued acquisition of customers in the Consumer Finance area. Based on sales of retail loans through the extensive network of retail shops, the Bank is building a customer base which will be used to further develop the sales of loan products (mainly cash loans). Increasing the scale of productization of the customers thus gained is one of the sources of strengthening the level of generated income.

- cooperation with the subsidiary Money Makers aimed at better supplementing the Bank's deposit offer with a wide offer of investment products is of particular importance in a situation in which the NBP maintains interest rates on a historically low level, thus creating an opportunity to offer customers products alternative to low-interest bank deposits.

Chapter XVI.

XVI. MANAGEMENT REPRESENTATIONS

Appointing the registered auditor

The registered audit company auditing the annual financial statements of the Alior Bank Group was appointed in accordance with the legal regulations. This company and the registered auditors performing the audit met the requirements for issuing an unbiased and independent audit opinion on the annual consolidated financial statements, in accordance with the respective legal regulations in force in Poland.

Policies adopted in the preparation of the financial statements

The Bank's Management Board hereby represents that to its best knowledge, the annual consolidated financial statements for 2014 and the comparative figures have been prepared in accordance with the binding accounting policies and that they give a true, fair and clear view of the asset and financial position of the Alior Bank Group and its results. The Directors' Report included in this document reflects the true achievements, development and position of the Alior Bank Group, including a description of its basic risks, in 2014.

Material contracts

The Bank's Management Board represents that as at 31 December 2014 Alior Bank S.A. did not have:

- material loan contracts, warranties and guarantees not relating to operating activities;
- liabilities to the Central Bank.

In the reporting period, the Bank had liabilities resulting from debt securities issued, in particular subordinated bonds, Banking Securities and other financial instruments. In 2014, the Bank did not grant or terminate any lending agreements outside the scope of the Bank's normal business activities. The Group companies did not grant any loan guarantees or warranties to a single entity or its subsidiaries, whose combined value would exceed 10% of the Bank's equity. In the last reporting year no transactions with related entities were concluded within the Alior Bank Group on a non-arm's length basis. Transactions with related entities concluded by the Bank or its subsidiaries are described in Note 34 to the consolidated financial statements of the Alior Bank S.A. Group. The Bank does not know of any agreements which could result in future changes in the proportion of shares held by the existing shareholders or bondholders.

Court proceedings in progress

In 2014, in respect of business customers, the Bank issued 816 executory titles of a total value of PLN 240,272.9 thousand. In cases relating to retail customers, the number of executory titles issued by the Bank in 2014 was 20,401 in the total amount of PLN 404,080.7 thousand.

The value of proceedings relating to liabilities or receivables of Alior Bank in progress in 2014 did not exceed 10% of Alior Bank's equity. In the Bank's opinion, no single court, arbitration court or public administration body proceeding in progress in 2014, and none of the proceedings jointly, could threaten the Bank's financial liquidity.

Signatures of the Management Board

Wojciech Sobieraj
CEO

26.02.2015 r., Signature

Witold Skrok
Deputy CEO

26.02.2015 r., Signature

Krzysztof Czuba
Deputy CEO

26.02.2015 r., Signature

Katarzyna Sułkowska
Deputy CEO

26.02.2015 r., Signature

Michał Hucał
Deputy CEO

26.02.2015 r., Signature