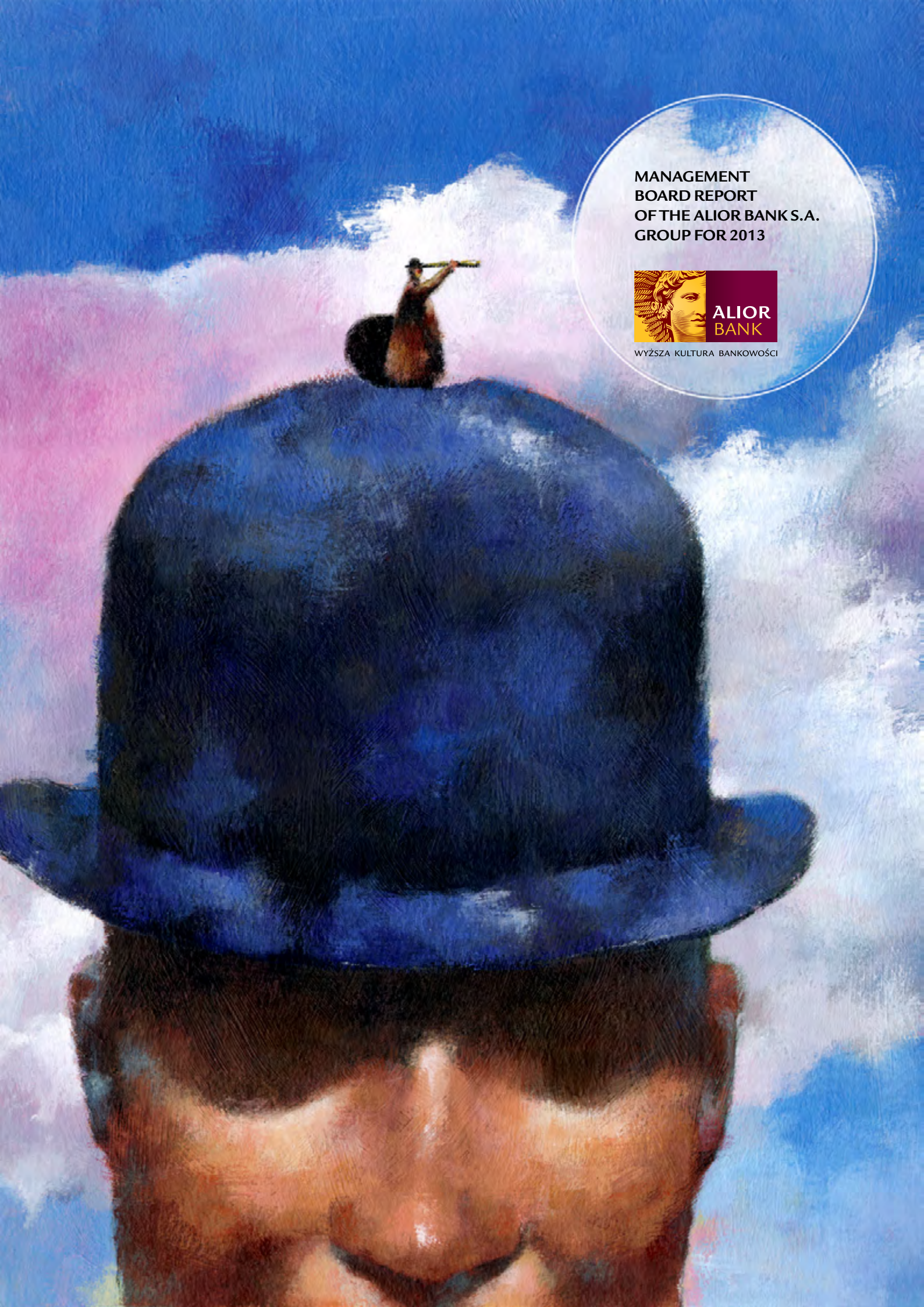
MANAGEMENT BOARD REPORT OF THE ALIOR BANK S.A. GROUP FOR 2013

ALIOR BANK

WYŻSZA KULTURA BANKOWOŚCI



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LETTER FROM THE CEO

Warsaw, 5 March 2014

Dear Sirs,

Behind us is a first year of Alior Bank's presence on the Warsaw Stock Exchange. After the successful IPO, the value of shares increased by over 30%, which has certainly contributed to an increased interest of investors in the company.
Which was further confirmed by the Bank being included in the elite WIG 20 index as from 21 March 2014.

Nevertheless, this year has not been easy. Inspite of economic slowdown, the Bank not only has achieved satisfactory results, but also has increased scale of its operations and market share. In the retail sector, Alior Bank maintained its position as the leader in new customer acquisition. 632 thousand new customers has trusted in us in 2013, which is more than in any other Polish Bank.

Changing the accounting policy related to the recognition of bancassurance income was another challenge for Alior Bank. In October 2013 the Management Board of Alior Bank, took the decision to resign from recognizing any income at the moment of selling insurance products and introduce its full periodization. As a consequence of this decision, the capital base of the Bank was reduced. The situation required decisive action to ensure proper level of capital for further dynamic organic growth. On 5 December 2014, Alior Bank carried out an accelerated book build (ABB) which resulted in PLN 460 million gross inflow. ABB met with significant interest – at the end of the day, the subscription book was multiple times covered. This was further proof of the trust put in us by the investor community. We intend to prove that their decision was right. In February 2014 final change of bancassurance revenue accounting recognition has been applied through partial (12-22%) recognition of revenue at the moment of product sale. Model adopted fully complies with regulatory guidelines.

In 2013 the search continued for eligible investor, which would meet the requirements of the Polish Financial Supervision Authority and be ready to acquire the package of shares held by our largest shareholder – the–Carlo Tassara Group . In spite of the endevors of advisors and advanced negotiations with renowned financial institutions, the transaction was not concluded in 2013. In light of that PFSA agreed to prolong the deadline for the sale of the package of Alior Bank shares held by Carlo Tassara until 31 December 2014.

The end of the year brought us very good news. Alior Bank entered into strategic partnership with T-Mobile Polska. It will enable us to achieve an unprecedented scale of synergies between the most innovative Polish bank and telecommunication company with a global presence, serving 16 million customers in Poland. I am convinced that this initiative will be of fundamental importance to the development of our organization in the coming years.

I warmly invite you to read the report.

Yours faithfully,
Wojciech Sobieraj
CEO

LETTER FROM PRESIDENT OF THE SUPERVISORY BOARD

Warsaw, 5 March 2014

Dear Sirs,

Increasing prominence of Alior Bank among WSE listed financial institutions is a sign of trust extended by capital market participants. Alior Bank's inclusion into WIG 20 index in a little more than a year since the IPO confirms that a chosen strategy produces desired outcome. On behalf of the Supervisory Board I would like to extend my sincere thanks to shareholders of Alior Bank for their trust and support.

In 2013 Alior Bank continued the execution of strategy announced in November 2012 in the prospectus prior to the IPO which focuses on doubling market share by 2016. Most significant 2013 challenges were related to accounting issues concerning bancassurnace revenue recognition as well as search for eligible investor willing to acquire Carlo Tassar Group shares of Alior Bank. In the Supervisory Board's view the Management of Alior Bank was able to handle those challenges in the most efficient way which is confirmed by satisfactory results and Bank's strong capital position.

Last year was also a period of changes within the Supervisory Board. Using this occasion I would like to thank Mr. Józef Wancer for his valuable contribution in Bank's development and wish him success in his subsequent professional endeavors. In 2013 we welcomed a new member Mrs. Lucyna Stańczak-Wuczyńska, a representative of European Bank for Reconstruction and Development. In January 2014 Mr Sławomir Dudzik was nominated as Supervisory Board member. 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 all employees of Alior Bank for their engagement wishing them success in 2014.

Your faithfully,

Helene Zaleski
President of the Supervisory Board

In 1849, a London firm of hatters had been commissioned by an English aristocrat to design a small, hard felt hat, to protect his gamekeepers' heads from low-hanging branches while on horseback. Soon, the bowler was worn on aristocratic heads, later became popular with the London City barristers and brokers and finally from there, it set off for a trip round the world. In 2008, it became the ‚corner stone' of a Polish bank, which offers high culture of banking to all its clients.

While reading this annual report, you are invited to leaf through a short illustrated history of the bowler hat in culture and art.

CHAPTER I

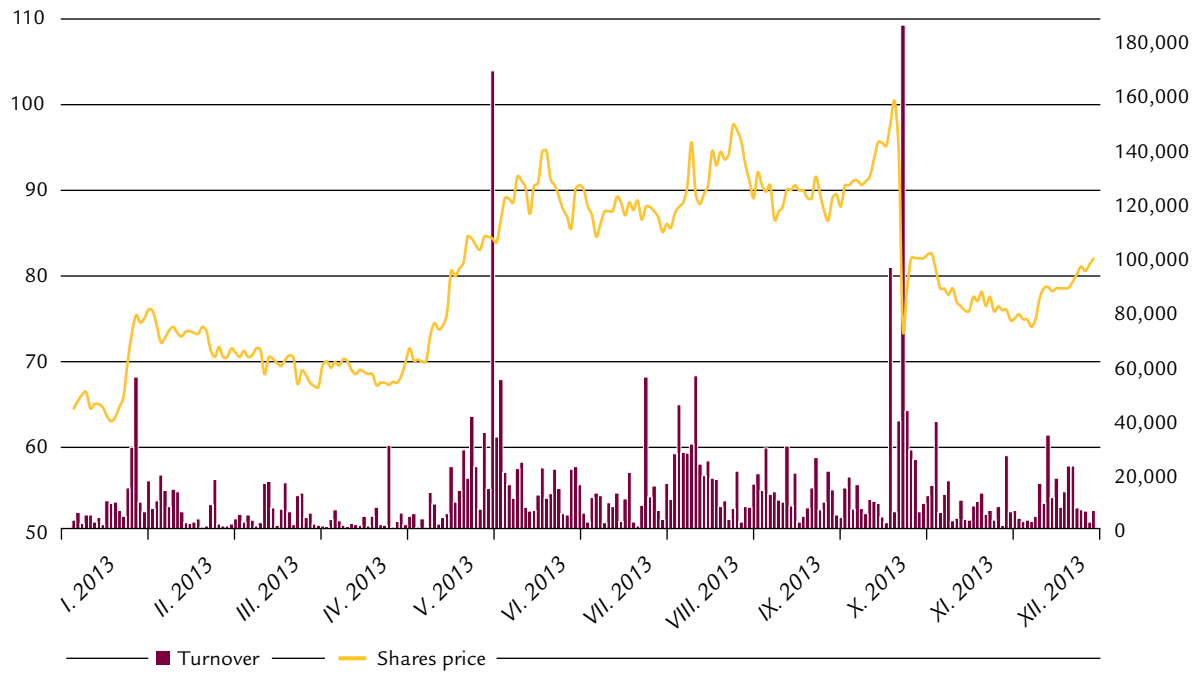
Georges Pierre Seurat "Bathers at Asnières"

I. DESCRIPTION OF ALIOR BANK'S OPERATIONS IN 2013

1. The first year of listing of Alior Bank's shares on the WSE

The year 2013, was the first full year of listing of Alior Bank's shares on the Warsaw Stock Exchange. The Bank's share price in the period increased by over 30%. For comparison, the value of the WIGBanki index in the same period increased by 20.5% and the quotations of the WIG index increased by 8.1%. The P/E and P/BV ratios of Alior Bank were among the highest in the peer group and amounted to 28.8 and 2.5 respectively. Alior Bank's shares were among the most liquid instruments quoted on the Stock Exchange in 2013. The total turnover in the Bank's shares in 2013 amounted to nearly PLN 3.3 billion. Alior Bank's importance to the WSE was confirmed by the fact that on 23 September 2013 the Bank's shares were included in the new WIG30 index, i.e. the index for the thirty largest and most liquid companies listed on the Warsaw parquet.

The Bank's share prices and turnover volume on the WSE in 2013



2. Crucial business initiatives executed in 2013

In 2013, Alior Bank implemented a number of initiatives aimed at enriching and optimizing the product offer as well as maintaining a stable dynamics for gaining new customers. Achieving these objectives is the basis of the Bank's strategy, which assumes deepening the Bank's relationships with existing customers and gaining new ones to the existing distribution network. Moreover, the Bank continued to develop the existing strategic projects and initiated new ones. The target is to double the Bank's market share in 2016 compared with 2012.

One of the main events in 2013 was signing a cooperation contract with T-Mobile Polska on 11 December 2013 for preparing a comprehensive banking products and services offer and ensuring multi-channel access to them. The signed contract will enable a synergy effect to be obtained on the largest scale in history from cooperation between an innovative Polish bank and a telecommunications operator.

An important element of Alior Bank's development strategy is to create a network of Alior Express mini branches. In 2013, the Bank opened 121 mini branches. As a result, as at the end of 2013 there were 221 such outlets in the Bank's network.
The effectiveness of this form of banking product distribution was confirmed by high quarterly growth dynamics of both the number of customers and volume of loans and deposits.
In 2014, the Bank changed conditions of the service „Rachunki bez opłat" and initiated to charge fees applied to payment of the bills in the Bank's branches. Customers transferring their salary, pension or retirement pension to the bank account and customers of Alior Express outlets and partner outlets will not be charged with this fee. Thanks to this change the Bank expects to increase loyalty of the present Customers, and also to promote distribution channel of Alior Express outlets, located most frequently in the shopping centres, so places the most often visited by the Customers. Bearing in mind the market's potential and in connection with signing the cooperation contract with T-Mobile Polska, the Bank does not plan to open new Alior Express outlets in 2014.

In 2013, the intensive development of Consumer Finance operations was continued. Based on the sale of retail loans through the 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).
In the Bank's opinion, increasing the productization of customers thus gained is an important source of both interest and commission income.

In accordance with an investment agreement signed by the Bank in the IV quarter 2013, the Bank is authorised to take over a package of shares which will result in exceeding 50% stake in the total number of votes at the general meeting of Money Makers S.A. The operations of Money Makers will focus on asset management services.
A rich investment product offer is of particular importance, while NBP maintains the interest rates on a historically low level, thus creating an opportunity to offer customers products that are an alternative to low-interest bank deposits.

At the same time, in order to maintain the effectiveness of operations and bearing in mind the need to continuously adapt costs to the scale of operations, Alior Bank is in the course of implementing the cost optimization programme in order to reduce the general administrative expenses by PLN 25 million in 2014 and by another PLN 25 million in 2015.

3. Financial results

All financial data for 2013 and comparatives presented below comprise restatements related to accounting recognition of bancassurance revenue, of which the Bank informed with the current report no 17/2014 of 26 February 2014, which modified accounting recognition of bancassurance revenue attached to loan products implemented in the III quarter 2013. Detailed information in the field of bancassurance are described in section 2.3.19 Consolidated financial statements of the Alior Bank S.A. Group.

The table below presents the basic amounts and financial ratios as at 31 December 2013, including comparatives:

Selected amounts and financial ratios	2013	2012***	change %/pp.
Net interest income	998 561	827 356	20.6%
Net fee and commission income	275 178	201 413	36.6%
Trading result and other	266 288	248 376	7.2%
Net operating income*	1 540 027	1 277 145	20.6%
General administrative expenses	-847 358	-908 226	-6.7%
Other impairment losses	-380 981	-278 588	36.8%
Impairment losses on assets held for trading	-24 000	0	–
Gross profit	287 688	90 331	218.5%
Net profit	227 902	61 130	272.8%
Loans and advances to Customers	19 657 900	14 299 582	37.5%
Customer deposits	20 842 462	17 463 353	19.3%
Equity	2 184 732	1 970 970	10.8%
Assets	25 549 871	21 181 094	20.6%
ROE	11.0%	4.2%	6.8
ROA	1.0%	0.3%	0.7
C/I	55.0%	71.1%	-16.1
CoR	2.2%**	2.2%	-0
L/D	94.3%	81.9%	12.4
NPL	6.85%	5.72%	1.13
Coverage ratio	57.3%	58.3%	-1.0
Capital adequacy ratio	12.1%	15.2%	-3.1
Tier 1 ratio	10.3%	12.8%	-2.5

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

** Excluded impairment losses on assets held for trading.

*** 2012 have been transformed in accordance with the information above

The Group's net profit for 2013 amounted to PLN 227.9 million and it was PLN 166.8 million, i.e. 272.8% higher than the net profit for the prior year. Before including one-off item consisting on created impairment losses on non-current assets held for trading amounting to PLN 24 million, net profit of the Group amounted to as much as PLN 247.4 million in 2013 and was 304.7% higher compared with the net profit in 2012.

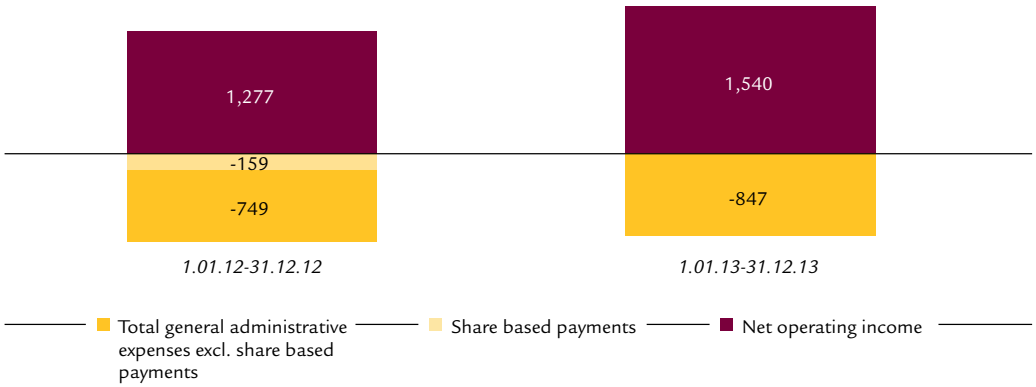
The amount of the net result earned was mainly affected by the amount of generated net interest income for 2013, which despite low interest rates, thanks to the increased scale of operations and effective management of the loan portfolio structure amounted to PLN 998.6 million, i.e. 20.6% more than as at the end of 2012. As a result net interest margin resulted in 4.67% in 2013, when the above mentioned ratio for an equal group, according to information of Polish Financial Supervision Authority, resulted in 2.48%.

The total net operating income of the Group amounted to PLN 1 540 million and was 20.6% higher than the net operating income for 2012.

Attention to level of generated income was accompanied by strict control of general and administrative expenses incurred. Thanks to careful monitoring of the expenses incurred, general administrative expenses (excluding the following general and administrative expenses 2012: share -based payments and IPO costs, 2013 general and administrative expenses include the amount of -13,4 m PLN related with new management incentive scheme) increased in annual terms by 13.1%.

As a result, the Cost/Income ratio (excluding out of general and administrative expenses 2012 the costs mentioned above) amounted to 55.0% in 2013 compared with 58.7% in 2012

The levels of net operating income and general administrative expenses in the years 2012-2013 are presented in the diagram below:

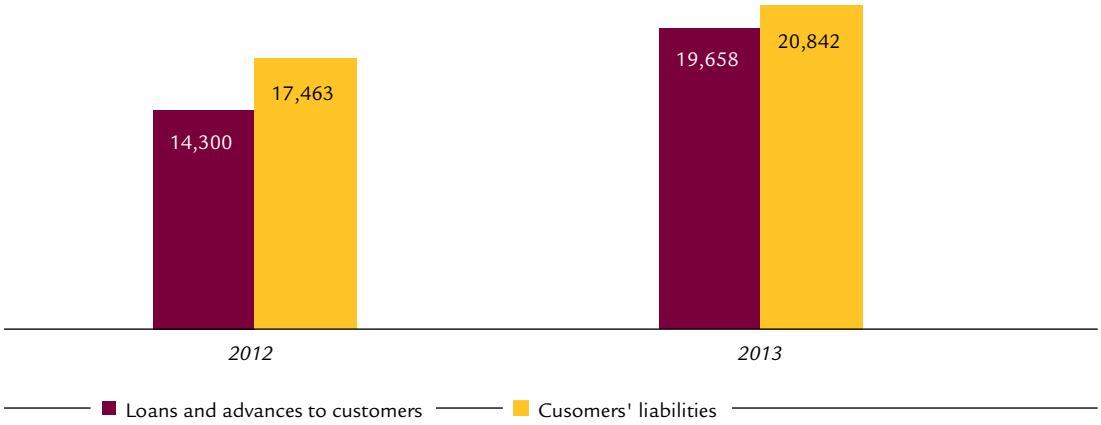


The increased scale of operations resulted in higher result of impairment losses, which amounted to PLN -405 million in 2013 (PLN -278.6 million in 2012 – an increase of 45.4%). In 2013, the Bank implemented a new model for estimating the LGD parameter for the portfolio of cash loans. The new model is based on own credit recovery data and according to the PFSA expectations it includes current situation (Point In Time). The model is implemented for the purpose of calculating allowances for losses incurred but not reported (IBNR) and allowances estimated under a group method which caused allowances value to be reduced by PLN 24.5 M and PLN 31.8 M respectively.

The total net amounts due from customers as at the end of December 2013 amounted to PLN 19,657.9 million, and the balance of customer deposits was PLN 20,842.5 million, i.e. 37.5% and 19.3% respectively more than in December 2012. As a result, the Loans/Deposits ratio was at a safe level of 94.3% from the point of view of financing of operations.

The fact that the ratio remained below 100% results from the rules adopted since the beginning of the Bank's operations. According to those rules, lending activity is financed solely with funds obtained from customers, and the Bank does not conduct trading activities on its own account.

Customer loans and deposits (in PLN million)



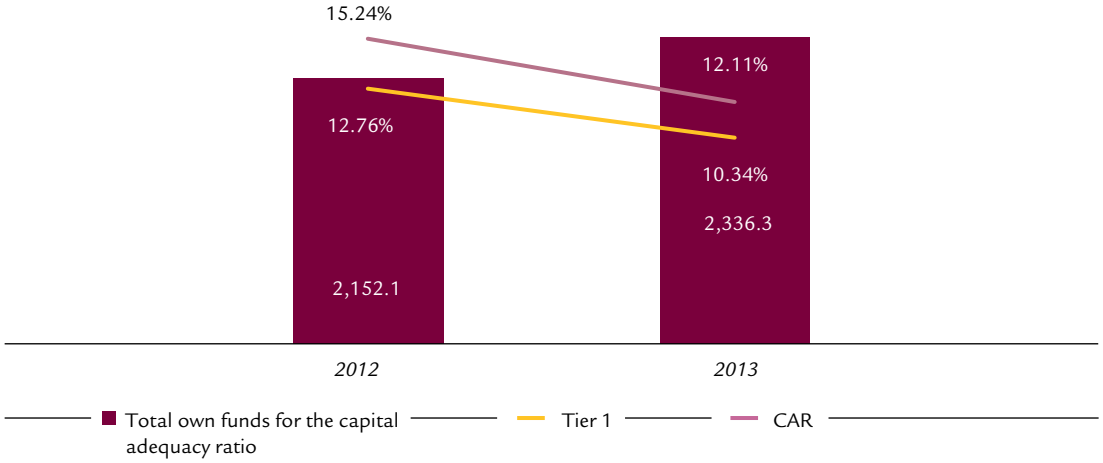
The Bank attaches a lot of weight to diversifying credit risk. The share of amounts due from the ten largest customers in all loans granted amounted to 8.5%. The liquidity security is ensured by diversifying the deposit base. The sum of amounts due to the ten largest deposit holders represents 3.1% of the sum of all amounts due to customers.

In December 2013, the market share of Alior Bank in the loan market was 2.5%, and in the deposit market 2.6%. Compared with December 2012 these shares increased by 0.6 pp. and 0.3 pp. respectively. The accumulated deposit base gives a stable basis for the development of lending activity and enables the gaining of a stable interest margin.

The Bank maintains high profitability of its customer relationships. According to the data available as at 31 December 2013, the average interest margin for commercial banks was 2.56%. In the same period, the interest margin realized by Alior Bank was 4.67%.

In 2013, the Group maintained a level of own funds adequate to the scale of operations, which was reflected in both the capital adequacy 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 own funds (in PLN thousand) and of the capital adequacy ratio in the years 2012-2013.

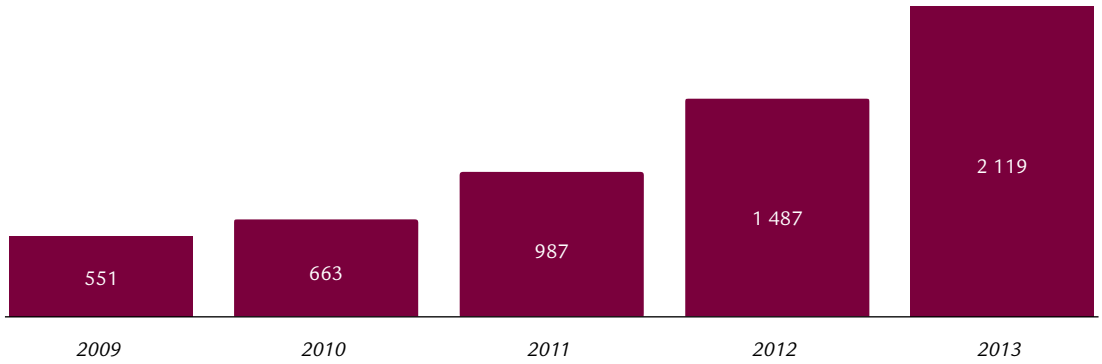


The changes introduced in accounting for bancassurance income resulted in reducing the level of the Bank's own funds. In December 2013, the Bank issued 6,358,296 ordinary bearer G-series shares as part of the private offering. The agreements for taking up the G-series shares were concluded on 10 and 11 December 2013. The increase in share capital by issuing the above-mentioned shares was registered by the Court on 2 January 2014.
By issuing the G-series shares, the Bank obtained PLN 464 million of new capital, which will enable further development of the Bank in order to double its market share in the Polish banking sector in the years 2013-2016.
If to include proceeds of the issued series G shares into equity funds already at the end of December 2013, capital adequacy ratio and Tier 1 ratio for the Alior Bank Capital Group would amount respectively to: 14.47% and 12.70%.

4. Acquisition of new customers

In 2013, Alior Bank continued the process of dynamic acquisition of new customers. As at 31 December 2013, the number of its customers reached 2,119 thousand. Around 2,000 thousand are individual customers and almost 119 thousand are business customers.

Number of Alior Bank S.A. customers (in PLN'000)

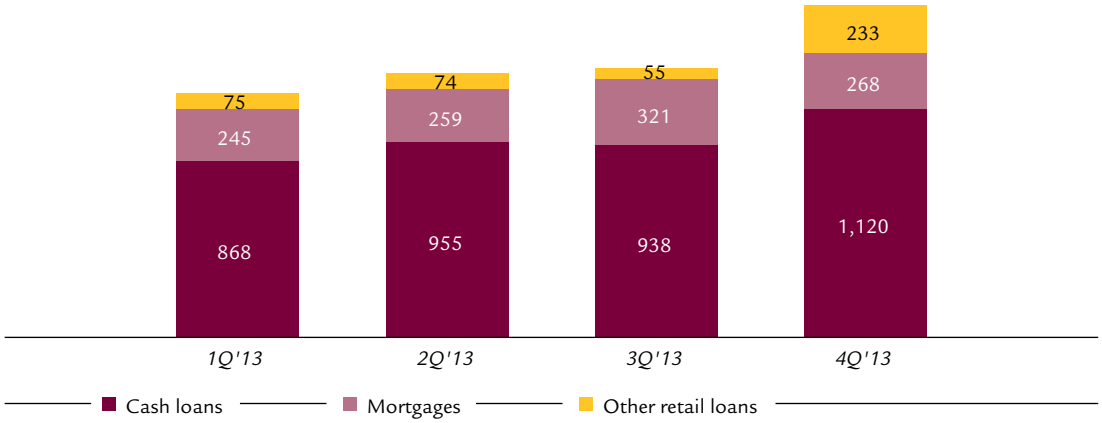


In 2013, the Bank gained retail customers mainly by selling cash loans and housing and mortgage loans. Alior Bank rendered its services mainly to customers from Poland. The share of foreign customers in the total number of the Bank's customers is insignificant.

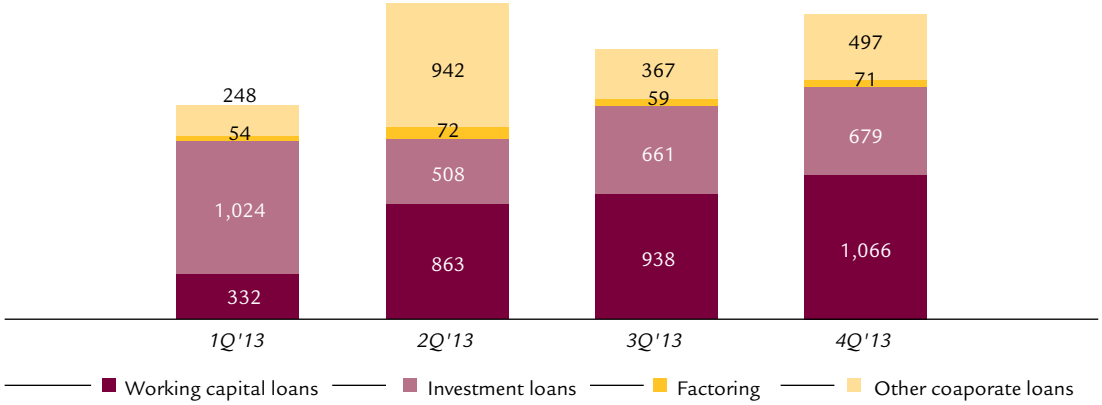
In the case of business customers, the Bank focused mainly on granting working capital and investment loans.

The detailed amounts of quarterly new sales (excluding renewals) in the individual groups of products for retail and business customers are presented in the diagrams below.

Sales of products to retail customers in 2013



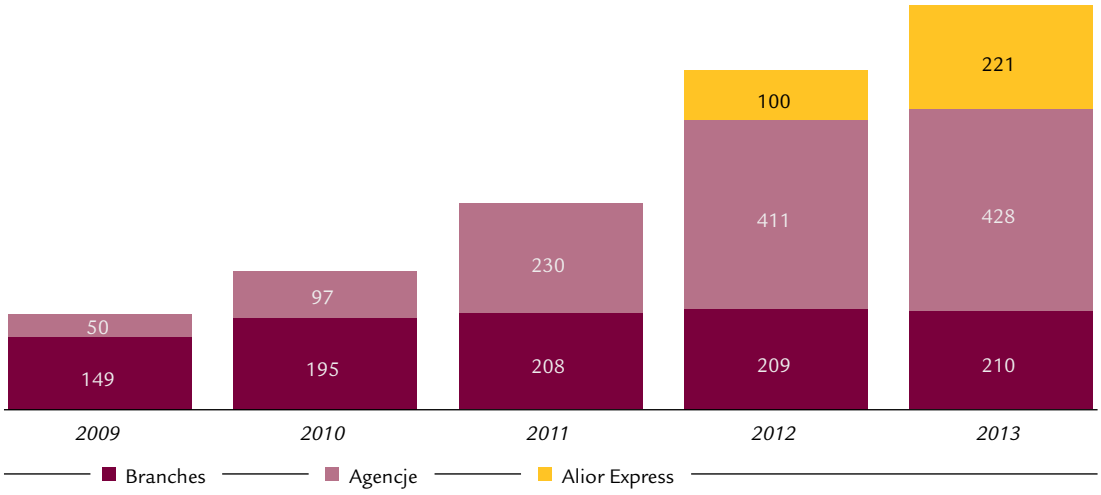
Sales of products to corporate customers in 2013



5. Distribution network and employment level

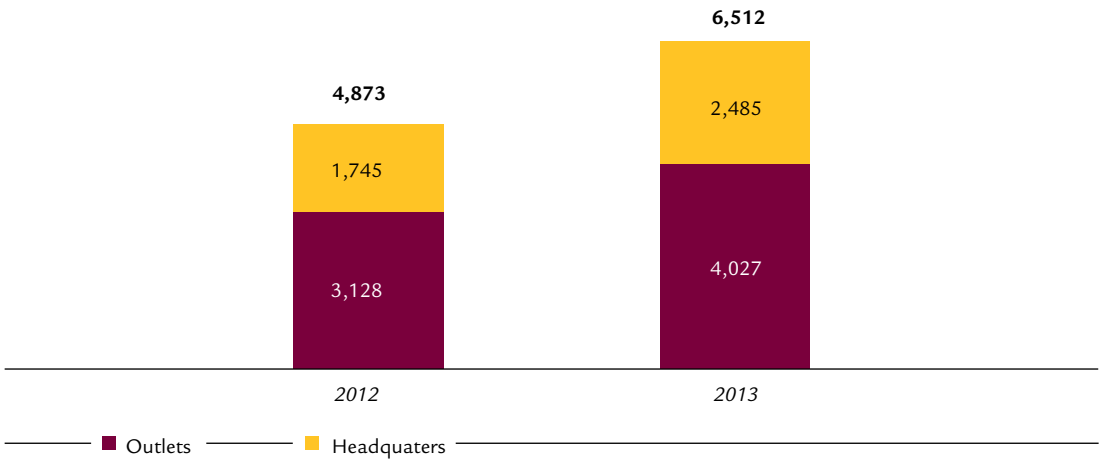
As at 31 December 2013, the Bank had 859 outlets (210 own branches, 428 partners' outlets, 221 mini branches operating under the brand of Alior Express). The Bank's products are also offered through the network of nearly 3 thousand financial intermediaries' outlets. Moreover, Alior Bank's retail loans are offered in a continuously growing number of retail shops.

Distribution network of Alior Bank S.A.



Moreover, Alior Bank uses distribution channels based on a modern IT platform comprising online banking, virtual banking, telephone service centres and mobile banking.

As at 31 December 2013, the number of Alior Bank's employees was 6.512. This represents an increase of 1639 persons compared with the end of December 2012, which is 33.6% more. Increase of employment was linked among others to distribution network expansion. It should be stressed that the key members of the management team have been related to Alior Bank since its formation.



CHAPTER II

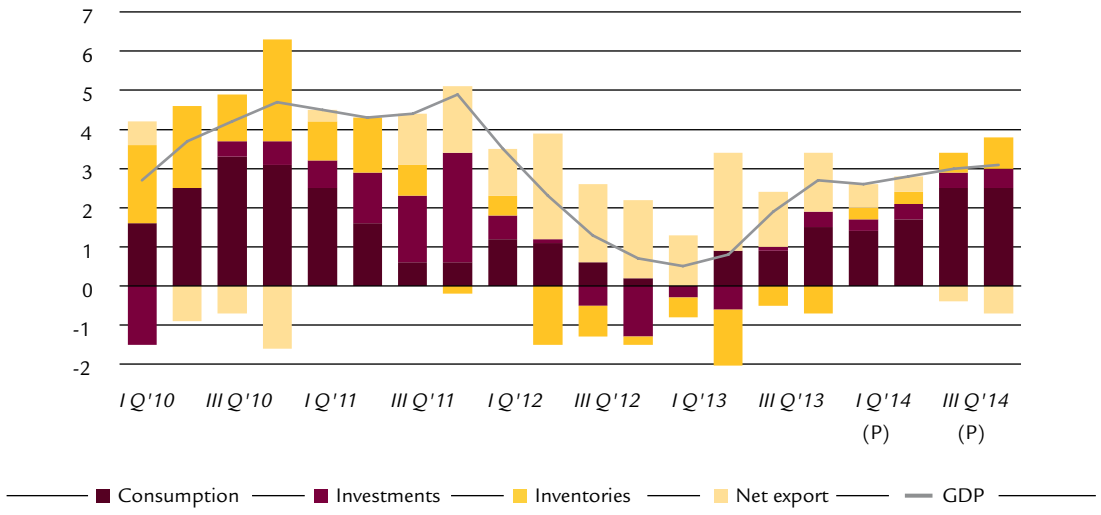
Unknown author "Young couple with Harvard pennant"

II. EXTERNAL ENVIRONMENT OF THE BANK'S OPERATIONS

1. Macroeconomic situation (trends in the economy, inflation, unemployment)

In 2013, Poland's economic growth slowed down to 1.46% y/y from 1.9% in 2012, however the business cycle reached a bottom in the first quarter and since then a gradual increase in the dynamics of the Gross Domestic Product has been recorded. In the first half of 2013, the slowdown was caused by a halt in the consumption growth and a drop in investments resulting from continued uncertainty of businesses as to the economic development perspectives in Poland and abroad. The high base effect in the first half of 2012 also contributed negatively to this trend, when infrastructural projects related to the 2012 Europe Football Cup were at the final stage of completion. The second half of the year brought a reversal in the trends in consumption and investments. Throughout the year, net export maintained a positive contribution to economic growth; however, its share gradually dropped with the revival of imports.

Composition of GDP growth



Source: GUS, Alior Bank

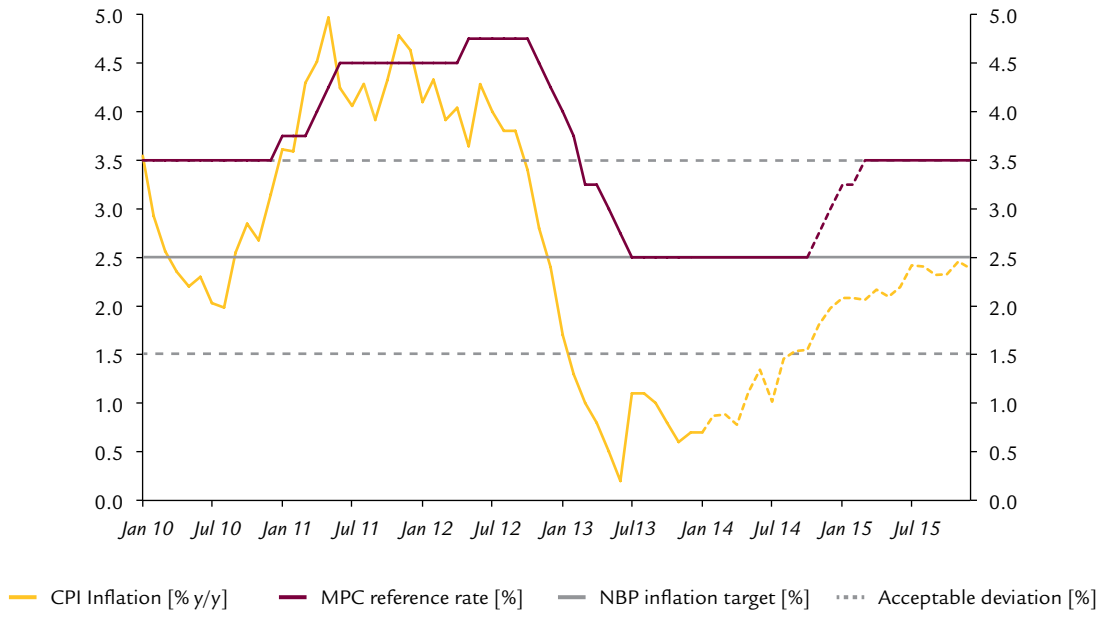
In 2013, the labor market remained in stagnation. The unemployment rate at the end of 2013 was on the same level as the previous year – 13.4%, and employment in the corporate sector shrank by 1% y/y. The difficult situation on the labor market maintained salary growth dynamics at a low level – the average annual salary growth amounted to 2.9% compared with 3.4% in 2012.

In December 2013, the consumer price index amounted to 0.7% y/y compared with 2.4% as at the end of 2012. Since February, inflation has remained below 1.5%, i.e. the lower limit for inflation level deviations permitted by the Monetary Policy Council, and reached 0.2% at the lowest point (June). The average annual inflation in 2013 amounted to 0.9% y/y compared with 3.7% in 2012.

The low inflation pressure enabled the Monetary Policy Council to continue the cycle of reducing interest rates to spur economic growth. After two 25 b.p. reductions in the fourth quarter of 2012, by July 2013 the Council had introduced further reductions totaling 175 b.p., bringing the reference rate to 2.50%. At the same time, it was announced that interest rates would remain at an unchanged level at least until the end of 2013. In November this declaration was extended until the middle of 2014.

The economic slowdown translated into deterioration in public finance. In July, the Prime Minister Donald Tusk announced that due to the crisis the revenues of the State Budget in 2013 would be PLN 24 billion lower than planned and the Budget requires amending. In order to avoid a drastic fiscal consolidation, the government decided to increase the budget deficit by approx. PLN 16 billion (1% of the GDP) to PLN 51.6 billion, however, at the end of the year the Ministry of Finance informed that the deficit turned out to be at least PLN 8 billion lower than the amended plan.

In 2013, the government introduced changes to the Open Pension Fund system, which comprised transferring the debenture part of the portfolio to the Social Insurance Office (ZUS) for cancellation in order to abruptly reduce the public debt from 2014 and limit future lending needs. The Ministry of Finance estimates that after this operation the national public debt will be reduced by approx. PLN 130 billion (9% of the GDP).



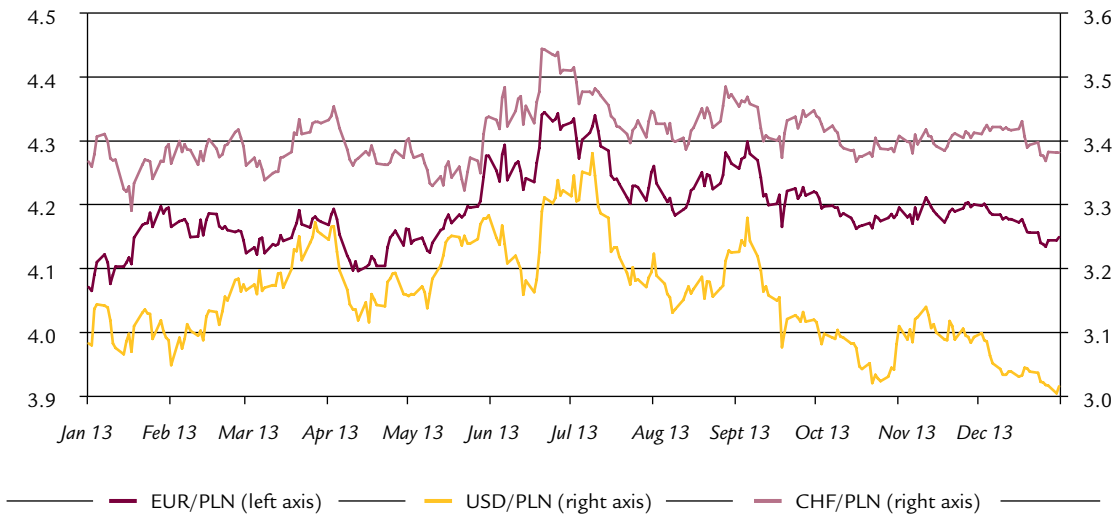
Source: NBP, Alior Bank

2. Financial markets

At the start of 2013, political and economic turmoil in the Euro zone was the main factor determining the moods on financial markets. First, everyone's attention was drawn to the prolonged political paralysis in Italy, and then commotion was caused by Cyprus which was forced to avail itself of international financial aid due to its national banking sector's insolvency. The reaction of the financial markets to both events, although nervous, did not transform into long-term periods of increased concern about the eruption of a debt crisis, mainly thanks to the European Central Bank's unwavering position of defending the euro "at all costs" and the standby programme for intervention on the debt markets (outright monetary transactions, OMT).

In April, the assets of the emerging markets enjoyed increased interest from investors due to the increased risk appetite caused by aggressive loosening of the monetary policy by the Bank of Japan. The expectations that the purchase of bonds by the Japanese central bank would release capital, which would be directed, among others, to the Polish debt market, resulted in a noticeable appreciation of the zloty. However, the positive sentiment was disrupted when in May the process of tapering the asset purchase programme (QE3) by the US Federal Reserve became the leading subject of financial markets and remained at the centre of attention until the end of the year. The perspective of the Fed departing from the ultra-loose monetary policy gave rise to a sudden growth in profitability of US T-bonds, which led to an outflow of capital from the emerging markets against the dollar. In June, the zloty recorded the weakest rates against the euro, dollar and Swiss franc in a year, but in subsequent months the variability of the rate weakened as investors began to selectively approach emerging markets' assets. Depreciation continued for the currencies of states with high current account deficits and growing inflation, prompting their central banks to introduce interest rate increases, although the economy required a mild monetary policy. The quite different situation in Poland contributed to the stabilization of the zloty. Throughout 2013 the EUR/PLN exchange rate increased by 2%, the USD/PLN rate dropped by 1.8% and the CHF/PLN rate gained 0.5%.

Quotations of the zloty in 2013



Source: Reuters, Alior Bank

3. External factors affecting the Bank's operations in 2014

In 2014, with a noticeable weakening of the risk of negative extraordinary events, which in the past paralyzed businesses, the global economy should come out of the three-year slowdown. The fiscal and monetary remedial measures applied so far have brought smaller or greater positive results; therefore, the businesses anxiety about economic perspectives is considerably lower than 12 months ago.

The United States should remain the motor for global revival with the continued reconstruction of the labor market, which will strengthen consumer demand. The British economy should accelerate noticeably with the improved situation on the real estate and loan markets. With the introduction of structural reforms by the government in Beijing, China is saying goodbye to the two-digit growth dynamics, although it is still far from the so-called "hard landing". Japan faces a slowdown as the planned tax increases will stifle consumer demand, which the fiscal and monetary authorities will try to prevent.

The Euro zone will return to a path of revival but economic growth will remain weak, in an optimistic variant slightly exceeding 1% y/y. The bloc will continue the struggle with structural problems, which will prevent fast reconstruction of competitiveness, and high unemployment will suppress domestic demand. The fiscal policy will no longer have such a negative effect on growth thanks to peripheral implementations of raw savings plans conducted by governments in previous years. On the other hand, the possibilities of applying fiscal stimuli remain considerably limited.

The German economy will stand out against the entire monetary union, and it should accelerate noticeably after the 0.4% achieved in 2013. Stronger global economic growth will support the continued improvement of exports, consumption will benefit from growing employment and salaries, and reduced anxiety about the economic perspectives of the Euro zone which in combination with low borrowing costs will bring about a revival in investments. All these factors will positively affect the economic situation in Poland.

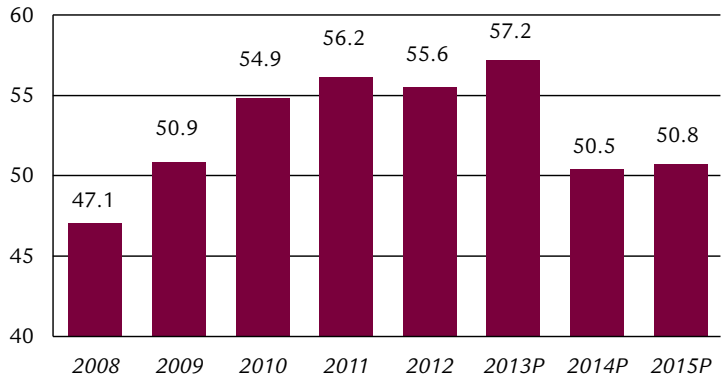
The situation on the European debt market should further stabilize. At the start of 2014, two out of five peripheral economies (Spain and Ireland) will stop using aid packages. The end of Portugal's bailout is planned for June of this year, but as there are no signs of economic growth, there is a risk that another bailout programme will be granted. In 2014, Slovenia may become the sixth country applying for international financial aid. Greece in turn may face another round of debt restructuring. However, with the European Central Bank keeping guard and having the OMT programme launched in 2012 at its disposal, the risk of serious turbulences on financial markets is relatively low.

The direction in which the monetary policy of the main central banks will go, will be a significant factor shaping the environment for banks' operations in 2014. In December 2013, the US Federal Reserve started the process of tapering the asset purchase programme (QE3), which should close this year. It is expected that Fed will not start tightening the monetary policy earlier than in the second half of 2015, but stronger economic revival in the USA may increase the expectations of an earlier start of interest rate increases, which will initiate an outflow of capital from the emerging markets and increased volatility of the zloty exchange rate to the detriment of Polish importers and exporters. The European Central Bank may be forced to start monetary expansion by introducing a negative deposit rate or QE program, which may temporarily be a shock to the European financial system. However, the resulting weakening of the euro will have a positive effect on the competitiveness of European exporters on the global markets. The Bank of Japan is facing extension of the asset purchase programme in order to eliminate the negative effect of increasing the VAT rate from April 2014, which may potentially push out the portfolio capital from Japan to the emerging markets, including Poland.

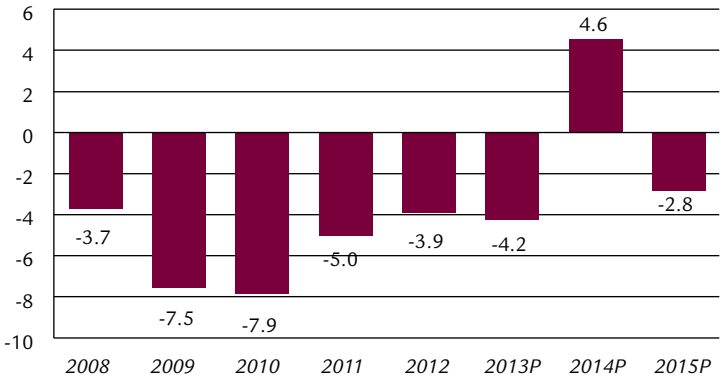
The macroeconomic conditions for bank operations should improve in the face of the expected acceleration of Poland's economic growth. The forecasts prepared by Alior Bank assume the dynamics of the GDP in 2014 of 2.9% y/y compared with 1.46% in 2013. The revival will be supported by an extensive improvement in the growth foundations. We anticipate a continuation of the positive trends initiated in the middle of 2013, led by increasing private consumption supported by a relatively strong salary increase, which in the face of low inflation will translate into an increase in households' disposable income. Private consumption will take over the role as the economy's driving force from net export, which has supported revival in recent quarters (through the strong slowing down of imports). Low interest rates in combination with the accelerating pace of the German economy should lead to increased investments by Polish enterprises. However, due to the fact that the investment process will be at an initial stage, the economic growth dynamics will take time to return to a similar level as before the financial crisis.

The pension system reform approved at the end of 2013 will enable a reduction in the public debt/GDP ratio to 50.5%, at the same time bringing in a one-off fiscal surplus in 2014 (forecasted 4.6% of the GDP). Although the transfer of the debenture part from OFE to ZUS with subsequent cancellation of the securities is nothing other than an accounting maneuvre, it still creates space for a fiscal policy supporting economic growth. The Polish Investments programme announced by the Prime Minister Donald Tusk as early as in 2012, should bring a significant increase in public expenditure this year with the additional support of EU funds from the new EU budget for the years 2014–2020.

Public debt and Budget balance



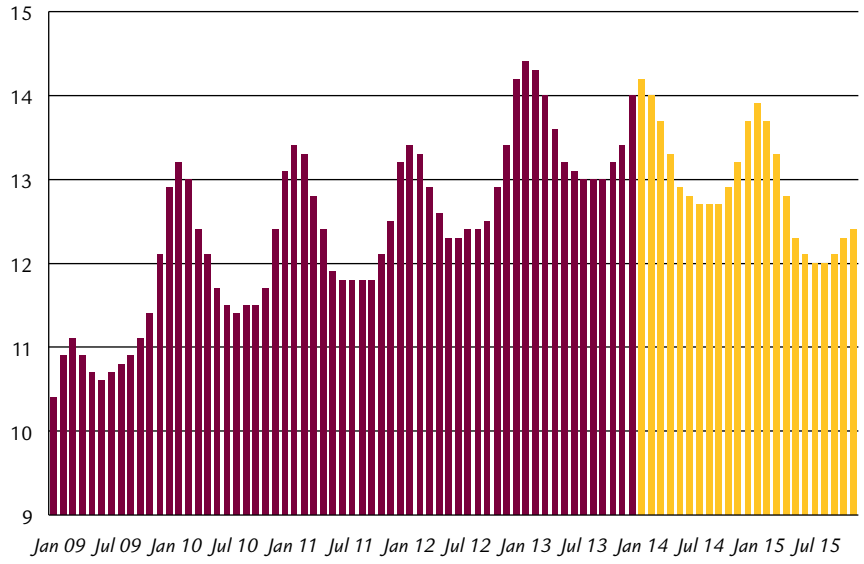
Source: GUS, Alior Bank



Source: GUS, Alior Bank

The situation on the labor market will improve with some delay compared to the remaining processes in the economy, because enterprises will remain cautious about increasing the number of employees, first limiting themselves to maximizing the efficiency of the existing employees. The Ministry of Labor obtained PLN 5 billion from the State Budget for fighting unemployment, but due to the expected slow reconstruction of demand for labor, at the end of 2014 the unemployment rate will be 13.2% compared with 13.4% at the end of 2013.

Unemployment rate



Source: GUS, Alior Bank

Economic growth acceleration should take place without a noticeable strengthening of the inflation pressure from the demand factors. Despite that, the consumer price index should grow in the next months due to the 15% increase in excise duty on strong alcohols and as a result of the low statistical base effect in the categories of Communications and Apartment use. It is expected that by the end of third quarter inflation will exceed 1.5% y/y, i.e. the lower limit of deviation from the inflation target permitted by the MPC. However, the target itself of 2.5% will not be reached until 2015.

The expected lack of significant fluctuations in the demand factors should support the Council in fulfilling its declaration of keeping the interest rates unchanged at least until the end of June 2014. Further, taking into account the need by the central bank to take pre-emptive actions, Alior Bank's forecasts assume that the Council will start strengthening the monetary policy by introducing two 25 b.p reference rate increases to 3% in the fourth quarter of 2014.

A moderate appreciation of the zloty to 4.05 is assumed until the end of 2014, from 4.15 at the end of 2013. Due to Poland's relatively low dependence on external financing, the currency should be resistant to potential turmoil related to discounting the effect of the Fed normalizing its monetary policy on the emerging markets. Moreover, the strong foundations of the Polish economy supported by the positive impact of the expected continued revival in the Euro zone and further monetary expansion of the EBC will help maintain the long-term upward trend of the PLN. The risks for the base scenario are distributed asymmetrically to the benefit of the PLN. The inflow of capital from the European banking sector initiated by the EBC introducing a negative deposit rate may prove helpful in said strengthening. The year 2014 will also show whether another round of asset purchases by the Bank of Japan will encourage Japanese investors to invest in Central and Eastern Europe.

The situation of the banking sector in Poland will depend on the following factors:

- A gradual improvement in the economic situation will enable households to increase their savings rate and will lead to positive growth dynamics of the deposit base. However, the increase in deposits will be slow and the low interest rate environment will encourage looking for other forms of investing capital. In the case of institutional clients, the initial caution in undertaking investment projects will weaken with time and result in reducing surplus funds. The effect will be neutralized by an increase in deposits resulting from the improved economic situation. As a result, throughout the year the increase in deposits should remain at a stable, one-digit level.

– Further acceleration of consumer loan growth dynamics is expected in connection with easing the lending policy, which will have a positive effect on demand. In the mortgage loan segment, the higher dynamics will be due to Poland's improved macroeconomic situation combined with launching a government programme "Mieszkanie dla Młodych" ("Apartments for the Young"). The recommendation of the Polish Financial Supervision Authority related to the minimum own contribution (5% of the property's value) should not negatively affect demand. Better economic perspectives in Poland and the Euro zone should encourage enterprises to engage in investment activity, however it is assumed that the demand for corporate loans will grow slowly, first on the part of large companies.

– The improved financial condition of some enterprises accompanied by limited access to increased risk loans will have a positive effect on the balance of loan losses

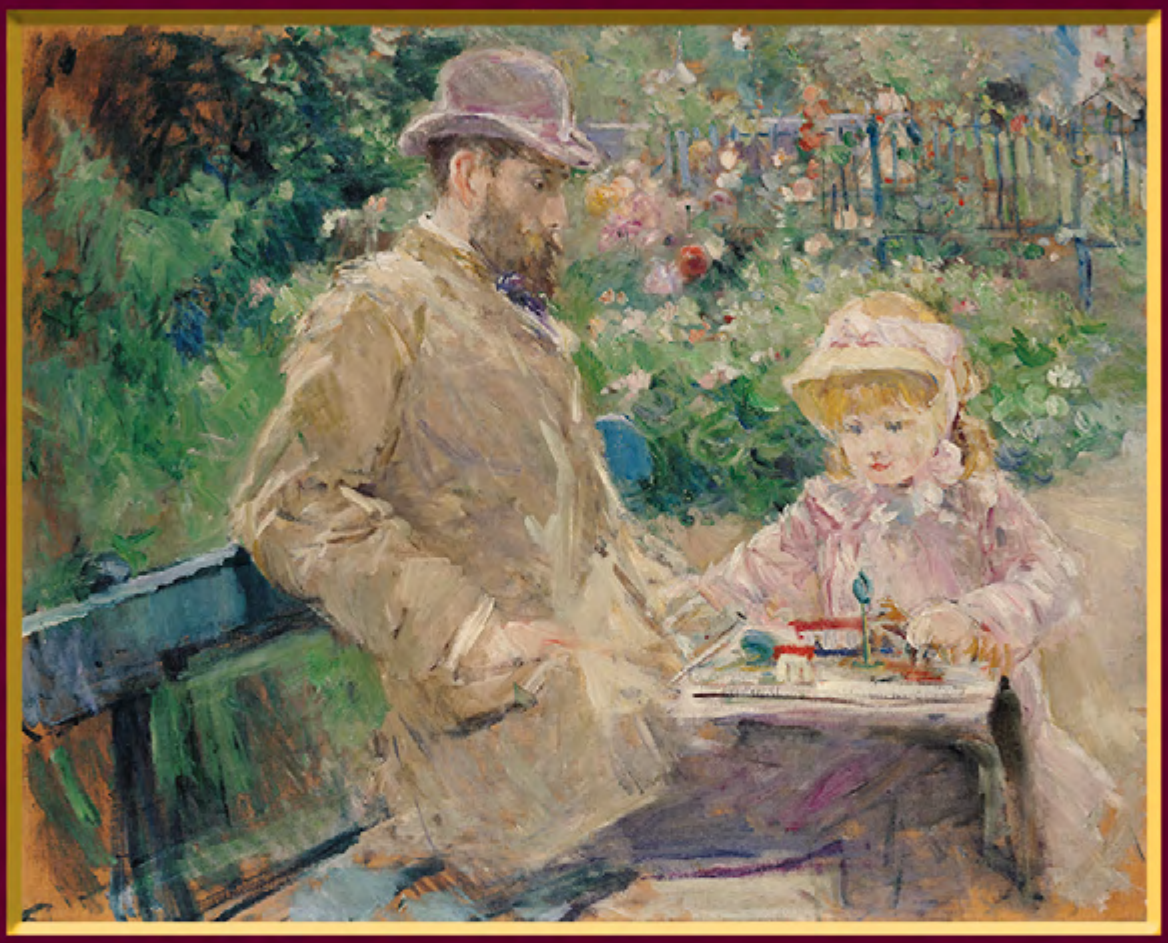
Polish economy in the years 2008-2014

	2008	2009	2010	2011	2012	2013	2014 (P)
GDP increase (% y/y)	5.1	1.6	3.9	4.3	1.9	1.6	2.9
Unemployment rate (%; year end)	9.5	12.1	12.4	12.5	13.4	13.4	13.2
CPI inflation (% y/y; average during the period)	4.2	3.5	2.6	4.3	3.7	0.9	1.3
CPI inflation (% y/y; year end)	3.3	3.5	3.1	4.6	2.4	0.7	2.0
EUR/PLN exchange rate (year end)	4.12	4.10	3.96	4.46	4.07	4.15	4.05

Source: GUS, NBP, Alior Bank

* Forecast for 2014 prepared in February 2014.

CHAPTER III



Berthe Morisot "Eugene Manet with his daughter at Bougival"

III. SITUATION IN THE BANKING SECTOR

1. The banking sector in 2013 – structural data

In accordance with the data published by the Polish Financial Supervision Authority, at the end of December 2013, the Polish banking sector comprised 41 commercial banks (i.e. 4 less than in a similar period in the prior year), 571 cooperative banks and 28 branches of lending institutions. The vast majority of the banks – 577 – are banks in which the majority interests are held by private capital. Foreign capital held majority interests in 59 banks, and 4 banks remained under the State Treasury's control. The banking product and service distribution network as at the end of November comprised a total of 15.297 outlets, including: 7.338 branches, 5.009 bank offices and other customer service outlets and 2.950 agencies. Compared with the end of 2012, the distribution network decreased by 115 outlets as a result of conducting optimization.

At the same time, it should be noted that the distribution network optimization processes, strengthened by finalizing two big mergers (Raiffeisen Bank Polska S.A. with Polbank EFG S.A. and Bank Zachodni WBK S.A. with Kredyt Bank S.A.) applied mainly to large outlets, (a decrease of 196 outlets y/y), whereas in the case of smaller outlets (offices, agencies) an increase of 81 outlets was recorded.

As at the end of December 2013, the number of employees in the banking sector was 174.331 persons (i.e. 763 persons less y/y). The number of employees in 2013 was mainly affected by the aforementioned distribution network i.e. optimization processes resulting from the sector's increased concentration.

In 2013, the sector's concentration, measured with the market share of the 5 largest banks in the sector, increased. The share of the 5 largest banks in the sector's assets as at the end of 2013 was 46.07% (up 1.07 p.p. y/y). In the case of deposits, the said share increased by 1.73 p.p. to 45.93%. Amounts due from the non-financial sector covering the 5 largest banks represented 42.51% of the sector's receivables (up 3.37 p.p.) at the end of 2013.

2. Results of the banking sector in 2013

The financial data for 2013 published by the Polish Financial Supervision Authority provides the grounds for a positive assessment of the condition of the Polish banking sector. In 2013, despite unfavourable economic conditions, the banking sector generated a net profit of PLN 15.4 billion compared with PLN 15.5 billion in a similar period of the prior year.

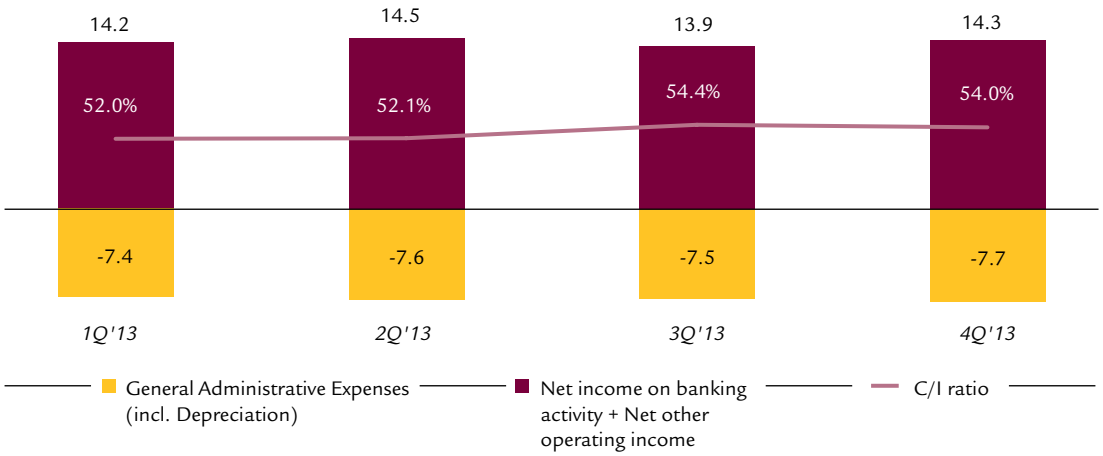
Net results of the banking sector developments were mainly affected by: decrease in the result on banking activities (to PLN 55.5 billion, i.e. of 5.6%), which resulted from a drop in both net interest income, net fee and commission income and result on other banking activities.

The profit from banking activities being on a lower level than in 2012 was directly due to a series of interest rate reductions, which translated into a reduction of WIBOR rates and profitability of debt securities.

Moreover, the banks' revenues were adversely affected by the difficult macroeconomic situation in 2013, despite the first symptoms of improvement, and the resulting lower inclination of customers (both retail and corporate) to draw liabilities.

In the face of revenue drops, the banks launched processes in 2013 aimed at cutting their operating expenses. At the end of 2013, the banking sector's general administrative expenses amounted to PLN 30.2 billion and were 0.6 % lower than in the prior year. The decrease in general administrative expenses was related both to overheads (by 1.6% to PLN 12.2 billion) as well as personnel costs (by 0.2% to PLN 15.3 billion).

Financial result from banking activity and sector's other operating income vs. general administrative expenses including amortization and depreciation (in PLN billion).



Source: the PSFA, quarterly level of Cost/Income ratio – own calculations.

The banking sector's results were positively affected by a significant reduction in net impairment losses (of PLN 1.3 billion, to PLN 8.05 billion, i.e. 14.3 %). Moreover, the year 2013 was marked by a lower scale of impairment losses recorded and net gains on IBNR of PLN 27.8 million compared with a loss recorded in 2012. The decreased scale of impairment losses recorded can be attributed both to the high scale of impairment losses recorded in 2012 and a reduced scale of risk costs as a result of regulatory decisions, as well as a drop in the costs of debt servicing due to interest rate reduction.

This led to a deterioration in the Cost/Income ratio, which amounted to 53.1% in 2013 compared with 50.9% in 2012 i.e. was 2.2 p.p. higher.

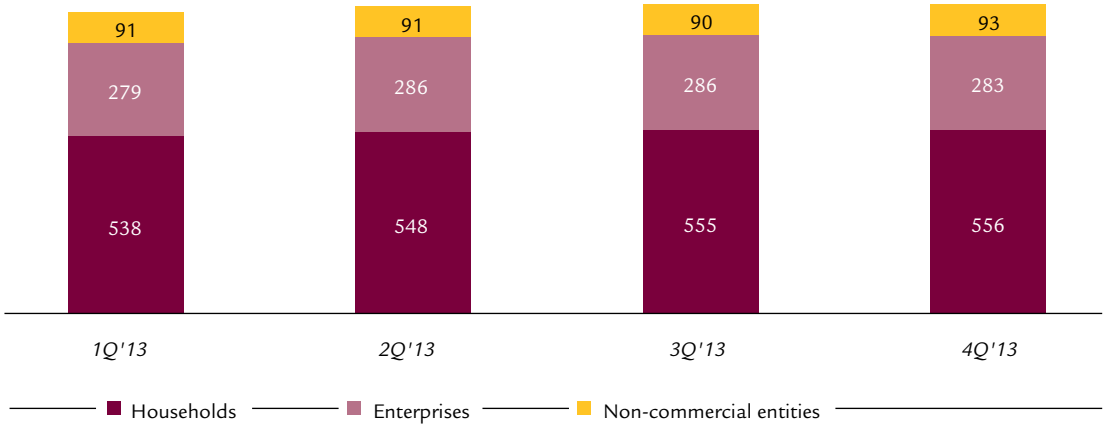
3. Loan market

At the turn of 2012 and 2013, the loan market was in a state of stagnation. The first symptoms of the lending activity's revival appeared in the second quarter of 2013. As a result, as at the end of 2013, the balance of gross amounts due from the non-financial sector and government institutions and local authorities increased by PLN 28.3 billion, i.e. by 3.5% in annual terms to PLN 838.7 billion. Gross amounts due from the financial sector as at the end of December 2013 increased by p.p. PLN 11.6 billion to PLN 117.8 billion.

The main areas of growth were households accounts (4.2% y/y), whereas the lending activity for corporate customers increased by 2.1% y/y, and gross amounts due from the public sector increased by 0.7%.

A relatively low growth dynamics in the area of loans to the non-financial sector in 2013 resulted mainly from the economic downturn and consequently a limited demand for external financing, both on the part of corporate and individual customers, and to some extent it was also due to banks tightening their conditions for granting loans.

Balance of gross amounts due from non-financial sector and government institutions and local authorities (in PLN billion)

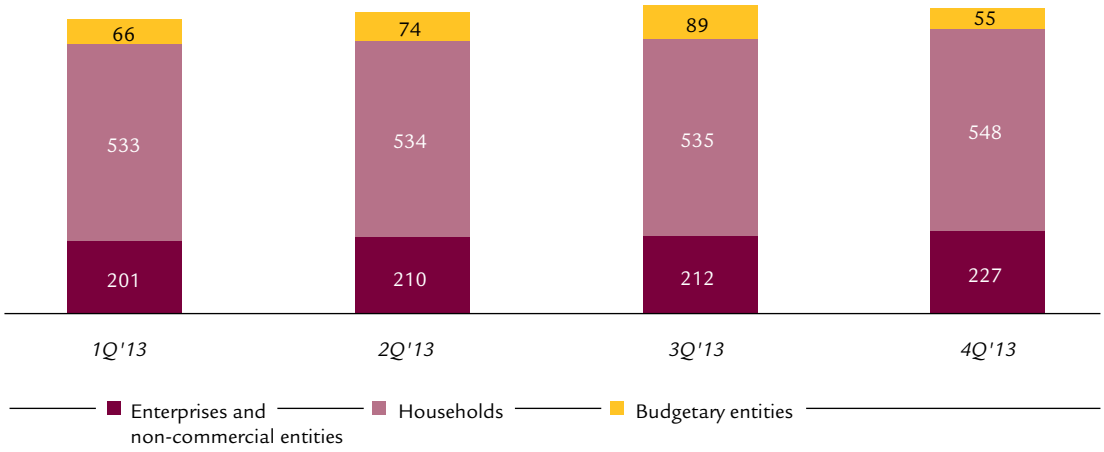


Source: the PFSA

4. Deposit base

Deposits of the banking sector (deposits of the non-financial sector and public sector entities) increased in nominal terms during 2013 by 14.7% to PLN 830.8 billion.
The largest increase in deposits was recorded in corporate deposits (by 9.7% to PLN 209.7 billion).
The growth dynamics of households was lower and amounted to 6.2%. As a result, the balance of household deposits as at the end of November 2013 was PLN 548.2 billion.
It should be noted that the above increase in the deposit base occurred in a period of record low interest rates and economic slowdown.

Volume of deposits to business customers, households and public sector (PLN billion)



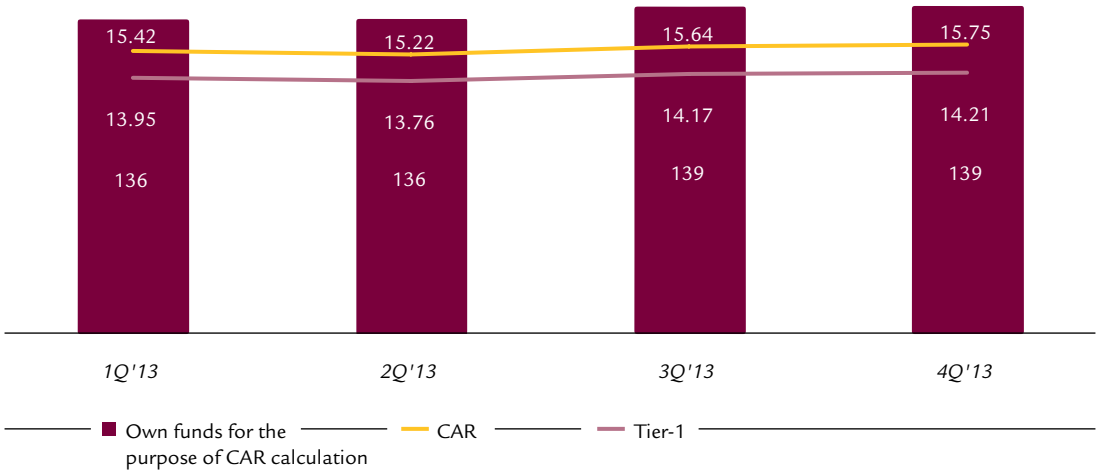
Source: PFS

5. Equity and capital adequacy ratio

As at the end of December 2013, the banking sector's equity amounted to PLN 153.9 billion, which represents a 5.0% increase in annual terms.
The low increase in equity was mainly related to a high level of dividends paid out to commercial banks' shareholders and transforming one foreign bank into a branch of a lending institution.
The level of own funds for the purpose of calculating the capital adequacy ratio as at the end of December 2013 was PLN 139.4 billion and went up by 8.0% during the past 12 months.

The capital adequacy ratio of the banking sector amounted to 15.75% as at the end of December (up 1.01 p.p. y/y), whereas the Tier-1 ratio as at the end of said period amounted to 14.21% (up 1.08 p.p. y/y).
The improvement in the capital adequacy ratio and Tier-1 ratio (apart from the changed level of own funds) resulted from a change in the capital requirement calculation method in some banks (a change from the basic/standard approach to advanced), which eventually led to reducing the aggregate capital requirement.

Own funds (PLN billion) capital adequacy ratio and Tier-1 ratio (in %)



CHAPTER IV

Jane Maria Bowkett "Windy Day"

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

All the financial data for 2013 as well as the comparable data presented below include the restatements connected with accounting recognition of bancassurance revenues, presented in the current report no 17/2014 dated February 26, 2014, which adapted the accounting recognition of bancassurance revenues introduced in Q3'2013. Detailed information in the field of bancassurance are described in section 2.3.19 Consolidated financial statements of the Alior Bank S.A. Group.

1. Profit and loss account

The net profit of the Alior Bank Capital Group in 2013 amounted to PLN 227.9 M and comparing to the net profit of the same period last year was higher by PLN 166.8 M, i.e. by 272.8%. Excluding the one-off event concerning creation in Q4'2013 of impairment losses related to the valuation of the non-current assets held for sale amounting to PLN 24 m gross (PLN 19.5 M net), the Group net profit in 2013 would amount to PLN 247.4 M and would be by 304.7% higher in comparison with 2012 net profit.

Profit and loss account

	1.01.13-31.12.13	1.01.12-31.12.12	y/y change (%)
Interest income	1 518 166	1 400 371	8.4%
Interest expense	-519 605	-573 015	-9.3%
Net interest income	998 561	827 356	20.7%
Dividend income	23	20	15.0%
Fee and commission income	475 930	371 584	28.1%
Fee and commission expense	-200 752	-170 171	18.0%
Net fee and commission income	275 178	201 413	36.6%
Trading result	226 850	182 606	24.2%
Net gain (realized) on other financial instruments	11 812	22 839	-48.3%
Other operating income	49 916	60 871	-18.0%
Other operating costs	-22 313	-17 960	24.2%
Net other operating income	27 603	42 911	-35.7%
General administrative expenses	-847 358	-908 226	-6.7%
Impairment losses	-404 981	-278 588	45.4%
Gross profit	287 688	90 331	218.5%
Income tax	-59 786	-29 201	104.7%
Net profit	227 902	61 130	272.8%

* 2012 have been transformed in accordance with the information above.

So significant increase the Group's net profit on the yearly basis results inter alia from the fact that 2012 total general administrative expeses included considerable item of shares based payments connected with the valuation of the option plan for managers and IPO costs. The impact of the said payments for the gross profit of the Group amounted to PLN -159,1 M in 2012.

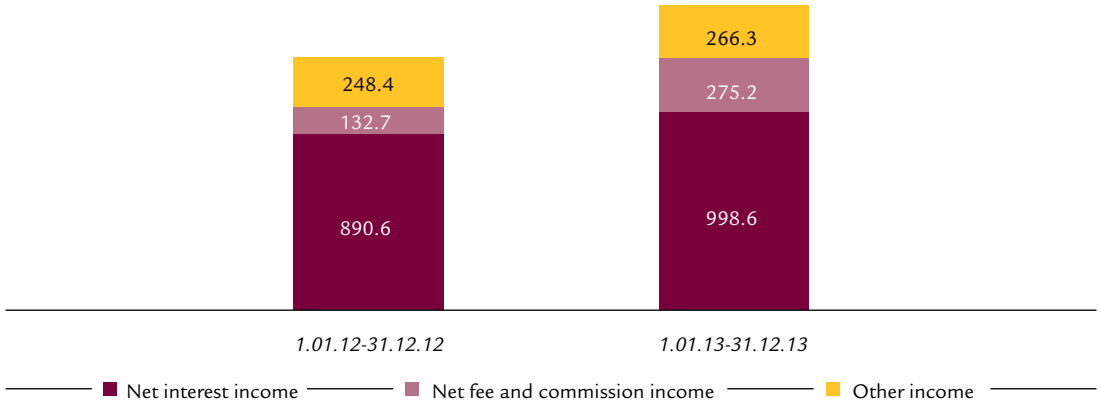
The following aspects positively influenced Group's 2013 financial results:

- more than 20% growth of net interest income, which was achieved despite low levels of the main interest rates and which is a consequence of the activity scale increase and effective management of customer receivables portfolio structure,
- more than 40% increase of the net fee and commission income resulting inter alia from increasing sale of cash loans as well as mortgage loans, which are linked to insurances.,
- more than 24% rise of trading result arising from the increasing scale of the transactions with customers.

Attention to level of generated income was accompanied by strict control of general and administrative expenses incurred. Thanks to careful monitoring of the expenses incurred, general administrative expenses in 2013 (excluding the following general and administrative expenses 2012: share-based payments and IPO costs) increased in annual terms by 13.1%.
The above mentioned increase resulted mainly from increase of the employee costs amounting to 20.4% y/y (assuming share-based payments being excluded from the employee costs for 2012). General and administrative costs increased by 1.0% during 2013 (excluding ipo costs out of the general and administrative costs 2012).

Moreover net impairment losses increased by 45,4% to the level of PLN -405,0 M. The amount of impairment losses on impaired loans and advances to customers of non-financial sector was the most important factor affecting the level of net impairmet losses, whichincreased by 52,5%, up to PLN -387,5 M on the yearly basis.
In 2013, the Bank implemented a new model for estimating the LGD parameter for the portfolio of cash loans. The new model is based on own credit recovery data and according to the PFSA expectations it includes current situation (Point In Time). The model is implemented for the purpose of calculating allowances for losses incurred but not reported (IBNR) and allowances estimated under a group method which caused allowances value to be reduced by 24.5 M PLN and 31.8 M PLN respectively.

Total net revenues (in PLN M)



Net interest income contributed most to the total net revenues of the Group. In spite of the historically low interest rates, by increasing considerably the scale of activity, it was by PLN 171.2 M, i.e. by 20.7% higher vs. previous year.

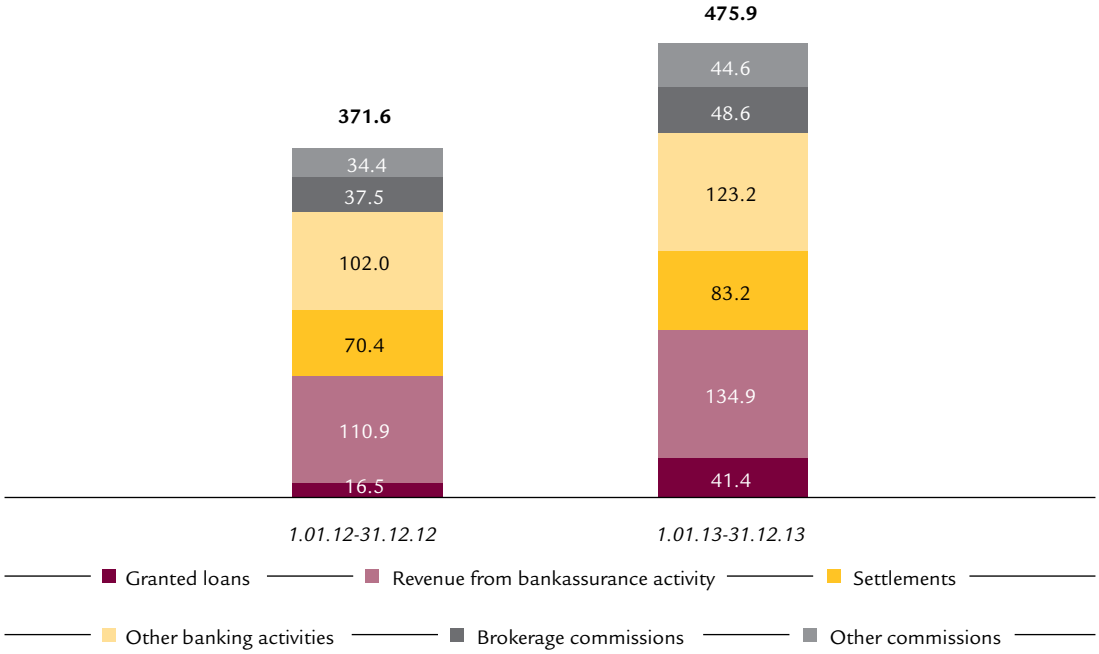
In particular, the net interest income increase was a consequence of customer loans volumes rise by 37.5% accompanied with the increase of customers receivables by 19.3% year on year.

Simultaneously the loans average interest rate decreased by 2.09 p.p. to the level of 7.55%. In the same period average cost of deposits dropped to 2.65% i.e. by 1.16%. In the analogical period an average 3m WIBOR rate in 2013 in comparison to the average 3m WIBOR rate dropped by 1.89 p.p. to 3.03%.

	2013	2012
Loans / WIBOR 3m	7.55/3.03	9.64/4.92
Retail segment, including:	9.23	11.47
Consumer loans	12.11	15.82
Housing loans	4.99	6.23
Business segment, including:	6.29	7.70
Investment loans	6.58	7.37
Operating loans	5.95	7.58
Car loans	9.34	12.03
Deposits	2.65	3.81
Retail segment	2.78	4.13
Current deposits	1.31	1.42
Term deposits	3.52	4.94
Business segment	2.37	2.96
Current deposits	0.14	0.26
Term deposits	2.56	3.56

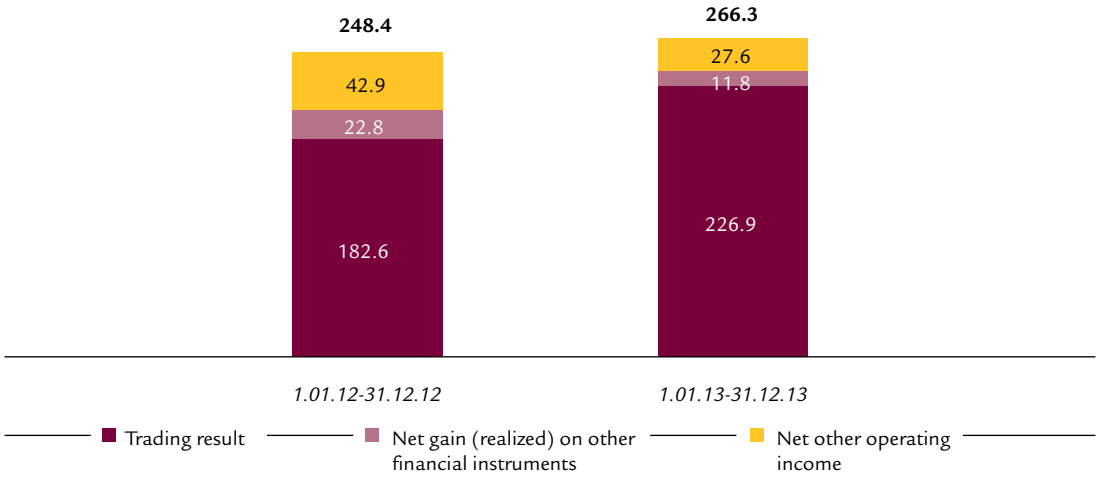
Net fee and commission income increased by 40.4% to the amount of PLN 275.2 M. The result comprised PLN 475.9 M of fee and commission income (30.0% increase) as well as PLN 200.8 M of fee and commission expenses (increase by 18.0%). The Group noted increases in all key fee and comission income categories. The main component of fee and commission income was remuneration on intermediation in sale of insurances. As at the end of 2013 they amounted to PLN 134.9 M and constituted 28.3% of fee and commission income.

Fee and commission income (in PLN M)



Trading result, the net gain realized on other financial instruments and net other operating income increased by 7.2% to the level of PLN 266.3 M. As far as trading result is concerned the Group noted its increase by 24.2% to the amount equal to PLN 226.9 M. This increase results from the increase of volume of Bank's trancations with its customers from both retail and business segment.

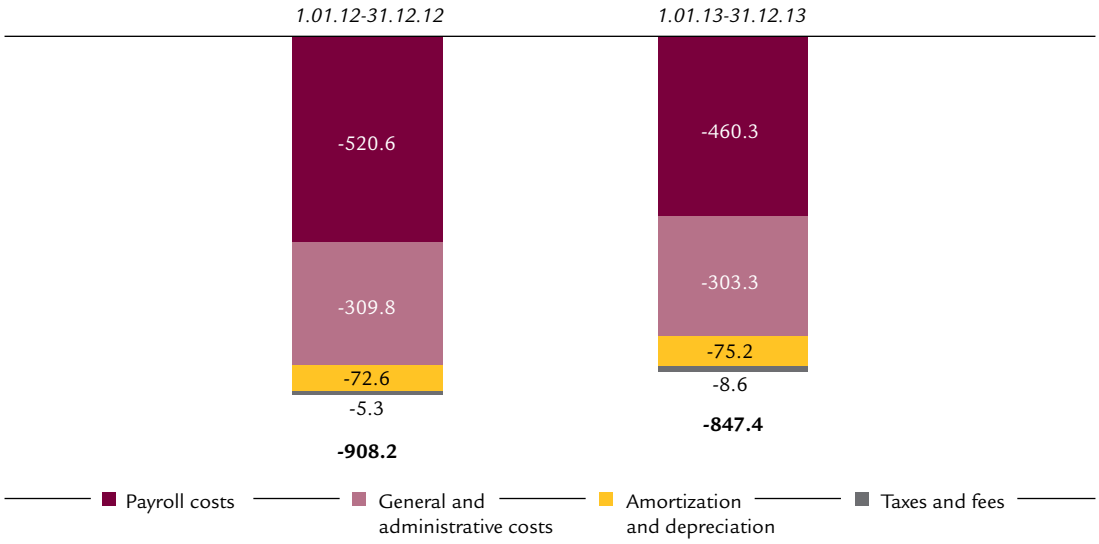
Trading result, the net gain realized on other financial instruments and net other operating income (in PLN M)



The Alior Bank S.A Group incurred general administrative expenses of PLN -847.4 M in 2013. The said expenses decreased comparing to the year 2012 by 6.7%. It must be pointed out that the significant amount of the expenses incurred in 2012 (i.e. -159.1 M) was one-off in nature and concerned share based payments connected with management option programme and IPO costs.
Increase in Group's general administrative expenses, excluding the above mentioned one-off items amounted to 13.1%.
The above given increase resulted mainly from increase of employee expenses by 20.4% y/y (excluding share based payments in 2012 out of employee expenses). The said increase was mainly caused by dynamic increase of linked with bank's network development. General and administrative costs increased by 1.0% during 2013 (excluding ipo costs out of the general and administrative costs 2012). Thanks to implementation of strict control of expenses the Group has recognized this low increase in general and administrative expenses.

The C/I ratio amounted to 55.0% as of the end of 2013. The result in C/I ratio is the effect of both the increase of the Group activity scale as well as consistent cost management policy, pursued since the Group's establishment.

General administrative expenses (in PLN M)



Net impairment losses increased by 45.4% to the level of PLN -405 0 M. The amount of impairment losses on impaired loans and advances to customers was the most important factor affecting the level of net impairmet losses(by 52.7%), from PLN -254.4 M. to PLN 388.5 M.
Simultaneously recognition of positive net IBNR for customers without impairment losses had positive impact on net impairment losses (PLN -21.7 M as at the end of 2012 vs. PLN 8.9 M. as of the end of 2013).

Result on net impairment losses calculated in relation to the average balance of customers receivables (cost of risk ratio) increased insignificantly from 2.2% to 2.33%.

Net impairment losses (in PLN M)

	1.01.2013- -31.12.2013	1.01.2012- -31.12.2012	change % y/y
Impairment losses on impaired loans and advances to customers	-388 517	-254 446	52.7
Impairment losses on non-current asset held for sale	-24 000	0	–
IBNR for customers without impairment losses	8 931	-21 723	–
Debt securities	-181	-2 122	-91.5
Off-balance reserve	-1 112	-246	352.0
Property, plant and equipment and intangible assets	-101	-51	98.0
Net impairment losses	**-404 981**	**-278 588**	**45.4%**

2. Balance sheet

The Groups total assets amounted to PLN 25 549.9 M in 2013, and was by PLN 4 368.8 M higher comparing to the end of 2012.

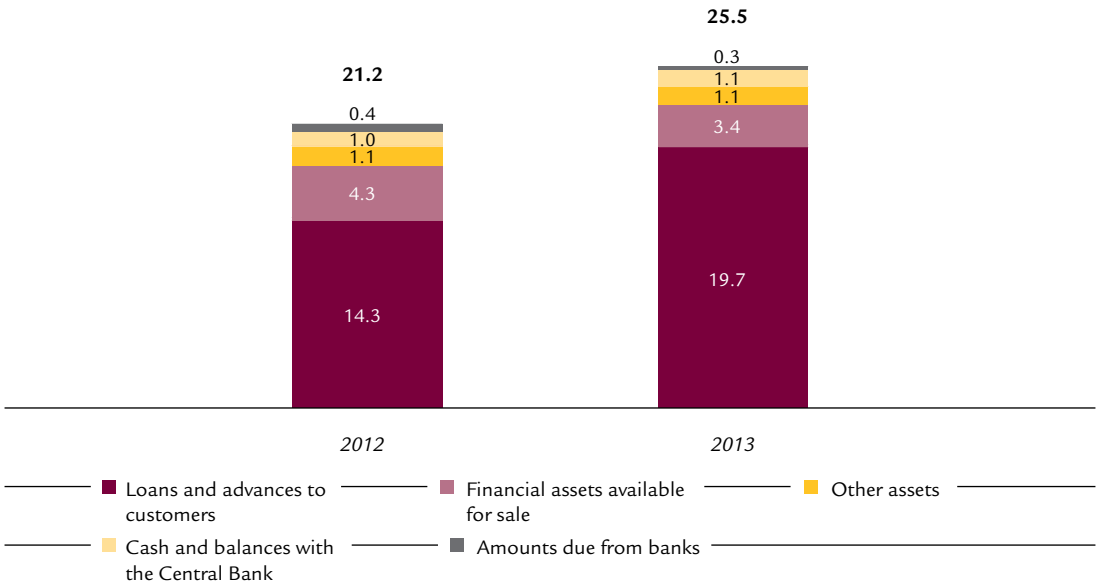
in PLN ths.

ASSETS	31.12.2013	31.12.2012	y/y change (%)
Cash and balances with the Central Bank	1 067 227	1 029 968	3.6
Financial assets held for trading	243 291	173 706	40.1
Financial assets available for sale	3 388 525	4 320 747	-21.6
Hedging derivatives	12 099	0	–
Amounts due from banks	254 199	413 528	-38.5
Loans and advances to customers	19 657 900	14 299 582	37.5
Property, plant and equipment	215 121	214 887	0.1
Intangible assets	188 050	157 940	19.1
Investments in subsidiaries	0	0	–
Non-current asset held for sale	38 335	62 298	-38.5
Income tax asset	143 793	143 351	0.3
Current	0	0	–
Deferred	143 793	143 351	0.3
Other assets	341 331	365 087	-6.5
TOTAL ASSETS	25 549 871	21 181 094	20.6

LIABILITIES AND EQUITY	stan na 31.12.2013	stan na 31.12.2012	y/y change (%)
Financial liabilities held for trading	184 090	129 107	42.6
Financial liabilities measured at amortized cost	21 660 435	18 092 194	19.7
Provisions	10 574	12 549	-15.7
Other liabilities	1 129 270	594 233	90.0
Income tax liabilities	31 949	31 463	1.5
Current	31 949	31 463	1.5
Subordinated loans	348 821	350 578	-0.5
Total liabilities	23 365 139	19 210 124	21.6
Equity	2 184 732	1 970 970	10.8
Share capital	635 830	635 830	0.0
Supplementary capital	1 434 713	1 276 611	12.4
Revaluation reserve	-16 777	10 776	–
Other capital	176 792	163 377	8.2
Share-based payments – equity component	176 792	163 377	8.2
Undistributed result from previous years	-273 728	-176 754	54.9
Profit/Loss for the current year	227 902	61 130	272.8
Total Liabilities and Equity	**25 549 871**	**21 181 094**	**20.6%**

The main item of the assets are receivables from the Group's customers (PLN 19,657.9 M.). Their share in the total assets as of the end of 2013 amounted to 76.9% and thus in comparison with the end of 2012 increased by 3.1 p.p. The second important item of assets as at the end of 2013 were financial assets available for sale, the value of which amounted to PLN 3,388.5 ths. and accounted for 13.3% of the total assets.

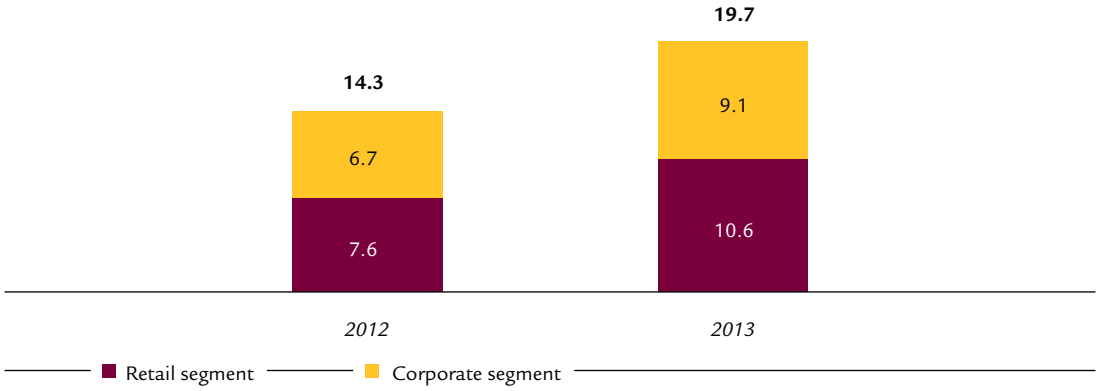
Decomposition of Alior Bank S.A. Capital Group assets (in PLN bln)



More than 37-percent increase of receivables from customers resulted primarily from an increase in the volume of loans and advances granted within the retail segment, which increased by 40.2%. The volume of loans granted in the business segment increased by 34.5%. The structure of the portfolio of customer receivables over 2013 didn't change.

As at the end of 2013, the portfolio was dominated by the retail segment receivables - their share in the Group's loan portfolio amounted to 53.8%. A year before, the share of the retail segment in the Group's loan portfolio was about 1 pp. lower – amounted to 52.8%.

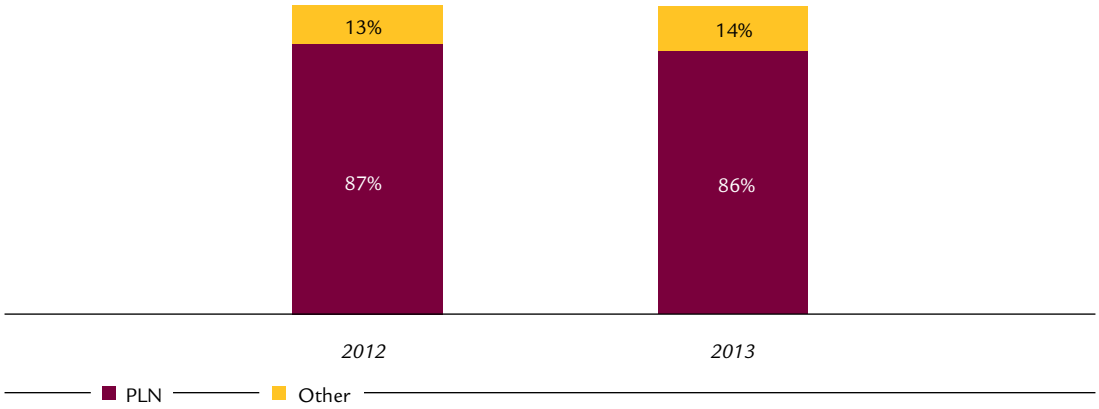
Customer receivables (in PLN bln)



The main component of the loan portfolio of the retail segment was consumer loans which volume exceeded PLN 5.2 bln (y/y growth 32.9%). They accounted for almost half of all loans and advances to retail customers. The second largest item in the retail segment loan portfolio were loans for residential real estates and mortgage loans with a total volume as of the end of 2013 amounted to nearly PLN 4.2 bln (total increase y/y 38.1%).

The largest component of the business segment loan portfolio constituted operating loans (53.5%). Their value during the year increased by 18.8% to almost PLN 4.9 bln. Another important item in case of business segment loans was investment loans, representing 37.1% of the analysed portfolio. Their value in 2013 increased by 108%, up to PLN 3.4 bln.

Customer receivables (in PLN bln)



As compared to the end of 2012, the currency structure of customer receivables almost did not change. There has been a slight increase in the value of loans in foreign currencies. This increase was a result of the increase of the value of business segment receivables foreign currency portfolio.

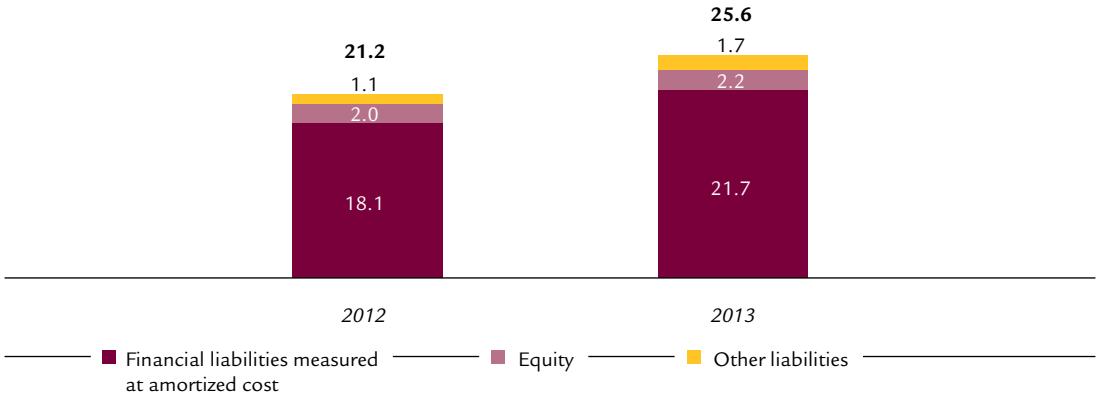
Territorial structure of customer receivables
(as of 31.12.2013)

Voivodeship	% of receivables
Mazowieckie	26%
Śląskie	11%
Dolnośląskie	11%
Wielkopolskie	9%
Małopolskie	9%
Pomorskie	7%
Łódzkie	5%
Podkarpackie	4%
Kujawsko-Pomorskie	3%
Zachodniopomorskie	3%
Lubelskie	3%
Warmińsko-Mazurskie	3%
Podlaskie	2%
Lubuskie	2%
Świętokrzyskie	2%
Opolskie	2%
TOTAL	100%

More than 1/4 of all loans granted by the Bank constitute loans granted to Mazowieckie voivodship. Over 20% of all loans are loans granted to customers from Śląskie and Dolnośląskie voivodsips. The share of voivodships such as: małopolskie and wielkopolskie in the loan structure is similar and amounts to 9% each.
Amounts due from residents of other, smaller voivodships comprise ca. 34% of the Bank's total loan portfolio.

The source of financing of the Group's operations is mainly customer funds deposited in the Bank. As of the end of 2013 their share in total liabilities constituted 84.8%.
The value of equity amounted to more than PLN 2.2 bln as at the end of 2013. This amount does not include the series G shares issue in the amount of PLN 464 M, because it was registered on January 2, 2013.

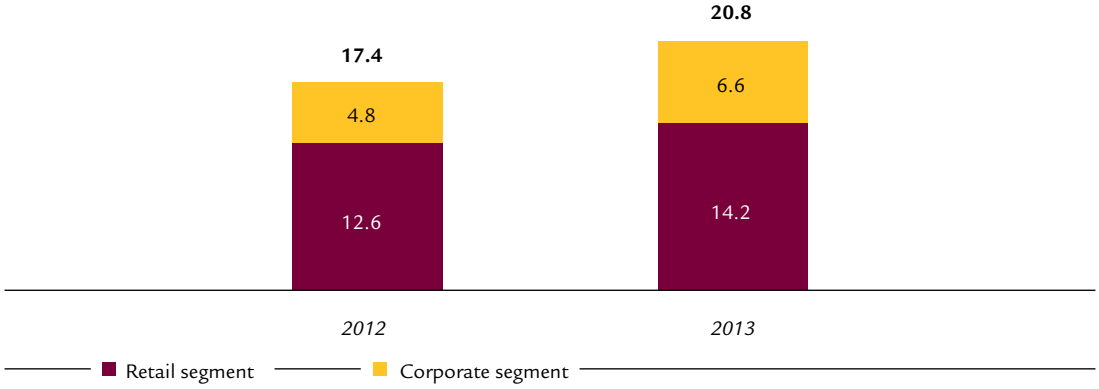
Equity and liabilities of the Alior Bank S.A. Group (in PLN bln)



In the segment structure of liabilities due to customers, the key item comprised amounts due to retail segment, which constituted as of the end of 2013 68.2% of total customers liabilities portfolio.

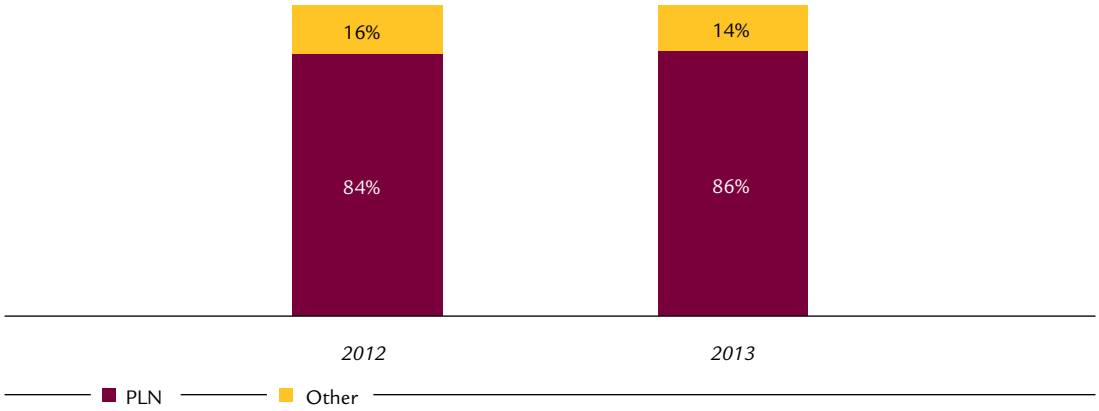
Simultaneously, the increasing share of liabilities of business segment can be observed as far as the segment structure of liabilities in 2013 is concerned.

Liabilities due to customers (in PLN bln)



Moreover the amount of top ten liabilities due to customers constitutes 3.1% of all the liabilities due to customers, which reflects strong diversification of the Groups' deposit base.

Liabilities due to customers (in PLN bln)



Currency structure of deposits as of the end of December 2013 was similar to the deposits base structure as of the end of 2012. The share of deposits in PLN increased over the year 2013 by 2 pp. As a result PLN deposits constituted 85.6% of the total deposit base as of the end of 2013.

Territorial structure of liabilities due to customers (as of 31.12.2013)

Voivodeship	% of receivables
Mazowieckie	26%
Śląskie	14%
Dolnośląskie	9%
Wielkopolskie	9%
Małopolskie	7%
Pomorskie	6%
Łódzkie	5%
Podkarpackie	4%
Kujawsko-Pomorskie	4%
Zachodniopomorskie	3%
Lubelskie	3%
Warmińsko-Mazurskie	2%
Podlaskie	2%
Lubuskie	2%
Świętokrzyskie	1%
Opolskie	1%
TOTAL	100%

Funds deposited in the Bank are mainly derived from customers from Mazowsze (26%), Małopolska (14%), Śląsk and Wielkopolska (9% both). Customers from other voivodeships deposited funds comprising 42% of the Bank's total deposit base.

3. Financial forecasts

Alior Bank Capital Group did not publish any forecasts of its results.

CHAPTER V

Thomas Mitchell Pierce, poster

V. OPERATIONS OF ALIOR BANK S.A.

1. Retail banking

In 2013, the operations in the individuals sector generated income before impairment losses of PLN 942.6 M. This result was higher by PLN 180.4 M, i.e. 23.7% than the result generated in the prior year. At the end of 2013 the Group served 2 000 thousand retail customers. In comparison to the end of 2012 the number of business customers increased by 617 thousand i.e. 44.6%.

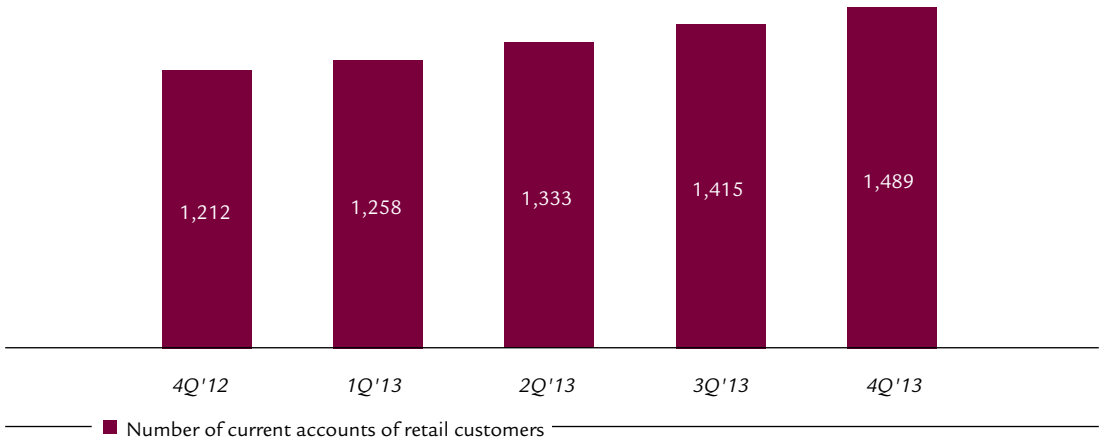
Moreover, the results of the individuals segment include the financial results of the Brokerage Office and the Private Banking programme.

The most important products offered to individuals include:

Current accounts

In 2013, the number of savings and settlement accounts increased by nearly 277.5 thousand. The high sales of Alior Bank accounts are mainly due to the popularity of Alior Rachunki bez Opłat account and introducing the Konto Rozsądne account into the offer in April 2013 whose sales were supported with a television campaign.

Number of PLN checking accounts as at the end of a given quarter (in thousands)



In 2013, the Bank launched a new variant of the savings and settlement account—Konto Rozsądne, which offers 5% reimbursement to active customers on purchases in groceries paid for using a card issued to the account. At the same time, the Bank simplified the offer by withdrawing selected currencies and variants of savings and settlement accounts, debit cards and overnight deposits.

Moreover, Alior Bank introduced the following services into its offer: iKASA and MasterCard Mobile, and also provided a bicycle assistance service to holders of personal accounts.

Additionally, the Bank continued operations aimed at increasing the customers' activities-both in terms of the number of transactions and choosing

Alior Bank as the main Bank, as well as rewarding those most loyal. The Bank modified the terms of its products' use so that active customers can maximize their benefits and be motivated to strengthen their relationship with the Bank.

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 earmarked for any purpose, including consolidation of financial liabilities (consolidation loan).

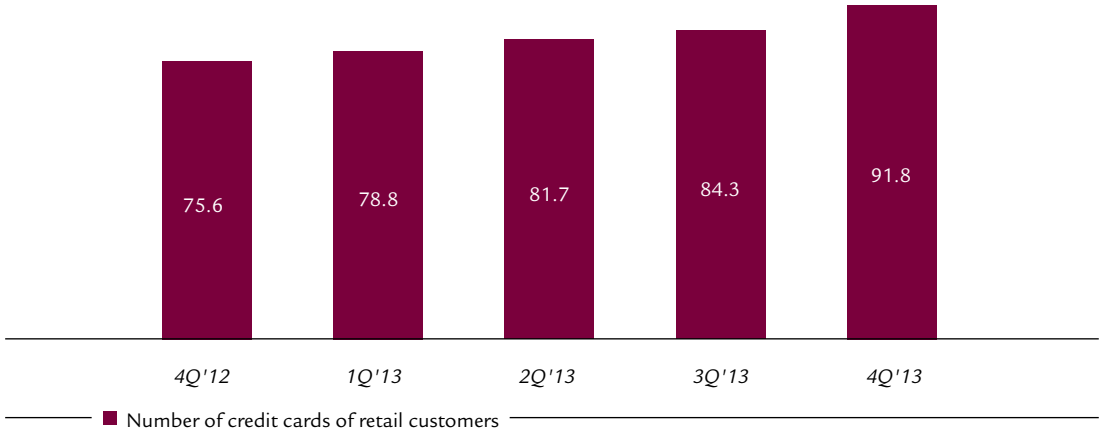
In 2013, the Bank's operations in the scope of the cash loan were focused on continuing the campaign entitled: "Gwarancja Najniższej Raty" and offering additional product benefits to customers in the fourth quarter of 2013. Moreover, the Bank developed its sales campaigns aimed at increasing the number of products per customer and took action 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 when managing the pricing policy (including for example, interest rate reductions), at the same time striving to maintain the product's competitiveness.

Credit cards

In 2013, Alior Bank S.A. limited its credit card offer to individuals. Currently, three types of cards are available in the offer. Silver and World are cards for individuals in the mass segment, whereas World Elite is dedicated to customers in the Private Banking segment.
The cards are secured both with a magnetic strip and a chip, and also enable making paypass transactions.
By the end of 2013, Alior Bank S.A. opened 91.8 thousand credit card accounts, whereas at the end of June 2012 only 75.6 thousand had been opened, which means that the number of credit card accounts increased by 21%.

Number of credit cards for retail customers



Overdraft facilities

As at the end of 2013, the Bank maintained 51.8 thousand accounts with a granted overdraft facility, which constitutes a 71% increase compared with the end of 2012.
The increase results mainly from introducing a combined lending process in the third quarter under which the customer is granted two products at the same time based on the same information and documents—a cash loan and overdraft facility or a cash loan and credit card.
The increase in sales also resulted from introducing a special price offer in the second quarter.

Mortgage products

In 2013, Alior Bank granted more than 6 000 mortgage loans for a total of PLN 1,257.2 million, thus recording a 36% increase in sales compared with 2012 and a 3.8% market share (according to the BU data). Loans in the Polish zloty represented 99.5% of sales.

In the third quarter of 2013, specialist units-Mortgage Centres—were opened, which are dedicated to servicing mortgage loan agents. The Mortgage Centres were opened in the 8 largest cities, i.e. in Warsaw, Kraków, Wrocław, Poznań, Łódź, Gdańsk, Szczecin and Katowice.
A new service process was developed and implemented for these units and the supporting IT tools were automated.

Deposit products

In 2013, the dynamic growth of the deposit base continued. In the period analyzed, the Bank recorded a 12% increase in the volume of deposits, including a 89.1% increase in current deposits and a 13.0% decrease in term deposits. The Bank's deposit offer is mainly based on the Savings Account and different variants of the Standard Deposit.
In 2013, the Bank introduced a new product – "Lokata z inwestycją" (Investment-linked Deposit) programme under which customers actively using investment products are entitled to open promotional deposits for a period of 4 or 10 months. Moreover, a savings account for new Alior Bank customers was launched at the promotional interest rate in force over the first three months of maintaining the account.
At the same time, the interest rate on the Savings Account was brought to a market level, whereby the rate was based on the WIBID1M rate, and unpopular deposit terms and currencies were withdrawn from the deposit offer as well as the Razem Zyskujesz (You Benefit by Combining) programme.

Investment products

In respect of investment products for individual customers in the first half of 2013 significant increases in premiums offered in subscription periods paid to unit-linked insurance funds were noted. Thirteen subscriptions were carried out for a total nominal amount of PLN 654 million. The volume obtained increased by 118% compared with 2012. Twelve products have 100% capital guarantees on the maturity date, and one a 95% capital guarantee. The amount of interest depends on the behavior of the indices on which they are based. In 2013, eight products ended their life cycles, of which the best brought 37.36% profit to investors.
Under the First Programme for the issue of bank securities in 2013 Alior Bank issued 54 series of securities with a total nominal value of PLN 749 million. The securities were offered in a public offering to corporate customers, Private Banking customers and individual customers.
Under an open model of cooperation with insurers, customers may invest in long-term regular savings programmes. In the second half of 2013, the Bank conducted agency training which prepared for offering individual insurance policies.

Consumer Finance

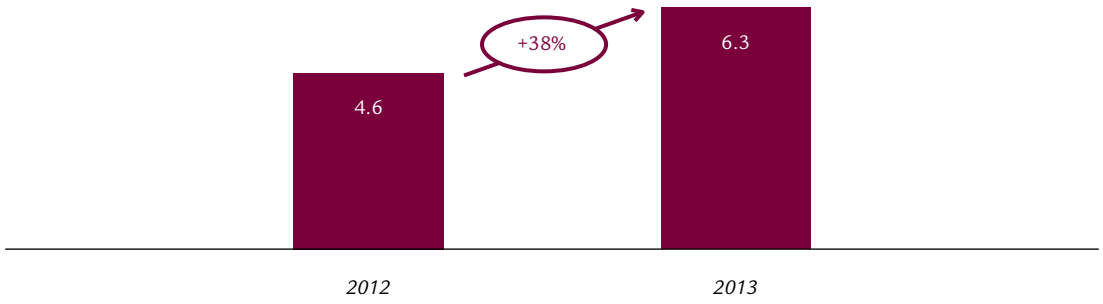
Retail sales are an area dealing with the granting of loans for the financing of consumer goods purchases by Commercial Partners cooperating with the Bank. The characteristic feature of retail

sales is the high availability of lending services and shortening to a minimum the formalities and time required to obtain financing.
By starting operations on the Consumer Finance market in March 2012, Alior Bank is able to reach a significant circle of new customers who start a relationship with the Bank through an accessible lending product. The national scale of operations of the Bank's Commercial Partners and the continually growing network provide an opportunity for a new platform for reaching new customers, not only with the basic retail offer but also with further productization.
By the end of 2013, the Bank's retail loans were already being offered in more than 600 sales outlets throughout Poland.

Brokerage activities

As at 31 December 2013, the Brokerage Office of Alior Bank maintained over 76 thousand brokerage accounts (a 5% increase y/y). Customers' assets accumulated on brokerage accounts as at the end of 2013 amounted to PLN 6.3 billion (a 38% increase y/y). Alior Bank S.A. cooperates with twelve investment fund management companies (TFI) and offers 391 open investment funds.

Assets in brokerage accounts (in PLN billion)



Assets accumulated in FIO products via Alior Bank amounted to nearly PLN 670 million as at the end of 2013, which was an increase of 164% compared with the balance at the end of 2012. At the same time assets accumulated in FIZ products via Alior Bank exceeded PLN 211 million as at the end of 2013 which is an increase of 283% compared with the balance at the end of December 2012. The total assets accumulated in investment funds via Alior Bank as at the end of 2013 amounted to PLN 881 million, which represents a threefold increase year on year.

In the second half of 2013, the Brokerage Office activated an individual investment advice service provided as part of the Makler VIP offer. Total customers' assets obtained as part of the above-mentioned service as at the end of 2013 amounted to PLN 58.6 million.
Moreover, in 2013 the Company developed sales of the asset management service prepared in cooperation with DM Money Makers S.A. and IPOPEMA AM S.A. The service is integrated with a brokerage account in Alior Bank, which enables ongoing monitoring of the assets. The total assets accumulated as part of this service via Alior Bank amounted to more than PLN 51 million as at the end of December 2013.

Moreover in 2013 contracts for the provision of issuer's market maker services were concluded with 17 new issuers. As at the end of 2013 the Brokerage Office provided market maker services to 46 issuers quoted on the Warsaw Stock Exchange and is engaged as market maker for 64 financial instruments.

Private Banking

The Private Banking programme 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. The Private Banking team is made up of 61 professionals with many years of experience, with backgrounds from different financial institutions. As at the end of 2013, Private Banking employed 61 persons who developed financial solutions tailored to the needs of individual customers based on a wide range of investment and lending products. The number of customers served as part of the programme as at the end of 2013 was 2.8 thousands.

2. Corporate banking

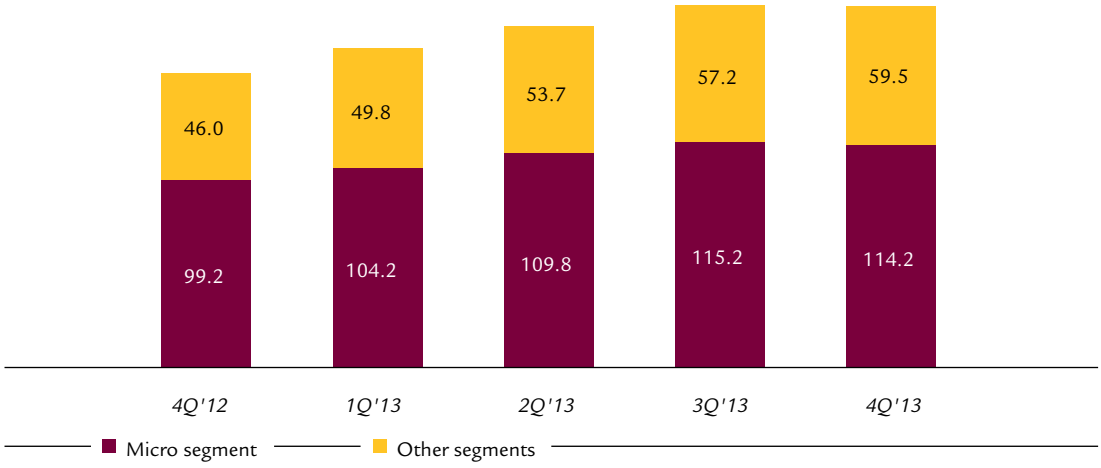
In 2013, the activities of the business customers segment generated income before impairment losses of PLN 617.1 million. The result was PLN 63.1 million, i.e. 11.4% higher than that achieved in the prior year. At the end of 2013 the Group served 119 thousand business customers. In comparison to the end of 2012 the number of business customers increased by 14.8 thousand i.e. 14,3%.

Alior Bank provides its retail clients with a complex offer addressed both to small clients expanding their business as well as to big business entities using advanced technological deposit and transaction solutions.

Accounts, settlements and deposits

Separate business account offers are addressed to the respective customer segments. For micro-businesses we propose: Rachunek Zarabiający (earning account), Rachunek Gotówkowy (cash account), Rachunek Inwestycyjny (investment account) and Rachunek Wspólnota (community account). For customers who maintain full books of account we propose a variety of accounting products reflecting the individual needs of the respective businesses. To companies which are in the start-up phase we offer the Biznes Premiera (Business Premiere) account. To importers and exporters we offer the FX account. Rachunek Optymalny (optimal account) enables adapting the price offer to the needs of a given customer, and Biznes Komfort (business comfort) enables purchasing a batch of specific services at a lower price.

As at the end of 2013, Alior Bank maintained 173.7 thousands company accounts (in PLN and in foreign currencies), of which 114.2 were micro-business accounts.



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 immediate 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 2013, Alior Bank introduced a new offer of accounts for business customers from the Micro segment. These customers were offered a new Partner account as part of which a customer's transaction activity is rewarded by releasing him from the fee for maintaining the account. Additionally, under the new offer the micro customers obtained access to an extensive assistance package.
Moreover, the Bank offered new services and products in the scope of liquidity management to Small- and Medium-Sized Enterprises in 2013, including consolidation of balances on all types of accounts payable on demand. Additional support of experts in liquidity products was also offered to support the customers and the sales services in the scope of optimal utilization of specialist transaction and liquidity solutions.

Loans to business customers

Alior Bank has an additional credit offer for its business customers for current and investment financing, addressed to companies of customers from all segments, for micro businesses, SMEs and large corporations. 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 2013, Alior Bank actively advised companies on obtaining funds from the EU, organized conferences, training and actively promoted the available programmes.
Moreover, the de minimis guarantee offers of BGK were extended for investment loans. Thus,

the investment loan offer was made more readily available to customers. The Business Customers who avail themselves of investment loans with the de minimis guarantee in Alior Bank can count on reduced requirements in the scope of the required own contribution, preferential pricing terms or reduced requirements in the scope of loan documentation.
Moreover, Alior Bank obtained a guarantee facility from the European Investment Fund granted by the European Commission, amounting to PLN 250 million. As part of the contract signed in December 2013 between the parties, in March 2014 Alior Bank will introduce a dedicated loan offer to customers starting their own business. The guarantee from the European Investment Fund, granted free of charge to customers starting their own business, will constitute the security for loan repayment.

3. Treasury activities

In 2013, the activities of the treasury segment generated income before impairment losses of PLN 103 million The result was PLN 55.3 million, i.e. 115.9% higher than that achieved in the prior year.

In 2013, 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;
- transactions hedging commodity price fluctuations – in accordance with Alior Bank's assumptions, which wants to offer products that had been reserved for selected, largest corporate customers, to all customers;
- 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 the 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.

In 2013, the Bank introduced a new channel for concluding currency transactions—the eFX Trader platform—into its offer. The platform enables the exchange on 72 currency pairs, while ensuring competitiveness of the exchange rates, and guarantees immediate execution of the placed orders 24 hours a day, 5 days a week.
During 12 months, nearly 1500 entrepreneurs availed themselves of the platform, and they concluded transactions with a total value exceeding PLN 4.5 billion. In 2013, the total turnover of currencies realized on all electronic platforms (eFX Trader, Kantor Walutowy, Autodealing) constituted over 50% of total turnover realized with Alior Bank's customers as part of the treasury activities.

4. Capital investments

The table below shows the capital investments 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.

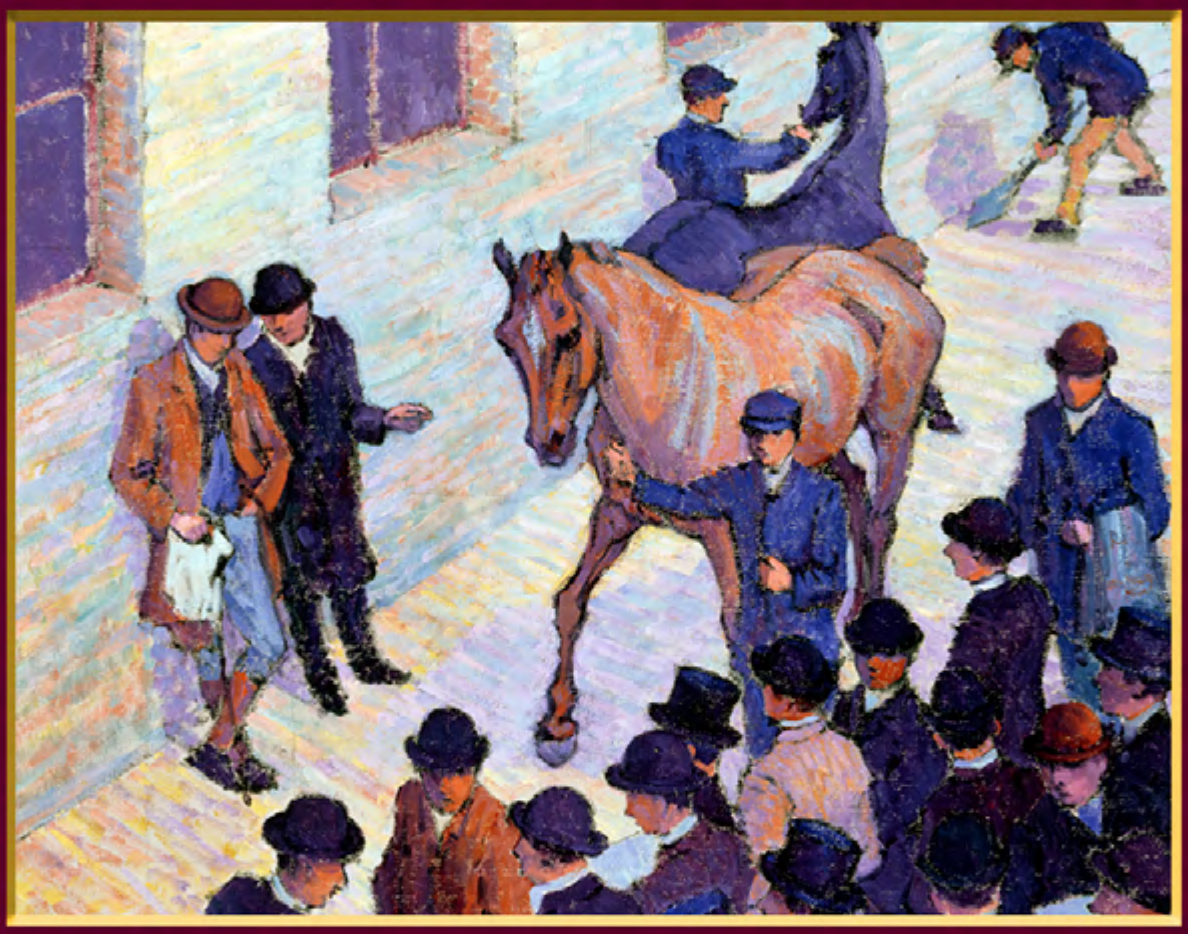
2. Bonds: corporate bonds issued by domestic issuers, quoted on the WSE, acquired in connection with the Bank's functions of market marker.
3. Derivative instruments: forward contracts for shares quoted on the WSE, purchased/sold in connection with the Bank's market maker function.

Capital investments

	as at 31.12.2013		as at 31.12.2012	
	number	market/nominal value in PLN	number	market/nominal value in PLN
Shares	6 195 993	1 971 163	1 256 157	1 393 137
quoted	6 194 883	1 861 163	1 249 517	1 338 577
not quoted	1 110	110 000	6 640	54 560
Bonds	1 194	418 261	110	115 751
Derivatives	30	361 967	15	55 065

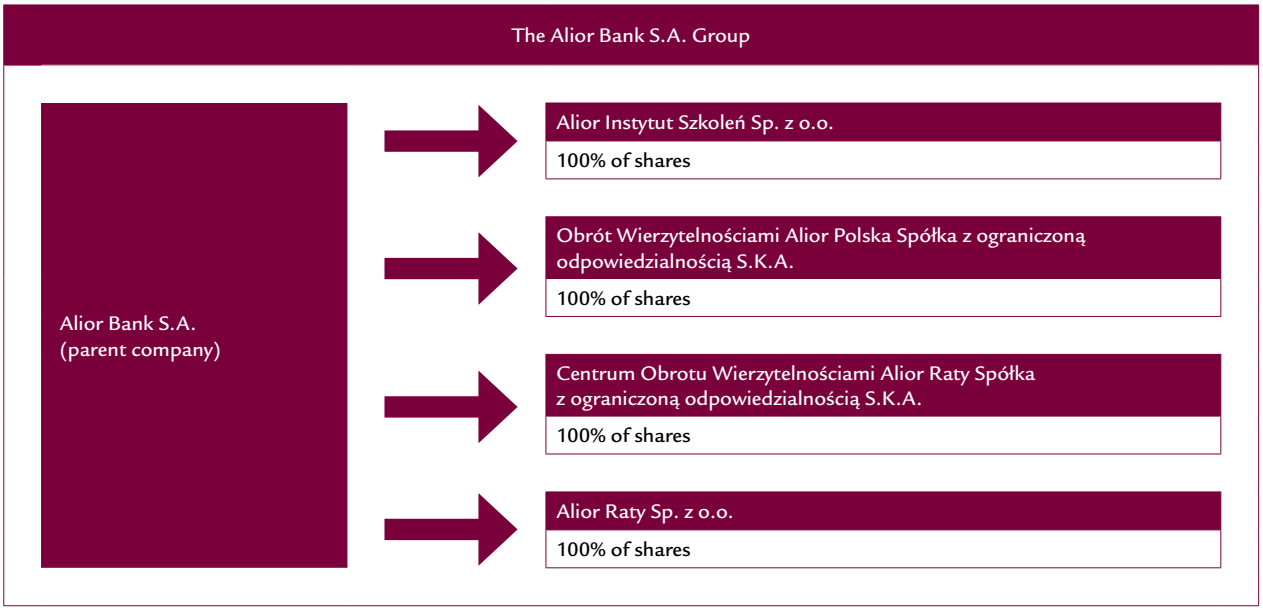
As at the end of 2013, Alior Bank was a shareholder in a joint venture constituting a contractual relationship based on which the Group and other entities have undertaken business activities under joint control, where strategic and operational decisions require the unanimous agreement of all parties which exercise joint control. Due to the planned sale of the shares in POLBITA - Sp. z o.o., the Bank classified them as assets held for sale and recorded them in accordance with the requirements of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

CHAPTER VI



Robert Polhill Bevan "A Sale at Tattersalls"

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



The Alior Bank S.A. Group is composed of the following companies: Alior Bank S.A. as the parent company and 4 subsidiaries in which the Bank holds majority interests.

In the reporting period, changes were introduced in the structure of the Alior Bank S.A. Group. In the previous reporting periods, the Bank consolidated the results of PAGO Pierwszy Fundusz Inwestycyjny Zamknięty Niestandaryzowanego Funduszu Sekurytyzacyjnego, in which the Bank held 100% of the certificates. Pursuant to the resolution passed by the Investors' Meeting on 18 April 2013 on resolving the Fund, supervision over the Fund was exercised by the liquidator. On 21 August 2013 pursuant to the decision of the Circuit Court in Warsaw, 7th Civil Department, the Fund was deleted from the court register and thus, as at 31 December 2013, the entity no longer belongs to the Bank's Group and was excluded from consolidation.

On 29 November 2013, the District Court for Kraków Śródmieście, 11th Business Department of the National Court Register registered the company Centrum Obrotu Wierzytelnościami Alior Raty Spółka z ograniczoną odpowiedzialnością S.K.A. with its seat in Kraków. In accordance with the provisions of the Memorandum of Association, the company's general partner is Alior Raty Sp. z o.o., and Alior Bank S.A. is the sole shareholder.

As at the end of 2013, Alior Bank was a shareholder in a joint venture constituting a contractual relationship based on which the Group and other entities have undertaken business activities under joint control, where strategic and operational decisions require the unanimous agreement of all parties which exercise joint control. Due to the planned sale of the shares in POLBITA - Sp. z o.o., the Bank classified them as assets held for sale and recorded them in accordance with the requirements of IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The consolidated financial statements comprise the financial statements of the Bank and the financial statements of the following four companies:

- Alior Instytut Szkoleń Sp. z o.o.,
  - net profit as at 31 December 2013: PLN 64 thousand
  - equity as at 31 December 2013: PLN 238 thousand
- Obrót Wierzytelnościami Alior Polska Spółka z ograniczoną odpowiedzialnością S.K.A.,
  - loss as at 31 December 2013: PLN -41 thousand
  - equity as at 31 December 2013: PLN 58 thousand
- Centrum Obrotu Wierzytelnościami Alior Raty Spółka z ograniczoną odpowiedzialnością S.K.A.,
  - loss as at 31 December 2013: PLN -7 thousand
  - equity as at 31 December 2013: PLN 1 103 thousand
- Alior Raty Sp. z o.o.,
  - net profit as at 31 December 2013: PLN 25 538 thousand
  - equity as at 31 December 2013: PLN 26 538 thousand

1. Alior Instytut Szkoleń

Alior Instytut Szkoleń sp. z o.o. is a subsidiary which was established on the grounds of the experience gained in establishing and building Alior Bank. The offer of Alior Instytut Szkoleń comprises several areas:

- dedicated training – i.e. training programmes tailored specifically to customer needs;
- coaching – a process the main purpose of which is strengthening and support in introducing changes independently, based on own discoveries, conclusions and resources – by the person participating in the coaching
- open training – to meet our Customers' expectations, the company prepared a special open training catalogue to which interested parties may sign in through our website. The scope of the proposed training topics comprises management and general development training.
- international conferences – Alior Instytut Szkoleń is the strategic partner in the organization of conferences with celebrities from the business world. Via the company's website interested parties may buy entrance to a given conference.

2. Obrót Wierzytelnościami

Obrót Wierzytelnościami Alior Polska spółka z ograniczoną odpowiedzialnością S.K.A. is a company whose main aim is to trade in receivables purchased from the Bank. The Company was established to optimize the process of selling the Bank's receivables.

3. Centrum Obrotu Wierzytelnościami

Centrum Obrotu Wierzytelnościami Alior Raty spółka z ograniczoną odpowiedzialnością S.K.A. is a company whose main aim is to trade in receivables purchased from the Bank. The Company was established to optimize the process of selling the Bank's receivables.

4. Alior Raty

Alior Raty Sp. z o.o. was established on 3 February 2012. As of 31 October 2013, Alior Raty Spółka z o.o. ceased its operations within the scope of providing financial intermediation services.
In January 2014, the Management Board of Alior Bank S.A. decided that the Company should continue in operation in other business areas than before.

- The planned date for commencing operations in a new business area: Quarter I of 2014.

- The Company's objectives:
  - ceasing sales opportunities for products and non-financial services
  - extending and making more attractive the offer for Private Banking customers in order to strengthen the competitive position
- The Company's operations:
  - seeking out and gaining external partners for cooperation in offering non-banking services
  - business matching of customers and external partners
- The planned revenues of the Company comprise commission for intermediation in non-banking services

The Company will also continue operations within the scope of meeting the obligations to Customers under the contract with TU Ergo Hestia.

CHAPTER VII

Unknown author "Bird's day"

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

1. Significant events

- On 16 April 2013, the European Commission issued a decision enabling Alior Bank S.A. and Erste Group Bank AG to acquire joint control over POLBITA – Sp. z o.o.

- On 18 April 2013, the Investors' Meeting of the Fund "PAGO Pierwszy Fundusz Inwestycyjny Zamknięty Niestandaryzowany Fundusz Sekurtyzacyjny" with its seat in Wrocław ("the Fund") passed a resolution on dissolving the Fund pursuant to and on terms and conditions specified in the Fund's Memorandum of Association, the Act of 27 May 2004 on investment funds and the Decree of the Council of Ministers of 21 June 2005 on investment fund liquidation procedures. On 21 August 2013 pursuant to the decision of the Circuit Court in Warsaw, 7th Civil Department, the Fund was deleted from the court register and thus as at 31 December 2013, the entity no longer belongs to the Bank's Group and was excluded from consolidation.

- On 24 May 2013, as a result of signing the agreement for purchasing treasury shares for redemption, the Bank's subsidiary Obrót Wierzytelnościami Alior Polska Spółka z ograniczoną odpowiedzialnością S.K.A. purchased 440 367 treasury shares for redemption from Alior Bank for a total of PLN 4 355 229.63.

- On 19 June 2013, an Annual General Shareholders' Meeting of the Bank was held. Apart from regulatory issues, the Annual General Meeting passed resolutions related to closing the financial year ended 31 December 2012 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 year losses and increasing the Bank's supplementary capital. All Management and Supervisory Board Members were given a vote of approval for the fulfilment of their duties in 2012. Moreover, the Annual General Meeting decided to increase the number of Supervisory Board members and appointed Ms Lucyna Stańczak-Wuczyńska a member. Additionally, the Annual General Meeting passed a resolution to amend the Bank's Articles of Association and at the same time authorized the Bank's Supervisory Board to adopt its consolidated text, which took place on 27 June 2013. The Annual General Meeting adopted the Rules and Regulations of the Bank's General Meeting. The amendments to the Articles of Association were registered by the Court on 18 July 2013 and comprised adding point 10) in § 7 clause 2, as follows: "10) acting as a settlement agent." Moreover, the Court registered a change in the address of the Bank's seat valid from 1 July 2013 in accordance with the resolution of the Bank's Management Board no. 204/2013 of 29 May 2013. From 1 July 2013, Alior Bank S.A.'s seat is located in Warsaw, 02-232, at ul. Łopuszańska 38D.

- On 30 July 2013 an Audit Committee was appointed by resolution of the Bank's Supervisory Board no. 60/2013. The said committee was composed of the following persons: Ms Helene Zaleski, Ms Małgorzata Iwanicz-Drozdowska and Ms Lucyna Stańczak-Wuczyńska. The Bank's Supervisory Board also adopted the Rules and Regulations of the Audit Committee of the Alior Bank S.A. Supervisory Board.

- On 17 October 2013, the Bank's Management Board published initial information on the Bank's results in the 3rd quarter of 2013 in current report no. 42/2013. Based on the meetings held and letters exchanged with the Office of the Polish Financial Supervision Authority on the subject of executing the PFSA's recommendations as to the accounting treatment of income from bancassurance, the Bank's Mana-

gement Board decided to fully implement the PFSA's expectations concerning the method of recognizing income from bancassurance and thus decided to introduce full periodization of this income without recognizing any income upfront. At the same time, the Bank's Management Board emphasized the fact that changing the method of recognizing income from bancassurance will not affect the business model executed by the Bank or the growth potential.

- On 29 November 2013, the District Court for Kraków Śródmieście, 11th Business Department of the National Court Register registered the company Centrum Obrotu Wierzytelnościami Alior Raty Spółka z ograniczoną odpowiedzialnością S.K.A. with its seat in Kraków. In accordance with the provisions of the Memorandum of Association, the company's general partner is Alior Raty Sp. z o.o., and Alior Bank S.A. is the sole shareholder.

2. Significant contracts

- On 15 January 2013, the Management Board of Alior Bank S.A. informed via current report no. 8/2013 that during the past 12 months it had concluded contracts with Echo Investment S.A. and the subsidiaries of Echo Investment S.A. for a total value of PLN 187.4 million, which meets the terms of a significant contract as it exceeds 10% of the Bank's equity. On 6 June 2012, the Bank and the Customer signed an investment loan contract (the largest in terms of value among all contracts with that entity). The value of the said contract as at 6 June 2012 was PLN 134 million. The contract is binding until 30 June 2014. The terms and conditions of the contracts referred to above, and specifically their financial terms and conditions, were standard for this type of contract.

- On 22 February 2013, Alior Bank signed the transfer and accession contract with Bank Polska Kasa Opieki S.A. with its seat in Warsaw. The subject matter of the contract was the transfer and accession to a credit contract in respect of a commercial law company, and the transfer of security and pledges in the portion securing the amount of loan acquired. The value of the said contract is EUR 57.3 million (PLN 238.7 million). The terms and conditions of the said contract, and specifically its financial terms and conditions, are standard for this type of contract. On 27 February 2013, the Management Board of Alior Bank S.A. informed via current report no. 12/2013 of 1 February 2013 (as adjusted on 1 March 2013) about receiving information on all the parties having signed the aforementioned contract.

- On 28 March 2013, the Bank concluded an annex to a loan contract with one of its customers in the amount of PLN 130 000 000 dated 19 October 2012. As a result of signing the Annex, the value of the Bank's total exposure to the customer in respect of the loan increased to PLN 395 000 000. The Management Board provided information about the aforementioned transaction in current report no. 18/2013. Pursuant to the contract, the investment loan will be repaid in 12 equal installments after a 2-year grace period. Particular tranches of the loan bear an interest rate based on 3M WIBOR plus the Bank's margin. The amount due in respect of the financing granted was secured, among other things, by setting up registered pledges, mortgages, bank account and asset pledges. The remaining terms and conditions of the contract were standard for this type of contract.

- In current report no. 20/2013, the Bank's Management Board gave information that on 9 May 2013 it has been allotted bonds issued by one of the Bank's Customers. The Bank acquired 1,500 7-year bonds with a nominal value of PLN 100,000 each, totaling PLN 150,000,000. As a result of the said acquisition, the Bank's total exposure to the Customer's Group increased to PLN 285,000,000. Thus, the significant contract threshold was exceeded. The bonds were issued in accordance with art. 9(1) of the Act on Bonds and art. 7 (4) (2) of the Act on offerings. The bonds are

bearer bonds bearing fluctuating interest of 6M WIBOR plus margin and do not take the form of documents. They are fully transferable.

- On 10 May 2013, the Bank signed annexes to contracts concluded with one of its Customers. Over the past 12 months, the Bank's total exposure to this Customer was PLN 254 000 000 and EUR 2 000 000 (PLN 262 240 000 in total), thus exceeding the significant contract threshold. The Bank's Management Board gave information about this fact in current report no. 21/2013. The contract with the highest value was the contract concluded on 18 May 2012. The subject matter of the Contract is a bank overdraft and guarantee sub-limit. The Contract was concluded for 12 months with the option of extending it. Interest was determined at 3M WIBOR plus the Bank's margin. The amounts due in respect of the financing granted were secured, among other things, by a mortgage, a pledge on inventories, global assignment of receivables and assignment of asset insurance. The remaining terms and conditions of the contract were standard for this type of contract.

- On 25 June 2013, the Bank signed a Transfer Contract with one of its Customers, on the basis of which all dues in respect of one of the Bank's Customers were assigned to the Bank. As a result of the contracts which had been concluded previously, within the past 12 months to the date of publication of this report, the Bank's total exposure to this Customer was approx. PLN 270 553 487.70, thus exceeding the significant contract threshold. The contract with the largest value was the Agreement for Cooperation in Entering into the Rights of the Creditor – Reverse Factoring concluded on 27 April 2012. The agreement was concluded for 12 months with the option of extending it. Interest was determined at 1M WIBOR plus the Bank's margin. The receivables in respect of the financing granted were secured, among other things, by a second mortgage, a pledge on inventories, subordinating ownership of bonds and assignment of insurance on assets. The remaining terms and conditions of the contract were standard for this type of contract.

- On 25 June 2013, the Bank concluded a contract for a non-renewable loan of PLN 112 250 000 for financing current operations, about which the Bank's Management Board gave information in current report no. 33/2013. As a result of signing the Contract—which is a highest amount contract—the Bank's total exposure to that customer in respect of loans increased to PLN 282 250 000, thus exceeding the significant contract threshold. The non-revolving loan will be repaid in seven installments, after a five-month grace period, by 31.05.2014. The amount of the loan will be made available and will gradually be increased to the stipulated amount of the loan. Particular tranches of the loan bear an interest rate based on 3M WIBOR plus the Bank's margin. The receivables in respect of the financing granted were secured, among other things, by a mortgage, a registered pledge and a power of attorney to bank accounts. The remaining terms and conditions of the contract were standard for this type of contract.

- On 27 June 2013, the Bank concluded a loan contract for a limit of dues of PLN 250 000 000 with one of its customers, about which the Bank's Management Board gave information current report no. 35/2013. As a result of signing the Contract—which is a highest amount contract—the Bank's total exposure to that Customer and its group companies increased to PLN 257 560 290, thus exceeding the significant contract threshold. The dues limit is revolving and may be made available under: a treasury limit of PLN 50 000 000 to be used in FX transactions, and an overdraft to finance the Customer's current operations, and guarantees granted in the total of PLN 200 000 000. The overdraft is ultimately repayable on 26 June 2016 and the treasury limit is ultimately repayable by 26 June 2018. The date of ultimate repayment of the dues limit and guarantees is 26 September 2019. The receivables in respect of the financing granted were secured by a power of attorney to bank accounts,

repossession of fixed assets and transfer of dues from the insurance contract. The interest and remaining terms and conditions of the contract were standard for this type of contract.

- On 30 July 2013 a new annex was concluded with one of the Bank's customers to a bank overdraft agreement dated 20 October 2010, which increased the contractual amount to PLN 4 000 000 and another annex to a guarantee limit agreement dated 12 July 2010, which increased the contractual amount to PLN 196 000 000, about which the Bank gave information in current report no. 37/2013. As a result of signing the Annexes, the Bank's total exposure to the customer in respect of the aforementioned agreements increased to PLN 236 000 000, thus exceeding the significant contract threshold. In accordance with the agreement dated 12 July 2010, annexed on 30 July 2013 which is a highest value agreement the limit comprises three guarantee-related sub limits which are utilized by the customer in connection with the customer's ongoing business operations. The maximum validity period of the guarantees, granted under the limit is 72 months. The amount of the commission related to utilization of the aforementioned limits was established on an arm's length basis. The amount due in respect of the granted financing was secured by setting up, among others, a guarantee deposit in the form of cash, cession of contracts executed by the customer and an authorization to use the resources on the customer's bank accounts at the Bank. The remaining contractual terms do not deviate from what is commonly applied to such agreements.

- On 11 December 2013, the Bank concluded a cooperation contract with T-Mobile Polska S.A. with its seat in Warsaw for the provision of financial intermediation services by T-Mobile. The cooperation contract covers the preparation of a comprehensive banking products and services offer and ensuring multichannel access to them under a brand related to T-Mobile Polska. The purpose of the cooperation is to:

  a) gain a significant number of T-Mobile Polska's 16 million customers for the services;
  b) ensure leading edge solutions in internet and mobile technology and transaction banking to these customers and to the current holders of Alior Sync personal accounts;
  c) offering products and services which would combine unique benefits arising from the relationship between the bank and telecommunications company;

The cooperation will comprise offering the majority of banking products to customers through all possible channels, especially making use of the technological synergies and advantages arising from the bank's and the telecommunication firm's operating models. This will be one of the first cooperation projects between a bank and telecommunications firm in Europe of such size and extensiveness.

T-Mobile, acting as the Bank's intermediary, will offer selected products of the joint venture in its sales outlets, also providing the brand and marketing. The possibility of offering services to one of the largest customer groups in Poland will ensure significant dynamics of acquisition and an increase in the Bank's profitability.

It should be noted that with a view to protecting T-Mobile's interests, the contract provides that T-Mobile is able to indicate another bank which can acquire the business in the form of a Business Unit from Alior Bank S.A. in the future. To ensure enforceability of this commitment in the future, the contract already contains appropriate provisions, including contractual penalties, which would guarantee the Bank's cooperation in this scope (the so-called Purchase Option discussed below).

The subject of the contract is to entrust to T-Mobile conducting intermediation in the provision of financial services, including concluding and amending bank account agreements, concluding and amending bank overdraft agreements, concluding and amending deposit acceptance agreements, concluding and amending loan and cash loan agreements, and concluding and amending pay-

ment card (debit, credit and prepaid) agreements on behalf and on account of the Bank with persons who are consumers as defined in art. 221 of the Civil Code, individuals conducting business activities and legal persons and organizational units not being legal persons, operating in the micro business and small business segments as defined in the Act of 2 July 2004 on freedom of economic activity. These activities shall be conducted within the legal form of the Bank's Branch.

Financial terms

The fee to T-Mobile for the provision of financial intermediation services will be composed of three components:

1) one-off for each new customer meeting the criteria indicated in the Contract;
2) a monthly fee in an amount depending on the number of customers who meet the criteria indicated in the Contract, and
3) a component corresponding to the gross value of 35% (in words: thirty-five percent) of the calculated profit before tax of the Bank's Branch.

Purchase Option

In the period until 30 June 2038, the entity indicated by T-Mobile („the Purchasing Entity") and T-Mobile shall be entitled to the purchase option in respect of the Bank's business unit comprising the Bank's Branch ("BU"), in particular on condition of obtaining appropriate approval from the PFSA. The option can be executed based on accepting an irrevocable sales offer of the BU submitted by the Bank. The sale can be effected for a price equal to the product of the number of active customers (meeting the criteria specified in the Contract) and a price within the range of PLN 400-500, depending on the execution of relevant obligations of the Bank, as specified in the Contract. Pursuant to the Contract, the said price shall be indexed starting from 2022.

The Purchase Option can be executed by T-Mobile after 5 years from the Contract coming into force or earlier, in cases specified in the Contract, related to the Bank's default on the obligations specified in the Contract or instances of Contract termination or expiry indicated in the Contract, failure to meet the financial objectives related to the Contract or T-Mobile's competitor or its subsidiary obtaining control over the Bank.

Contractual penalties

The Contract provides for a number of contractual penalties (on terms specified in the Contract), the highest amounting to PLN 90 000 000 for non-performance or improper performance of the obligations related to the execution of: (i) the Purchase Option or (ii) the actions that the Bank must necessarily perform for the Purchasing Entity to be able to acquire the BU on terms similar to those on which it would acquire the BU by accepting the proposal (should the execution of the Purchase Option by accepting the proposal prove impossible or ineffective), and (iii) the Bank enabling the execution of the Transfer Option in a significant portion (should the acquisition of the BU prove impossible). T-Mobile can demand compensation for losses exceeding the amount of the contractual penalties.

Contract Termination

The Contract shall come into force on the date of its signing. The Contract has been concluded based on the following termination terms:

- failure to agree and sign an annex to the Contract concerning trademarks within 30 days from the date of signing the contract;
- failure to obtain approvals from the Bank's General Meeting and Supervisory Board for selling the BU on terms specified in the Contract, within 60 days from the Contract coming into force;
- failure to appoint the Bank's Supervisory Board Member proposed by T-Mobile within 60 days from the Contract coming into force.

The Bank gave information about these termination terms not having been fulfilled (in connection with the Parties agreeing on the annex concerning trademarks and the Bank's Extraordinary General

Meeting passing resolutions on 23 January 2014) in current reports nos. 6/2014 and 13/2014.
The Contract was concluded for a 5-year period from the date of its coming into force with an automatic extension option for the next 5-year period(s). T-Mobile shall be entitled to an option of not extending the Contract provided that T-Mobile submits a statement that it will not avail itself of the extension option for another period, 6 months before expiry of the Contract.
The Contract is considered significant due to the fact that the estimated total value of contractual benefits over 5 years exceeds 10% of the Bank's equity.

- On 18 December 2013, the Bank concluded a contract for a non-renewable loan of PLN 50 000 000.00 for financing current operations with one of the Bank's customers, about which the Bank's Management Board gave information in current report no. 56/2013. As a result of signing the Contract—which was a highest amount contract—the Bank's total exposure to that Customer and its group companies increased to PLN 212 985 640.94.
  The loan is not renewable and will be used to finance and refinance share acquisitions. The loan is ultimately repayable on 17 December 2016. The receivables in respect of the financing granted were secured by a power of attorney to bank accounts, and shares pledge. The interest on particular products offered under the Contract does not diverge from the arm's length principles for charging interest. The remaining contractual terms do not deviate from what is commonly applied to such agreements.

3. Significant events linked to securities issuance

- On 18 March 2013, the Supervisory Board of Alior Bank S.A. granted its consent for the Management Board to set up the Bond Issue Scheme related to Alior Bank S.A. bonds denominated in PLN and to draw multiple financial liabilities through Alior Bank S.A. issuing unsecured bearer bonds as part of this Issue Scheme with the following key parameters:
  a) the amount of the Issue Scheme not to exceed: PLN 2 000 000 000 (two billion zloties);
  b) the maximum maturity of the debt securities issued under the Issue Scheme: 10 years;
  c) the bonds issued under the Issue Scheme are not to be secured;

  The bonds will be issued pursuant to art. 9.1 (public offering) or art. 9.2 (public offering) or art. 9.3 (private offering) of the Act on bonds; in accordance with art. 5a of the Act on bonds, the Bonds will not be issued in the form of documents; the issue terms of each Bond series may contain provisions concerning introducing the Bonds to trading on the CATALYST market maintained as an alternative trading system by the Warsaw Stock Exchange or BondSpot S.A.
  At the same time, the Supervisory Board of Alior Bank S.A. authorized the Management Board of Alior Bank S.A. to set the detailed issuance terms for the individual bond series issued under the Issue Scheme, to allot the bonds to investors and to perform all other activities in order to execute the Issue Scheme.
  The Bank's Management Board does not intend to obtain funds from the bonds issuance to finance the Bank's continued organic growth. In order to execute the adopted strategy aimed at doubling the Bank's market share, the organic growth will be financed with funds obtained from customer deposits.
  As part of the Bond Issue Scheme, on 28 June 2013, Alior Bank issued 146 700 unsecured, dematerialized, coupon bearer D-series bonds with a nominal value of PLN 1 000 (one thousand) each, and a total nominal value of PLN 146 700 000. The bond issuance proceeds were used for financing the Bank's operating activity as well as to diversify sources of financing.

- On 28 November 2013, an Extraordinary General Meeting of the Bank was held. Apart from regulatory issues, the Extraordinary General Meeting passed resolution no. 3 on incre-

asing the Bank's share capital by issuing new G-series ordinary bearer shares, depriving the current shareholders of all pre-emptive rights to G-series shares, changing the Bank's Articles of Association and applying for admission and introduction of G-series shares to trading on the regulated market conducted by the Warsaw Stock Exchange and dematerialization of G-series shares and the rights to the G-series shares. The issue of the G-series shares was in the nature of a private subscription as defined in art. 431 § 2.1 of the Commercial Companies Code, addressed solely to selected investors. The book building process was carried out on 5 December 2013 and the contracts for taking up G-series shares were concluded on 10 and 11 December 2013. In accordance with the subscription terms, the Bank's Management Board offered selected investors the possibility of taking up of 6 358 296 G-series shares. The issue price of the G-series shares was set at PLN 73.00 per G-series share. As a result of concluding the contracts with the investors for taking up the shares and the monetary contributions for covering the shares having been made, the Bank obtained PLN 464 155 608. 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 through the issue of G-series ordinary bearer shares and the amendments to the Company's Articles of Association. The Bank's share capital after registration amounted 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 to develop its operations taking into account the recommendations of the Polish Financial Supervision Authority concerning 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 of obtaining capital. The shares issuance proceeds were used for financing the Bank's operating activity as well as to diversify sources of financing.

4. Significant events and contracts after the balance sheet date

- The meeting initiating the project for selling of the Bank's shares belonging to the Carlo Tassara Group was held in the second half of March 2013. Carlo Tassara began making efforts to sell its block of shares to a regulated entity (a bank or an insurance company) which meets the criteria specified in art. 25h of the Banking Law. Carlo Tassara was informed by the PFSA that an assessment of such a new investor by the PFSA would take into account, among other things, its financial standing and stability as well as the long-term credit rating of both the investor and its country of origin.
  The final exit of Carlo Tassara from its investment in the Bank will be carried out within a time frame that takes into account the time necessary to find a new investor and the time for the investor to obtain PFSA approval. Carlo Tassara will make effort to sell the shares to an appropriate investor before the end of 2013.
  On 9 January 2014, the Bank's Management Board received notice from Carlo Tassara S.p.A. in which it was pointed out that the Polish Financial Supervision Authority expressed its approval of prolonging the deadline indicated in the Bank's issuing prospectus concerning the shareholder's obligation to sell the shares held at the Bank until 31 December 2014.

- On 23 January 2014, an Extraordinary General Meeting of the Bank was held. Apart from regulatory issues, the Extraordinary General Meeting passed a resolution on granting approval to sell a business unit, 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 Meeting decided to

introduce changes in the composition of the Bank's Supervisory Board and appointed Professor Sławomir Dudzik a member.

- The Bank's Management Board gave information in current report no. 15/2014 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, totalling PLN 60,000,000. As a result of 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 ("the Contract"), 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 customer's key group companies. 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, about which the Bank gave information in current report no. 18/2013 of 29 March 2013. The customer fulfilled the above-mentioned suspending condition on 31.01.2014 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 of the Bank's exposure to the customer's group exceeds 10% of the Bank's equity.

- Polish Financial Supervision Authority at its meeting on 25.02.2014 unanimously stated that there were no grounds for objections against the planned direct acquisition by Alior Bank S.A. of shares of Money Makers S.A. in a number resulting in exceeding a 50% stake in the total number of votes at the general meeting. In accordance with a decision received on 27.02.2014 Alior Bank will take over shares of a new issue and will purchase shares of one of the present shareholders until 15th of April, 2014, which will result in exceeding a 57,6% stake in the total number of votes at the general meeting of Money Makers S.A. Decision received from the Financial Supervision Authority is a first step to achieve a target to build on the grounds of the acquired company, a competence centre in scope of investment products such as investment funds and individual portfolios management.

- On 26 February 2014 The Bank's Management Board gave information in current report no. 16/2014 about its decision concerning changes in Headquarters organization structure which will result in reduction of number of employees and subsequent establishing of rules governing group layoffs. Automation and process refinement as well as a consequent implementation of cost optimization requires an adjustment of the employment level in order to match the Banks requirements of the new organizational structure. Layoffs program (including severance cost) is a part of Bank's cost structure optimization program in force, which scale of the savings will amount to around PLN 50 M in 2014 and 2015.
  The restructuring of head office function units, which will take place from the end of February to June this year, will affect 260 FTEs in Headquarters, which constitutes 4% of the Bank's employment as of 24.02.2014. The Management Board of the Bank intends to ensure adequate severance packages corresponding with employees' employment period.
  The costs will not adversely affect current business model and Bank's financial performance. They will be accounted for in parallel along with progress of employment optimization process and will be included in Q1 2014 and Q2 2014 results. The actions taken will contribute to significant increase of Bank's efficiency and C/I ratio decrease to the level below 45%

in 2016. Organizational structure and employment optimization in Headquarters does not imply the change of Bank's development strategy. The Bank employed more than 340 persons since the beginning of 2014 and plans to continue recruitment, in particular for the positions connected with banking products and services offering.

- On 26 February 2014 The Bank's Management Board in current report no. 17/2014 herewith publishes information about substantial decisions influencing Bank's results in 2013. As a consequence of on-going discussions with Polish Financial Supervision Authority ("PFSA") concerning the implementation of PFSA's guidelines concerning accounting recognition of bancassurance revenue the Management Board of the Bank decided to modify the accounting approach introduced in third quarter 2013 concerning the recognition of bancassurance revenue attached to loan products. Following further arrangements with PSFA the Management Board of the Bank decided to recognize upfront between 12 and 15 percent of bancassurance revenue attached to cash loans. In fourth quarter of 2013 upfront bancassurance revenue related to cash loans amounted to 13%. The above mentioned change in scope of model assumptions for fair value of cash loans complies with PSFA guidelines. However correctness of the "input" presented by the Bank has been audited by the Banks' auditor. Moreover the Management Board of the Bank decided to recognize upfront between 18 and 22 percent of bancassurance revenue attached to mortgage loans. In fourth quarter of 2013 upfront bancassurance revenue attached to mortgage loans amounted to 20%.
  The Management Board of the Bank estimates the new accounting approach of bancassurance revenue recognition has a following positive impact:
  - Increase of net profit by around 18 m PLN for whole 2013
  - Increase of Bank's equity as of 31.12.2012 by around 34 m PLN

  The Management Board of the Bank would like to underline that the described change will not have any adverse effect on Bank's business model and growth potential.
  The Management Board of the Bank decided to create a provision related to valuation of fixed assets for sale at the amount of 24 m PLN gross value. The amount of the provision has been defined using prudent and conservative valuation approach.

- On 10 February 2014, the Management Board of the Warsaw Stock Exchange informed that on 21 March 2014, after closing of the trading session, the annual review of the WIG20 index will be performed. Less than eighteen months after its floatation, Alior Bank will become part of WIG20 – the index of the twenty largest and most liquid joint stock companies listed on the Warsaw Stock Exchange.

5. Significant post-balance sheet events relating to the Bank's products

- As of 1 April 2014, a change will be made to the "Alior Rachunki bez Opłat" ("No fee for paying your bills") service. A fee of PLN 2 will be charged to customers who pay their bills at the Bank's branches and do not receive their salary, pension or scholarship in the bank account. The fee will be charged once a month for making any number of payments and transfers as part of the "Alior Rachunki bez Opłat" service. If a customer has not paid any bills in the Bank's branch in a given month, the fee will not be charged.
  At the same time, all Alior Rachunki bez Opłat account holders still can pay their bills free of charge in more than 600 Alior Bank Express and Alior Bank Partner locations.

CHAPTER VIII

A photo by H. Armstrong Roberts

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: market risk, including foreign exchange risk, interest rate risk, liquidity risk, operating risk and credit risk.
Moreover, the Bank recognizes business risk, model risk and reputation risk.

1. Market risk and liquidity risk management

Market and liquidity risks management objectives and policy

The Bank's market risk is defined as the likelihood of the Bank 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 behavior (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 Bank'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 Bank's relevant risk management policies covering identification, measurement, monitoring and reporting of risks. Moreover, 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 and responsibilities, and the principles are specified in internal regulations. The key role in this respect is played by the Financial Risk Management 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;
- analyzing 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 Product Sales 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 Settlement Department is responsible for the independence of ad hoc controls of internal treasury operations, including transaction settlements. The Settlement Department operates as an entity fully independent of the Treasury Product Sales Department. The leak-proof and accurate supervision conducted by the Settlement 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. In addition to the above-mentioned organizational units, the Management Board, the Supervisory Board and the ALCO take an active role in managing market risks.

The Assets and Liabilities Committee (ALCO, the ALCO Committee) 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 Management 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 Bank'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 Bank's organizational entities independent of the given entity's business. There are three types of limits at the Bank 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 Bank, 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 Bank additionally identifies the impact of foreign exchange movements on the Bank's results in the long term, which could occur in the event of converting future foreign currency income and expenses at a potentially less favorable 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 Bank'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 Bank.

Under the foreign exchange risk management process, the Bank 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 Bank 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 Bank conducts periodical analyses of potential scenarios which are aimed at providing information on the Bank's exposure to risk in the event of foreign exchange fluctuation shocks.

Apart from managing current foreign exchange risks, the Bank 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 Alior Bank 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 Bank 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 Bank determines VaR using the variance-covariance method, using a confidence level of 99%. This amount is determined on a daily basis for particular areas responsi-

ble for accepting and managing risk, both on an individual and on an overall basis.
As at the end of December 2013, the maximum loss on the Bank's currency portfolio specified in accordance with the VaR Model with a 10-day holding period could amount to PLN 35 149.42, assuming a confidence level of 99%.

Time horizon (in days)	
VaR (in PLN)	35 149.42

Below are presented the statistics of VaR on the currency portfolio assuming a 10-day holding period for 2013 (in PLN'000).

Minimum	Average	Maximum
7.41	71.34	475.09

Alior Bank's currency position and the utilization of currency limits as at 31 December 2013 are presented in the table below.

Utilization of limits (in millions in the given currency)		
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
Other	1.5	0.2
Goods for resale	1.5	0.1

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 the end of 2013, PLN 20,235.41. Statistics of the stress-test of the currency position in 2013 (in PLN'000) were as follows.

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;
- modeling 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 Bank'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 2013 are presented in the table below (in PLN'000):

Currency	Up to 6 months	6 months- -1 year	1 year- -3 years	3-5 years	5-10 years	10-15 years	Total
PLN	-26.4	-61.4	-74.2	-92.3	-3.5	0.0	-257.8
EUR	-6.4	-0.1	-17.4	-7.8	4.0	0.0	-27.7
USD	9.0	5.7	0.6	0.0	0.0	0.0	15.2
CHF	0.4	-0.8	-1.9	-0.7	0.0	0.0	-3.0
GBP	1.4	1.1	0.6	0.0	0.0	0.0	3.2
OTHER	-1.0	-2.8	0.0	0.0	0.0	0.0	-3.8
Total	-23.0	-58.4	-92.3	-100.8	0.5	0.0	-273.9

BPV statistics in 2013 (in PLN'000):

Book	Minimum	Average	Maximum
Banking book	-278.84	-99.05	100.38
Trading book	-48.76	-8.04	22.44
Total	-281.01	-107.09	116.74

At the same time, in order to estimate the total level of the interest rate risk, the Bank applies a VaR Model as discussed above. The economic capital to cover the said type of risk measured in this manner as at the end of 2013 is shown in the table below (99% VaR assuming a holding period of 10 days, in PLN'000).

Book	VaR
Banking book	5 628
Trading book	1 092
Total	5 368

VaR statistics in 2013, assuming a 10-day holding period, were as follows (in PLN'000).

Book	Minimum	Average	Maximum
Banking book	3 090	7 343	12 149
Trading book	639	1 504	2 891
Total	1 959	7 083	11 034

For the purpose of managing interest rate risk, the Bank 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 Bank 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 Bank 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 2013 (in PLN'000) is presented below.

Scenario (1M/10Y)	Change in the economic value of capital
+400 / +100	-78 979
+100 / +400	-41 625
+200 / +200	-48 659
- 200 / - 200	52 596
- 100 / - 400	43 569
- 400 / - 100	80 478

Liquidity risk

The Bank defines liquidity risk as the risk of the potential inability to fulfill its obligations, on conditions favorable for the Bank and at an acceptable cost, from all of the balance sheet and off-balance sheet positions of the Bank. Therefore, the Bank'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 on 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 Bank 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 Bank, by setting internal liquidity limits;
- minimizing the risk of exceeding the defined liquidity limits;
- monitoring the Bank's liquidity to maintain liquidity and be able to activate a relevant emergency plan when necessary;
- ensuring that the processes applied at the Bank 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 Bank applies the following measures in the process of liquidity management:

- develops liquidity procedures and policies, including the financing plan for consecutive years of the Bank's operations;
- manages the Bank'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 Bank's everyday activities or in other conditions which may be anticipated, without the need to incur losses. In its liquidity management activities, the Bank 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 Bank 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 2013 is presented in the table below (amounts in PLNM):

12/31/2013	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
ASSETS	**377**	**3 057**	**1 567**	**1 564**	**2 237**	**2 191**	**4 483**	**10 074**	**25 550**
Cash and Nostro	14	60	51	48	65	84	145	712	1 179
Amounts due from banks	0	85	0	0	0	57	0	0	142
Amounts due from customers	223	389	1 319	1 504	2 074	2 007	4 157	8 667	20 340
Securities	140	2 523	197	12	98	43	181	150	3 344
Other assets	0	0	0	0	0	0	0	545	545
EQUITY AND LIABILITIES	**-167**	**-1 639**	**-1 092**	**-1 250**	**-1 739**	**-2 593**	**-2 873**	**-14 197**	**-25 550**
Amounts due to banks	-11	-711	0	0	0	-34	-104	0	-860
Amounts due to customers	-156	-924	-1 022	-1 133	-1 501	-1 871	-2 740	-10 705	-20 052
Own issues	0	-4	-70	-117	-238	-688	-29	-299	-1 445
Other liabilities	0	0	0	0	0	0	0	-3 193	-3 193
Balance-sheet gap	**210**	**1 418**	**475**	**314**	**498**	**-402**	**1 610**	**-4 123**	**0**
Accumulated balance-sheet gap	**210**	**1 628**	**2 103**	**2 417**	**2 915**	**2 513**	**4 123**	**0**	
Derivative instruments – inflows	0	2 282	1 124	412	622	156	486	3	5 085
Derivative instruments – outflows	0	-2 281	-1 122	-421	-613	-158	-487	-3	-5 085
Derivative instruments – net	0	1	2	-9	9	-2	-1	0	0
Guarantee and financial lines	0	-708	-708	0	354	1 062	0	0	0
Off-balance sheet gap	**0**	**-707**	**-706**	**-9**	**363**	**1 060**	**-1**	**0**	**0**
Total gap	**210**	**711**	**-231**	**305**	**861**	**658**	**1 609**	**-4 123**	**0**
Total accumulated gap	**210**	**921**	**690**	**995**	**1 856**	**2 514**	**4 123**	**0**	

To identify the realigned liquidity gap, the Bank 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 Bank 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 2013 exceeded 15%.

Additionally, the Bank 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 Bank 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 the end of 2013, the surplus amounted to PLN 920 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 the end of 2013 amounted to: 4.05; 1.09; 1.37.

Additionally, in accordance with the requirements of the said Resolution, the Bank 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 Bank 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 Bank 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 Bank 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 2013. HCI amounted to 3.8 %, which indicates a low level of concentration. The HCI statistics for 2013 are shown in the table.

Minimum	Average	Maximum
3.0%	4.4%	5.2%

To limit concentration risk, the Bank 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 2013 the Bank'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.

2. Operational risk management

Operational risk management objectives and policy

When managing its operational risks, Alior Bank uses definitions put forward by the Basel Committee on Banking Supervision, whereby operational risks refer to possible losses resulting from failing to deploy internal processes, staff, systems or to external threats. The Bank applies the standardized approach to calculate the capital adequacy in respect of operational risk.

The Bank's policy is to minimize exposure to operational risk, which is managed by counteracting operational events and incidents and by limiting losses in the event that the risk materializes. The principles and structure of operational risk management in Alior Bank are based on the provisions of the Banking Law, the provisions of resolutions No. 76/2010 and 258/2011 of the Polish Financial Supervision Authority, and the Operational Risk Management

Policy (latest update: Resolution 491/2013 of the Bank's Management Board). The document specifies the objectives and policies of operational risk management and the control structure.

The Management Board of the Bank, which actively participates in the Bank's operational risk management process, is responsible for the correct functioning of the operational risk management and control processes, and specifically takes measures to support the process: it accepts the operational risk principles and system (Policy); specifies the competencies and segregation of duties in this process; periodically assesses the process; appoints and approves the composition of the Operational Risk Committee; approves the level of internal annual operational risk limits; presents information on the approach to operational risk management in the Bank to the market environment, creates and develops organizational culture in respect of effective operational risk management.

The Supervisory Board supervises the adopted operational risk strategy, which, among other things, approves the Policy specifying the general operational risk management principles; assesses the pursuit of the Policy, and if necessary, orders revision of the Policy; periodically assesses the risk level based on the information given by the Bank's Management Board; recommends action to mitigate or change the Bank's operational risk profile.

The Operational Risk Committee, which supports the Management Board in effective risk management, is part of the Bank's organizational structure. 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 issues necessary recommendations and decisions in order to counteract arising operational events, and if such events are identified, it limits their effects. In 2013, the Operational Risk Committee held 14 meetings and issued 84 recommendations limiting the Bank's exposure to operational risk.

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 Office is responsible for on-going control and monitoring of operational risk. This entity is also responsible for: developing and implementing appropriate methodologies and operational risk control instruments; giving opinions on and consulting assessments of the operational risk in the projects in which the Bank engages, in its products and procedures (new and modified); accumulating and monitoring information on internal and external events and on the values of key risk indicators (KRI); developing cyclic reports on the level of the Bank's operational risk.

The duty to monitor and limit operational risks in everyday work relates to all employees and organizational units of the Bank. The Bank's employees control the risk level on a current basis in the area of the processes they are responsible for and actively minimize the risk exposure to avoid/limit operating losses.

Recording events/incidents and operating losses

Alior Bank records the events, incidents and operating losses, which enables it to effectively analyses and monitor operational risks in accordance with the internal instruction specifying the recording principles. The records are maintained using the IT system which supports operational risk management and which enables registering, analyzing and monitoring data.

In 2012 a total of 1144 operating losses were recorded totaling PLN 4,881,341.32. Compared with the first half of 2012, operating losses increased by PLN 2,421,464.32.

Operating losses – general information for 2012 – 2013:

Type of data		Gross operating loss/amount recovered (in PLN)	
		2012	2013
Total amount of gross loss	Normal operating losses	2 459 877	2 827 997
	Loan-related operating losses	0	2 053 344
Amounts recovered from titles other than insurance		78 796	615 931
Amounts recovered from insurance		1 506 761	133 092
Number of operating losses		684	1144

Operating losses – by categories for 2012 – 2013

Loss category	Gross amount of the loss (in PLN)	
	2012	2013
Internal fraud	497 202	74 862
External fraud	365 714	2 416 638
HR practices and work safety	0	17 251
Damage to / loss of physical resources	235 951	360 983
System failures	13 320	120 491
Inappropriate selling practices	900 196	1 311 775
Unauthorized actions of the staff	33 855	72 820
External factors	26 965	42 439
Management processes	0	0
Performance of transactions, delivery and process management	386 673	464 081
TOTAL	2 459 877	4 881 341

Methodology for monitoring operational risk based on key risk indicators.

To monitor the status and profile of the Bank's operational risk on an on-going basis, the Bank uses the Key Risk Indicators – KRI methodology. With its use the Bank monitors changes in operating risk factors and the trends for changes in risk exposure, and ensures early discovery of increased operational risk exposure in all areas of its operations. KRI monitoring is conducted on a monthly basis and KRI are analysed and discussed at Operational Risk Committee meetings and forwarded to the Bank's Management Board and Supervisory Board in the form of reports.

3. Credit risk management

Credit risk management objectives and policies

The overall goal of credit risk management is to maintain a stable quality of the credit portfolio, which will enable maximizing returns on equity. The Bank strives to maintain its asset quality at a level adequate to the assessed risk covered by standard risk costs (SRC).

The Bank consistently implements best credit risk management practices aimed at compliance with regulatory recommendations, which ensure a high level of predictiveness of loan loss ratios for different credit products, industries, types of collateral,

customer groups and distribution channels at all stages of the lending process.
The Bank has a regulated risk management system adjusted to the scale and specific features of its operations.
Within the risk management system, the following entities operate: Supervisory Board, the Bank's Management Board, Risk Management Committee and ICAAP, the Bank's Credit Committee and dedicated credit committees in the Credit Risk Department.
The Bank's Supervisory Board exercises supervision over compliance of the Bank's policy in respect of risk acceptance with the Bank's strategy and financial plan, and supervises the functioning of the risk management system. In accordance with regulatory recommendations, the Supervisory Board approves the Bank's risk appetite in respect of retail mortgage-backed credit exposures, and other parameters indicated in the recommendations.
The Bank's Management Board is responsible for the effectiveness of the risk management system and conducts the Bank's credit policy. For the purpose of integrating the management of various risk types the Management Board appointed the Risk Management Committee and ICAAP.
The purpose of the Committee is – among other things – to supervise the ICAAP process and coordinate integrated business and ICAAP stress-tests. The Committee also performs advisory functions for the Bank's Management Board in respect of regulations which require the latter's approval.
The regulations in force at the Bank, and specifically the credit policy and detailed lending methodologies developed for particular Customer segments, sales channels, types of products and transactions, determine the risk appetite, the boundary conditions in respect of verification criteria, and approval principles.

In forming the lending policy, the Bank – among other things – takes the following into account:

- macroeconomic conditions;
- current and planned Customer structure;
- expected financial results realized by the Bank in particular periods;
- current and planned portfolio volume, broken down by particular sales channels;
- product structure of the portfolio;
- current market trends.

The Bank defined and consistently pursues common risk management policies. These policies include:

1. Adaptation of the structures responsible for developing credit policies, assessing and accepting credit risk, monitoring and measuring portfolio credit risk to the scale of the Bank's operations.
2. Independence of the sales and credit risk acceptance and monitoring, and debt collection functions.
3. Adaptation of the system of credit competencies to the risk level correlated to the amount of exposure.
   An appropriate structure of credit competencies ensures the acceptance of risk by the relevant level of decision-takers, adequate to the amount of risk to which the Bank is exposed. Decisions are taken individually or jointly, up to the level of competency limit in respect of the Bank's total exposure to a customer and to its related customers (entities). The quality of the credit decisions taken are subject to various verification criteria.
   The quality of the credit portfolio resulting from the decisions taken at respective decision -making levels is checked constantly. Additionally, the correctness of using competencies in taking credit decisions is checked as part of functional controls.
   The correctness of using credit competencies is controlled by authorized persons. The control results may translate into changes in competence levels. If irregularities are discovered in individual decisions, the respective competencies may be withdrawn.
4. The limits system, both in respect of limits following from external regulations and from internal principles determined by the Bank, based on analyses of the portfolio quality and the market environment.
   To ensure the appropriate quality, diversification of assets and liabilities and to maintain an adequate capital level, the Bank identifies concentrations in different areas of its opera-

tions. Excessive concentration of particular assets or liabilities vis-à-vis the credit or liquidity risk is believed to have a negative impact on the Bank's position.

Concentration risk management (which relates to loans) refers among other things to the risk following from: obligations in respect of one entity or group of related entities, liabilities to entities representing the same sector of Customer segment, exposure to entities from the same region and particular countries or groups of countries, exposures secured with the same type of collateral, exposures to the same currency or indexed to the same currency, exposures to the same type of interest rates (fixed or fluctuating) and interest rate index, exposures under a given sales channel or specific qualities of the product (product type, period of lending, maturity etc.) to entities described in art. 71 of the Banking Law.

5. The use of IT systems which support the credit risk assessment both in the Bank's retail and business segment.

   The IT systems which operate in the Bank enable effective completion of credit processes using the data derived from integrated internal and external databases, using embedded tools which support the assessment of credit risk and minimizing the operating risk.

6. Portfolio and individual pre-monitoring and monitoring.

   Under individual monitoring in the Individual Customer (IC) segment, the monitoring is related to: the timeliness of repayment, adequacy of inflows, contractual clauses, exceeding LTV, insurance of real property used as collateral for the loan granted by the Bank, refinancing and consolidation.

   The purpose of the monitoring is on-going control of the Customers' indebtedness and collection of debts, determining the correct and up-to-date status of the collateral accepted by the Bank and eliminating irregularities in the process of establishing effective collaterals, control of the Customer's performance of the contractual conditions.

   Under portfolio monitoring in the IC segment, the monitoring is related to: credit standing and creditworthiness based on BIK's periodic monitoring reports on repayment history of Customers who meet the criteria determined by the Bank.

   Monitoring of creditworthiness is conducted based on an analysis of credit liabilities in BIK databases and profiles based on the historical or current income of specific Customers.

   The results of these processes are reflected in the classification of Customers to specific risk categories which imply a specific approach by the Bank to the Customer.

   Under individual monitoring in the Business Customer (BC) segment, the Bank updates its data on the financial and economic situation of borrowers based on their current financial statements.

   The updated information is used to calculate the current rating, which is one of the elements taken into consideration in the decision concluding the monitoring process. The frequency of updates depends on the amount of credit exposure, the risk class and the Customer segment.

   Under portfolio monitoring in the BC segment, MICRO and SMALL models for the Customer segment were developed and implemented, for early detection of deterioration of Customer's financial standing.

7. Systematic measurement of the credit risk at portfolio and individual level both for management purposes and for reporting purposes.

   To measure the loss ratio on the portfolio on a current basis, the Bank uses internal ratings and identified objective impairment premises in accordance with International Financial Reporting Standards. The Bank assesses all balance sheet credit exposures (balance sheet groups of credit exposures) in terms of objective premises for impairment, in accordance with the data current as at the revaluation date. Impairment is identified daily and automatically for premises identified automatically in the Bank's central system or in the monitoring processes.

   Premises for impairment of the carrying value of a credit exposure (balance sheet groups of credit exposures) are recorded in the system at the Customer and account level. Recorded premises for impairment at the level of a given account result in flagging all the accounts of

the given Customer as impaired. Similarly, in the event of recording premises for impairment at Customer level, the impairment is propagated to all the customer's accounts in the portfolio. The propagation each time relates to all the accounts in respect of which the customer is owner/co-owner or borrower/co-borrower. For balance sheet credit exposures that have become impaired, the Bank records an impairment charge in order to decrease their book value down to the present value of the expected future cash flows. Individual assessment is necessary for all exposures exceeding the predetermined thresholds depending on the Customer segment. Group valuation is based on the time in default of a given exposure and accounts for the specific nature of the given group in terms of the expected recoveries. Collateral is taken into consideration at the account level. Exposures in respect of which no premises for impairment have been identified are grouped into homogenous groups in terms of the risk profile, and a provision is set up for group exposure used to cover the losses incurred but not reported. Losses incurred but not reported (IBNR) are measured in accordance with the concept of predicted losses with accuracy to the PD parameter which is scaled to the period of loss identification (LIP).

8. Conducting stress tests (ST) in respect of credit risk which are carried out at least once a year and cover the whole of the Bank's credit portfolio.

   Stress tests are conducted to assess the sensitivity of the credit portfolio to changes e.g. in foreign currency rates, market interest rates and value of collateral (in accordance with the recommendations of PFSA), situation on the labor market, and other scenarios of deterioration of the market conditions. The requests and recommendations formed on the basis of ST are used to shape and update the Bank's credit policy. The methodology and results of stress tests are used in the process of setting internal concentration limits.

9. The developed early warning system (EWS) aimed at identifying irregularities and enabling the undertaking of preventive actions both at the portfolio and individual exposure levels:

   The purpose of the EWS system used by the Bank is to:
   - immediately identify potential events which may lead to a deterioration in the quality of the credit portfolio;
   - limit the negative impact of external shocks on the quality of the credit portfolio;
   - limit the Bank's losses on the credit portfolio;
   - create a platform for direct cooperation between the business department and the department for risk management in crisis situations.

   The basis for the EWS system is internal and external data, including data relating to:
   - best market practices;
   - unfavorable changes in the debtor's current position;
   - current economic conditions;
   - historical, current and forecast quality indices for the credit portfolio.

   If specified thresholds are exceeded, appropriate action is taken aimed at eliminating the identified irregularities.

10. Documenting credit risk management policies and systematic reporting of the quality of the credit portfolio. Undertaking corrective and remedial actions in the event of determining an increase in the credit risk level. The Bank has full documentation specifying the principles for credit risk management, among other things in the form of credit policies adopted by the Bank's Management Board and the Risk Management Committee and ICAAP of credit policies, detailed crediting policies specifying credit risk assessment principles with the scope of necessary credit documentation and the credit tools used to support its measurement and all instructions specifying credit risk identification and measurement principles. These principles are regularly reviewed and updated. In the event of increased credit risk, as a result of regular credit portfolio quality reviews in respect of particular products or product groups, the Bank adjusts the adopted risk management principles introducing changes which enable it to minimize the identified risks.

The Bank uses a centralized data source to prepare credit risk reports – all information on processes, credit exposures and credit risk levels is derived from the Data Warehouse (DW). This enables consistency of the information presented in particular reports and analyses. Cyclic reports are generated at the Bank's Data Warehouse level, and published automatically on the Bank's report portal.

11. Verification of the operation of the system using functional controls and actions performed by the Internal Audit Department.
    The risk management principles implemented by the Bank are subject to periodic control, the main aim of which is to determine whether the manner of conducting credit activities complies with the internal procedures and external legal regulations and whether the effects of the activities comply with the purposes specified in the Bank's credit policies. Controls are conducted by specialized entities, and their results are regularly reviewed.

<u>Actions completed in 2013</u>

In 2013, as part of its development work, the Bank implemented further new solutions and enhancements:

1. We implemented a new methodology for assessing write-downs using the group method and LGD calculation for the purpose of calculating group allowances and IBNR allowances;
2. We enhanced the efficiency and automated verification of the process for registering premises for impairment and the impairment status by implementing reports in the Data Warehouse;
3. We continued developing the system for calculating economic capital in accordance with the CR+ methodology;
4. We implemented changes related to the new capital regulations implemented by the CRR Regulation that came into effect;
5. We started preparations for implementing changes resulting from CRD4;
6. We implemented provisions of the amended Recommendation T;
7. We adapted the risk management policy in respect of credit exposures secured by mortgage to the guidance of the amended Recommendation S;
8. We set up the DTI levels for products secured with mortgage in the Individual Customer segment, adapted to the risk appetite approved by the Bank, and adopted the maximum levels of LTV and minimum levels of own share;
9. We developed methodologies for assessing financial entities to enable a fuller assessment of risk related to granting treasury limits to particular banks;
10. We continued the development of the Collateral Module enabling identification, registration and monitoring of collateral in the Bank, and conducted detailed monitoring of the correctness of registration of collateral in the Bank's systems for the material exposures portfolio;
11. We enhanced the efficiency of the system used to record related groups and continued control over the improvement off quality of data with reference to identifying customer relationships;
12. We carried out additional extraordinary monitoring of construction industry firms with an assessment of the impact of the industry condition on the loss ratio of Alior Bank's portfolio;
13. We implemented lending policy restrictions for retail debt sub-portfolios, which were correlated with scoring classes;
14. We expanded the scope of internal concentration limits based on a multi-dimensional analysis of the portfolio quality, broken down into particular characteristics, macroeconomic data and data from the Polish banking sector;
15. We continued the development of scoring and rating models in response to the Bank's business needs, to objectivize and enhance the credit decision making process using the account history, and specifically the correct assessment of the probability of the Bank Customer's default; as a result, the predictive power of the models used for the Customer's credit assessment improved;
16. We built monitoring models for non-secured products in respect of scoring models for Individual Customers;
17. We built several quantitative models used in x-selling and retention campaigns addressed to Individual Customers;

18. We implemented portfolio monitoring models and extended the rating model by evaluation of the firm's condition vis-à-vis the business environment in respect of Business Customers;
19. We improved the time and effectiveness of credit processes in respect of Individual and Business Customers;
20. We continued implementing the new SMART system to process Business Customers' credit requests ensuring greater control over credit and operational risk, simultaneously ensuring the higher effectiveness of processes and flexibility of assessment;
21. We implemented new, streamlined credit processes to service MICRO Customers under the standardized assessment approach;
22. We increased the effectiveness of monitoring and debt collection processes by:
    - implementing the process of insuring portfolio real estate which secure the loans granted;
    - optimizing the refinancing and consolidation monitoring process;
    - proactive approach to the restructuring offer based on cooperation with the Customers to-date – restructuring process initiated by the Bank in respect of selected groups of Customers and acceptance of collateral;
    - modifying and optimizing the reconciliation agreements after the respective agreement is cancelled;
    - directly relating the criteria for legal methods of claiming debts to costs (enforcement-warrant proceedings, writ of payment proceedings, e-court);
    - introducing new debt collection strategies for key products;
    - implementing a new tool improving the effectiveness of contacting Customers at the monitoring stage.
    - establishing the Local Debt Collection Team in the Bank's structures;
    - permanently including the sales of dues in debt collection processes.

4. 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 31.12.2013
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 to offset particular risks identified as material using internal risk assessment models. Internal capital is estimated for:

- 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 assuming 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 capital) in consideration of appropriate safety buffers.

Capital ratios of the Alior Bank Group as at 31.12.2013		
Capital adequacy	Tier1 ratio	Ratio of offsetting internal capital by available capital
12.11%	10.34%	1.59

Taking into consideration the need to secure the sustainable growth of its scale of operations, the Bank is expanding the available capital base using various channels, i.e. reinvesting profits, issuing subordinated debt, and – lately – also 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

Sir Leslie Ward "Charles Chetwynd-Talbot"

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 in respect of credit cards are granted to individual customers for a period of three years.
The Group grants contingent liabilities to customers in respect of:

- overdraft limits for a period of 12 months;
- guarantees, mainly for a period of 6 years;
- credit cards for a period of up to 3 years;
- 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 of their liabilities.

As at 31.12.2013 the number of active guarantees granted by Alior Bank was 2,153, amounting to PLN 1,343,119 thousand. During the first half of 2013 the Bank issued 1,191 guarantees totaling PLN 852,019 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 866) amount to PLN 474,103 thousand. Guarantees which mature by the end of 2014 (of 1,021) amount to PLN 514,677 thousand.

Off-balance sheet liabilities in PLN'000

Off-balance sheet contingent liabilities granted to customers	as at 31.12.2013	as at 31.12.2012
Off-balance sheet liabilities granted	7 078 830	5 608 201
Relating to financing	5 735 711	4 398 412
Guarantees	1 343 119	1 209 789

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

by Customer	as at 31.12.2013
entity 1	250 000
entity 2	220 825
entity 3	123 000
entity 4	104 000
entity 5	100 000
entity 6	100 000
entity 7	99 252
entity 8	96 046
entity 9	95 509
entity 10	91 162
other	5 799 036
total	7 078 830

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

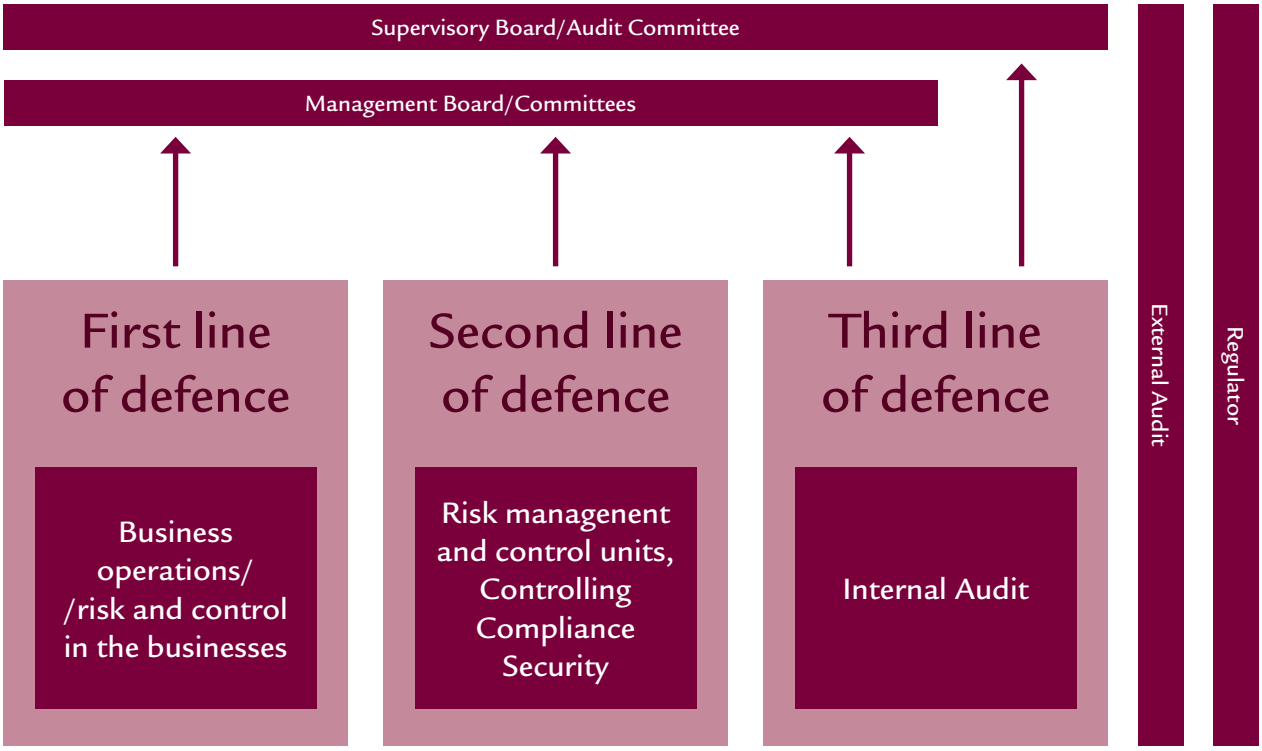
by type	as at 31.12.2013
credit lines	5 401 421
import letters of credit	6 370
loan promises	327 920
guarantees	1 343 119
total	7 078 830

The Bank was not a warrantor or guarantor of any bonds in 2013 (there were no off-balance sheet liabilities in respect of bonds).

CHAPTER X

August Macke "Garden Restaurant"

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.

The functional controls cover all management levels and every employee, all organizational units and all areas of the Bank's operations. They consist in 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; analyzing whether the procedures are performed by employees with relevant competences 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.

CHAPTER XI

Edgar Degas "Zachary Zakarian"

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.
In the 1st quarter of 2013, the Bank took action to obtain such rating. On 27 March 2013 a contract was signed between Alior Bank S.A. and Fitch Polska S.A.
On 5 September 2013, Fitch Ratings Ltd. granted a BB rating with a stable perspective to Alior Bank S.A.

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

1. Long-Term Foreign Currency IDR: BB with a 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 the ratings, criteria and methodologies are also published.

CHAPTER XII

Illustration for "Vogue" by John Rawlings

XII. CORPORATE SOCIAL RESPONSIBILITY

1. Relations with customers

From the beginning of its existence Alior Bank has played a key role on the market in terms of maintaining high service quality standards. This statement is supported by multiple awards and distinctions. The Bank analyses the needs of its stakeholders and incorporates them in the development strategy at the stages of creating the product offer, building the distribution network and employing experts. The Bank's success is based on its organizational strategy aimed at addressing customer requirements through advisory services based on benefits and tailoring products to expectations.

The Bank monitors customer claims regularly, which enables immediate reaction and – if necessary – remedial action. The Bank offers its customers the possibility of asking questions and filing claims electronically through internet banking. It is a convenient and easily available round-the-clock communication channel between the customers and the Bank.

2. Relations with employees

With a view to maintaining good relations with employees, the Bank implemented a series of programmes enabling all employees to report and realize their own innovative ideas, which include:

- the initiative "Innovative Mondays" in the form of working meetings where the employees, apart from the ideas proposed by themselves, may acquaint themselves with the newest trends in the banking sector and innovations implemented by domestic competitors and international leaders;
- the iAlior portal – an innovative platform where more than 1,600 topics relating to product and system innovations and to improvements in existing processes and services were published (of which about 500 were published in 2013). The platform is also used to share knowledge and experience submitted by customers. The Bank recruited people from among iAlior platform users to test new products and solutions;
- the ZineINC communication platform – an innovative platform for communication at various levels, which Alior Bank has implemented as the first company in Poland. This tool, which gives the Bank's employees permanent access to information at any place or time, is used for the purposes of the Bank's internal communication. It uses mobile applications available for iOS (iPhone + iPad) and Android (telephone + tablet) systems and is also available on the webpage. With the help of functions known from social media, the Bank's employees can actively use topical channels, i.e. follow the information published there, add comments, and participate in discussions or competitions. They can also take part in creating the specific channels and act as their editors.

The Bank also organizes a number of training courses for employees. Every new employee of a branch participates in induction training. It is conducted in the Bank's specially adapted training centre and lasts even up to three weeks. New employees have an opportunity to understand the organization, get to know each other and build relationships. After starting work, every employee has a mentor at the branch and a dedicated internal coach. Alior Bank employees can participate in various training programmes conducted by both internal and external trainers. The Bank offers a wide range of training courses - on products, selling, general development and many others. In 2013, the employees completed more than 300,000 hours of training.

3. The Bank's educational, cultural and charitable activities

Alior Bank is a socially responsible corporation. From the start of its operations it has supported local communities and has undertaken many charity and sponsoring initiatives.

In January 2013, during the 21st Grand Finale of the Great Orchestra of Christmas Charity, Alior Bank and the Siepomaga.pl web portal participated in the collection by facilitating quick and easy donation of funds by the Bank's customers and employees.
In March 2013, Alior Bank became a partner of the Inspiring Solutions conference on IT applications in business. During the three-day workshop, students of the Warsaw School of Economics and other economic universities learned about the role of IT in the functioning of companies. They also had a chance to meet Alior Bank experts and learn about career opportunities offered by the Bank.
To celebrate Children's' Day, Alior Bank organized a cruise on the lakes of Warmia for a group of 70 children from Olsztyn and the neighbouring areas. The participants included leukaemia patients, children from the Children's Home in Olsztyn and a group of young people from Voluntary Labour Corps.

The Bank also engages in actions which promote culture. In June 2013, it was the patron of the Charitable Order of Malta Concert, during which works of Paganini and Mozart, jazz standards and other compositions were played by great musicians, including Gary Guthman, Stanisław Drzewiecki and Konstanty Wileński.
In August 2013, Alior Bank was a Partner of the "Giełda dla Warszawy" ("the Stock Exchange for Warsaw") concert organized by the Warsaw Stock Exchange. The aim of this event was to celebrate long-term, successful cooperation between the WSE and NYSE Euronext.

In September 2013, Alior Bank became a partner of the historical competition "Strażnik Pamięci" ("Guardian of Memory") organized by the editors of the Do Rzeczy weekly and the Historia Do Rzeczy monthly. The competition was organized to recognize efforts of individuals and institutions aimed at commemorating the most important events in Polish history.

Alior Bank also participated in the "Mikołaj - prezenty dla dzieci" ("Santa Claus - gifts for children") initiative organized by the SOS Children's Villages Association. The Bank's employees showed enthusiasm and involvement and made the Christmas wishes of as many as 124 children to come true.
For the third time, Alior Bank became involved in the action of the Polsat Foundation "Mikołajkowy Blok Reklamowy" ("Santa Claus' Day Commercial Break"). The Bank's "Gift" commercial, which promoted the loan with a guaranteed lowest instalment, was broadcast as part of a series of commercials the proceeds of which were used for the needs of the charges of the Polsat Foundation. The "Santa Claus' Day Commercial Break" was watched by more than 45% of viewers in the 16–49 age group. It is estimated that the proceeds amounted to PLN 1.5 million. The whole amount will be used for the medical treatment and rehabilitation of the charges of the Polsat Foundation.

4. Awards and honours

Alior Bank won a number of awards and honours in 2013. The most important ones are:

- 7 "Złoty Bankier" awards presented to Alior Bank in the "Złoty Bankier 2012" ranking. Alior Bank won awards both in the product categories ("Best Cash Loan" and "Best Business Account for E-Business") and in the special categories, including the "Financial Innovation of the Year 2012" category for the launch of Alior Sync, the first new generation virtual bank. At the same time, the "Personality of the

Year" title went to Wojciech Sobieraj, the President of Alior Bank;

- A prestigious award for the highest IPO value among Polish private companies in the history of the Warsaw Stock Exchange;
- two "Bulls and Bears" awards presented by the Parkiet daily. Alior Bank received an award for the highest private IPO in WSE history. Wojciech Sobieraj – the President of the Bank – received a special award for building from scratch a bank that has achieved a strong market position and capitalization of PLN 4.5 billion in a few years;
- Banking Technology Awards 2013 - an award in the Best Use of IT in the Retail Banking category. Internationally renowned experts appreciated the "Internet Lending Process";
- "Best Bank in Poland 2013" – in the "Euromoney Awards for Excellence" competition, international experts again appreciated the innovative solutions and effective business model of Alior Bank;
- The Banker Awards 2013 – a British financial magazine The Banker, which is a part of Financial Times Ltd, granted the prestigious title of Bank of the Year in Poland to Alior Bank.

The Bank also received the following awards and honours: Innovation of the Year 2012 from Forum Biznesu and the Technical Sciences Department of the Polish Academy of Sciences; the main prize in the 11th edition of the "IT Leader of Financial Institutions 2012" competition organized by Gazeta Bankowa; the Eagle award granted by Rzeczpospolita daily to the best and most efficient financial services company; "Leopards 2013" – first place in the competition for the most admired banking brand organized by TNS Poland and the banking industry; "Quality International 2013" – Alior Bank won in the "QI Services" category; the Newsweek Friendly Bank 2013 title for Alior Sync in the "Internet Bank" category; Brown EFFIE 2013 in the "Launch" category for the campaign that introduced Alior Sync to the market; BAI – Finacle Global Banking Innovation Awards – an award in the "Distribution Channel Innovation" category; European Small and Mid-Cap Awards, where Alior Bank was ranked second in the "Best new listed company" category; Polish National Sales Awards 2013, where the Bank's employees were nominated in 7 categories, won in six and received one honorary mention.

CHAPTER XIII

Claude Monet "Breakfast on the Grass" (detail)

XIII. CORPORATE GOVERNANCE

The Management Board hereby represents that in 2013 the Bank and its authorities complied with the adopted rules of corporate governance set out in the "Best practices of companies quoted on the WSE".

1. Scope of corporate governance

In accordance with the Regulations of the Warsaw Stock Exchange (Giełda Papierów 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. Therefore, unlike in 2012, the Bank's webpage is now also available in English.
Currently the Bank's Management Board does not stipulate the possibility of the shareholders' participation in the General Meeting by way of electronic communication (principle no. 10, Section IV of Best 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.

2. 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 units;
- 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 and in terms of corporate governance.

3. 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 2013 the following amendments were made to the Bank's Articles of Association, based on the resolutions passed by the General Shareholders' Meeting, relating to:

- adding the function of transfer agent to the description of the Bank's activities;
- 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. After registration of the amendments, the share capital structure is as follows:
  - 50,000,000 A series ordinary shares;
  - 1,250,000 B series ordinary shares;
  - 12,332,965 C series ordinary shares; and
  - 6,358,296 G series ordinary shares.

All amendments to the Articles of Association have been registered by the court.

In accordance with the Bank's Articles of Association, all 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 in section 4.

Moreover, in connection with the Placement Agreement of 5 December, the Bank, some of the Bank's shareholders (Alior Lux S.a.r.l. & Co. S.C.A., Alior Polska Sp. z o.o., Sociéta Camuna di Partecipazioni S.p.A., Zygmunt Zaleski Stichting, Astelia S.A. and LuxCo 82 S.a.r.l.), all members of the Bank's Management Board and the Supervisory Board members holding shares of the Bank (i.e. Helene Zaleski and Małgorzata Iwanicz-Drozdowska) incurred obligations to the Offering Managers, i.e. Barclays Bank PLC, Dom Maklerski BZ WBK S.A., Renaissance Securities (Cyprus) Limited and Société Générale, with respect to limiting transferability of the Bank's shares. The Bank's obligation shall be valid for the period from the date of concluding the Placement Agreement to the end of 180 days from the first quotation of G series subscription rights on the WSE. The obligations of the other entities shall be valid until: (i) the end of the 90-day period from the first quotation of G series subscription rights on the WSE or (ii) the publication of the Bank's financial statements for 2013, whichever is later.

4. Shareholders of Alior Bank S.A.

Shareholders of Alior Bank who hold more than 5% of the share capital as at 6 March 2014 are as follows:

- Alior Lux S.a r. l. & Co S.C.A. with Alior Polska Sp. z o.o.;
- European Bank for Reconstruction and Development;

Shareholders holding more than 5% of the Bank's shares as at 6.03.2014 r.

Shareholder	Number of shares/votes	Nominal value of shares	Interest 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.)	22 918 382	229 183 820	32,768%	32.768%
European Bank for Reconstruction and Development	5 614 035	56 140 350	8,027%	8.027%
Other shares	41 408 844	414 088 440	59,205%	59.205%
Total	69 941 261	699 412 610	100%	100%

After the date of submitting the previous periodical report, the Bank's Management Board has received notifications indicating a change in the shareholding structure of blocks of more than 5% of the Bank's shares.

On 7 January 2014, the Bank's Management Board was notified by Alior Lux S.a.r.l. & Co. of a change in the percentage share of that company in the Bank's share capital due to registration of the Bank's share capital increase.

In accordance with the notification received on 9 January 2014, the interest of Genesis Asset Managers, LLP in the Bank's share capital dropped below 5%.

Shareholders who were members of the Bank's Management Board as at 06.03.2014

Shareholder	Number of shares/votes	Nominal value of shares	Interest in share capital	% share in total number of votes
Niels Lundorff	83 021	830 210	0.12%	0.12%
Wojciech Sobieraj	71 322	713 220	0.10%	0.10%
Artur Maliszewski	3 042	30 420	0.00%	0.00%
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%

There were no changes in the blocks of the Bank's shares held by the Management Board members after submitting the previous periodical report. As a result of registration of the Bank's share capital increase on 2 January 2014, the percentages of shares held by the Bank's Management Board members changed.

Shareholders who were members of the Supervisory Board as at 06.03.2014.

Shareholder	Number of shares/votes	Nominal value of shares	Interest in share capital	% share in total number of votes
Helene Zaleski	204 774	2 047 740	0.29%	0.29%
Małgorzata Iwanicz-Drozdowska	1 465	14 650	0.00%	0.00%

In the period after the previous periodical report was submitted, the interest of Ms. Helene Zaleski, Chairperson of the Supervisory Board in the Bank's share capital has changed.
In accordance with the notification received on 20 December 2013, Ms. Helene Zaleski acquired 18,615 G series new issue shares. Moreover, as a result of registration of the Bank's share capital increase on 2 January 2014, the percentages of shares held by the Bank's Supervisory Board members changed.

Management option plan

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, 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 of 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.

The new incentive plan is also addressed to a group of the Bank's key managers who are not Management Board members.
Principles of Incentive scheme performance plan 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 plan it is anticipated that three tranches of subscription warrants (A, B and C series) and the corresponding three tranches of new shares of 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 of 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 of 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 of 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 at 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 at 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 shall 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 plan 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 start of the plan its value amounted to 24 692 PLN thousand. In 2013 the cost in the amount of 13 413 PLN thousand was recognised.

Original incentive plan

As a result of the settlement of the original incentive plan (established based on the agreement of 25 August 2008), 105 Alior Bank managers, including Management Board members, received (indirectly, though LuxCo 82 s.a.r.l.) on 14 December 2012 2,414,118 Alior Bank shares. The remaining 1,299,909 shares of the Bank resulting from the settlement of the existing incentive plan will be transferred by the Carlo Tassara Group to LuxCo 82 s.a.r.l. upon the sale by the Carlo Tassara Group of at least 30% of the Bank's shares or on 30 June 2014, whichever is earlier. 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 plan.

Members of the Management Board of Alior Bank S.A. were bound by a contractual lock-up in respect of up to 30% of the incentive shares over a period of 9 months, and in respect of 70% of the incentive shares by contractual lock-up over a period of 24 months from 14 December 2012. Incentive shares vested in other plan participants who were not members of the Management Board, were subject to contractual lock-up, in respect of 30% of the incentive shares, until the end of January 2013, and to contractual lock-up over a period of 12 months from 14 December 2012 in respect of 70% of the incentive shares.

Due to the partial expiry of the lock-ups, LuxCo 82 s.a.r.l. sold 405,683 shares of the Bank on 14 May 2013, and another block of 678,856 shares on 1 October 2013. After the said transactions, the number of shares held is 1,329,579. The Bank's Management Board informed of the said transactions in its current reports No. 22/2013 and 40/2013.

5. Alior Bank S.A.'s bodies

Management Board

Composition of the Management Board as at 31.12.2013		Composition of the Management Board as at 01.01.2013	
Wojciech Sobieraj	– CEO	Wojciech Sobieraj	– CEO
Krzysztof Czuba	– Deputy CEO	Krzysztof Czuba	– Deputy CEO
Michał Hucał*	– Deputy CEO	Niels Lundorff	– Deputy CEO
Niels Lundorff	– Deputy CEO	Artur Maliszewski	– Deputy CEO
Artur Maliszewski	– Deputy CEO	Witold Skrok	– Deputy CEO
Witold Skrok	– Deputy CEO	Cezary Smorszczewski*	– Deputy CEO
Katarzyna Sułkowska	– Deputy CEO	Katarzyna Sułkowska	– Deputy CEO

* On 10 February 2013 Cezary Smorszczewski resigned as Deputy CEO and Member of the Bank's Management Board. On the same day, the Supervisory Board appointed Mr Michał Hucał Member of the Management Board and entrusted him with the function of Deputy CEO.

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 SA, he also held the posts of Chairperson 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 a 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 (analysis of Eastern European capital markets), 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 the moment of receipt of a banking license, he has been responsible for strategic advisory services and handling projects related to the launch of the retail offering. He was involved 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 plans to acquire and finance the Bank's branches. 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 a 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 has 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.

Niels Lundorff Deputy CEO	Niels Lundorff has been Vice President of the Management Board of Alior Bank S.A. since April 2008. In 2006-2007, he was Executive Director and director responsible for the Risk Control and Credit Policy at the UniCredit Group in Milan. In 1999, he was appointed Managing Director responsible for finance at Powszechny Bank Kredytowy S.A. in Warsaw. In 2001 he became a member of the Management Board of PBK S.A. and BPH S.A., and in June 2005 he was appointed Vice President of the Management Board of BPH S.A. At BPH S.A. he was responsible for the departments of control, accounting and market risk, and for ensuring compliance of the bank's procedures with Basel II requirements. In the years 1995-1999 he was Vice President of Bank Austria Creditanstalt in Slovakia, where he was responsible for finance, credit risk and seeking Anglo-Saxon customers. In the years 1993-95, he was Head of Accounting and Controlling at Bank Austria CR in Prague. From 1989-1993, Niels was an auditor at KPMG in Copenhagen and Prague. He graduated from the Copenhagen School of Business, where he obtained a degree in business and audit and participated in many training courses in banking and management.
Artur Maliszewski Deputy CEO	Artur Maliszewski has been Vice President of the Management Board of Alior Bank S.A. since June 2009. From 1992 to 2007, he worked for Raiffeisen Bank Polska SA, where he held the post of Board Member responsible for SME Banking, Factoring and Project Finance, followed by Vice President of the Management Board responsible for Retail Banking, Private Banking, SME Banking, Marketing and Customer Service, Branch Sales channel and Mobile Sales channel. He managed the Business Banking Development Department at Alior Bank from March 2008 to June 2009. At that time, he was responsible for developing the bank's strategy for the business customers segment, followed by the launch of a comprehensive product offering for this group of customers. He graduated from the Warsaw School of Economics in 1992. He took part in various training courses, including The Executive Program, Darden School of Business, University of Virginia (2007), Raiffeisen Bank Leadership Academy, Harvard Business School (2005) and Strategic Management in Banking, INSEAD (2002).
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 Member of the Supervisory Board of Górnośląski 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 function, 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 started her career path 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

In accordance with the Articles of Association, the Management Board consists of at least three members. Members of the Management Board are appointed for a joint three-year term of office. The Supervisory Board appoints and dismisses members of the Management Board by secret ballot. At the request of the President of the Management Board, the Supervisory Board appoints Vice-Presidents of the Management Board. The appointment of two Members of the Management Board, including the President of the Board, requires the consent of 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 Polish Financial Supervision Authority of members of the Management Board who are responsible specifically for credit risk management and internal audit. Currently, with the consent of PFSA, the President of the Management Board is Wojciech Sobieraj and the Vice-President 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 a 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, inclu-

ding 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 of 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 Plan 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 Plan 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 and admitting to trading on a regulated market operated by the WSE, the new shares 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 Plan approved by the Supervisory Board.

Competencies of the President of the Management Board

Competencies of the President of the Management Board 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. 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 a 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; the secret ballot may also be ordered at the request of at least one member of the Management Board. In the event of an even 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 2013

In the financial year 2013 the Management Board held 40 meetings and passed 495 resolutions regarding, among other things, approval of the financial plan for the financial year 2013, approval of the Bank's strategy for the years 2013–2016, 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, signing a cooperation agreement with T-Mobile Polska S.A., taking up and acquiring shares of Money Makers S.A., creating and changing data relating to the Bank's branches, changing the address of the Bank's head office, conducting tenders and preparing requests addressed to the Supervisory Board and to the Bank's General Shareholders' Meeting.

Supervisory Board

Composition of the Supervisory Board as at 31.12.2013		Composition of the Supervisory Board as at 01.01.2013	
Helene Zaleski	– President of the Supervisory Board	Helene Zaleski	– President of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	– Vice-President of the Supervisory Board	Józef Wancer**	– Vice-President of the Supervisory Board
Marek Michalski	– Member of the Supervisory Board	Małgorzata Iwanicz-Drozdowska	– Member of the Supervisory Board
Krzysztof Obłój	– Member of the Supervisory Board	Marek Michalski	– Member of the Supervisory Board
Lucyna Stańczak-Wuczyńska*	– Member of the Supervisory Board	Krzysztof Obłój	– Member of the Supervisory Board

* On 19 June 2013, the Annual General Shareholders' Meeting appointed Ms. Lucyna Stańczak-Wuczyńska Member of the Supervisory Board.

** As of 5 September 2013, Mr Józef Wancer, Deputy Chairman, resigned from his position on the Supervisory Board.

Moreover, on 23 January 2014, the Extraordinary General Shareholders' Meeting made changes in the Bank's Supervisory Board and appointed Mr Sławomir Dudzik a Member of the Supervisory Board.

Helene Zaleski President 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 Vice-President of the Supervisory Board	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.
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 of 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 Papierów Wartościowych S.A. (The Polish National Depository for Securities), as well as judge at the Arbitration Court at the Financial Supervision Authority; 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 Papierów 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 reprivatization. He is the author and a co-author of more than 100 academic publications on matters of securities and financial instruments, public trading of securities, banking law, capital market law, commercial law and joint stock companies.

Krzysztof Obłój Member of the Supervisory Board	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 the chairperson of the supervisory board at Impel S.A., Deputy Chairperson at LOOK Finansowanie Inwestycji S.A. and a member of the supervisory board of Prochem S.A.
Lucyna Stańczak-Wuczyńska Member of the Supervisory Board	Has been working with the European Bank for Reconstruction and Development („EBRD") since 2000; first, as Senior Banker, she was responsible for investments in the energy and infrastructure sectors, and since 2008 she has been the EBRD Director for Poland. Earlier, she worked at ABN AMRO Bank, where she was Vice President of Structured Finance. Between 1992 and 1996, she worked at the corporate banking department of IBP Bank S.A. Lucyna Stańczak-Wuczyńska is a graduate of the Warsaw School of Economics; she has also completed Advanced European Studies at the College of Europe in Brugge, Belgium.

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 the 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. 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 decision rests with the vote of the Chairman of the Supervisory Board. 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 2013

In 2013 the Supervisory Board held 6 meetings and passed 102 resolutions relating, among other things, to: assessing the financial statements and the Bank Directors' Report for 2012, requests relating to the distribution of profit and approving the activities of members of the Management Board in 2012, approving the Supervisory Board's Report on activities in 2012, 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, appointing the Chairman and Deputy Chairman of the Supervisory Board, amending the Articles of Association, approving Management Board requests addressed to the Bank's General Shareholders' Meeting, establishing the Supervisory Board's Audit Committee, updating the Organizational Regulations of Alior Bank S.A., approving the Management Board decision on signing the cooperation agreement with T-Mobile Polska S.A. and taking up and acquiring Money Makers S.A. shares.

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.

In the financial year 2013, the Remuneration Committee held two meetings (on 18 January 2013 and, as part of the Alior Bank S.A. Supervisory Board Meetings, on 18 and 27 March 2013), at which it approved the extended list of persons in managerial positions covered by the Variable Compensation Components Policy at Alior Bank S.A. and acquainted itself with the status of implementation of the Internal Audit Department recommendations resulting from the analysis of the above-mentioned internal regulation in the context of the provisions of the PFSA Resolution no. 258/2011 and subsequent PFSA interpretations. During the meetings, ongoing actions aimed at ensuring the compliance of the new Incentive Plan (options) with PFSA Resolution no. 258/2011 were discussed.

Under Art. 86, clause 3 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and public supervision, the Audit Committee of the Supervisory Board was appointed on 30 July 2013.

In the financial year 2013, the Committee held two meetings, at which it executed its tasks relating to monitoring the financial reporting process, effectiveness of internal control systems, internal audit and operating risk and compliance risk management. As part of its work, the Committee monitored the performance of audit and the registered auditor's independence during a meeting and discussion with the Bank's registered auditor.

General Shareholders' Meeting

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 with three-quarters of all votes.

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.

General Shareholders' Meetings in 2013

In 2013, two General Shareholders' Meetings took place, at which a total of 27 resolutions were passed. The first (annual) General Shareholders' Meeting was held on 19 June 2013 and, in addition to regular resolutions, it passed resolutions in matters relating to closing the financial year 2012 and approval of: the financial statements of the Bank and the Bank's Group, Directors' Report of the Bank and the Group, appropriation of profit and the discharge of duties of all members of the Management Board and Supervisory Board. The Annual General Shareholders' Meeting also passed resolutions on: approving the Regulations of the Bank's General Shareholders' Meeting, increasing the number of Supervisory Board Members to six and appointing Ms. Lucyna Stańczak-Wuczyńska Supervisory Board Member, and amending the Articles of Association by adding the function of transfer agent to the Bank's operations.

The second (extraordinary) General Shareholders' Meeting was held on 28 November 2013 and, in addition to regular resolutions, it passed a resolution on increasing the Bank's share capital by issue of G series shares without granting pre-emptive rights to the current shareholders, amending the Bank's Articles of Association and applying for the admittance of and introduction of G series shares and the rights to such shares to trading on the stock exchange and for dematerializing G series shares and the rights to such shares.

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

Remuneration of the Management Board members of Alior Bank S.A. in 2013 (in PLN '000)

Member	Period	Remuneration	Medicare	Remuneration related charges	Compensation for non-competition and early termination of employment contract	Total
Wojciech Sobieraj	01.01.2013-31.12.2013	2 162	2	88	0	**2 252**
Krzysztof Czuba	01.01.2013-31.12.2013	1 034	2	51	0	**1 087**
Michał Hucał	11.02.2013-31.12.2013	696	0	27	0	**723**
Niels Lundorff	01.01.2013-31.12.2013	2 119	1	86	0	**2 206**
Artur Maliszewski	01.01.2013-31.12.2013	1 033	2	51	0	**1 086**
Witold Skrok	01.01.2013-31.12.2013	1 032	0	51	0	**1 083**
Cezary Smorszczewski*	01.01.2013-10.02.2013	303	0	28	4 422	**4 753**
Katarzyna Sułkowska	01.01.2013-31.12.2013	1 034	2	25	0	**1 061**
Total		**9 413**	**9**	**407**	**4 422**	**14 251**

* Resignation from the position of Management Board Member effective from 11.02.2013; termination of employment relationship as of 15.02.2013.

Remuneration of the Supervisory Board members of Alior Bank S.A. in 2013 (in PLN '000)

Member	Period	Remuneration	Medicare	Remuneration related charges	Total
Małgorzata Iwanicz-Drozdowska	01.01.2013-31.12.2013	120	0	0	**120**
Marek Michalski	01.01.2013-31.12.2013	120	0	0	**120**
Krzysztof Obłój	01.01.2013-31.12.2013	120	0	0	**120**
Lucyna Stańczak-Wuczyńska	19.06.2013-31.12.2013	64	0	0	**64**
Józef Wancer	01.01.2013-04.09.2013	81	0	0	**81**
Helene Zaleski	01.01.2013-31.12.2013	120	0	0	**120**
Total		**625**	**0**	**0**	**625**

Contracts concluded with Management Board Members

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 of up to the total remuneration for the remaining part of the term (in the case of most Management Board Members, it is limited to 12 times the monthly remuneration).

The contracts include non-competition clauses on the basis of which members of the Management Board cannot undertake any competitive activities within 6, 12 or 18 months (depending on the type of contract) after termination of the contract. Therefore, members of the Management Board are entitled to receive compensation which totals the equivalent of their gross remuneration for 6, 12 or 18 months (depending on the type of contract).

Employment contracts concluded with Management Board Members

Management Board Member	Position	Compensation--termination of contract before end of term of office	Compensation period-resulting from not being elected for another term of office (in mths)	Compensation--resulting from the non-competition clause (in mths)	Violation of the non-competition clause by the employee (in mths)
Wojciech Sobieraj	CEO	no less than 12 remunerations	12	18	24
Krzysztof Czuba	Deputy CEO	no less than 12 remunerations	12	18	24
Hucał Michał	Deputy CEO	no less than 6 remunerations, no more than 12	6	6	6
Niels Lundorff	Deputy CEO	no less than 12 remunerations	12	18	24
Artur Maliszewski	Deputy CEO	no less than 6 remunerations, no more than 12	6	12	12
Witold Skrok	Deputy CEO	no less than 6 remunerations, no more than 12	6	12	12
Katarzyna Sułkowska	Deputy CEO	no less than 6 remunerations, no more than 12	6	12	12

7. Registered audit company

For the purpose of the review of the condensed interim financial statements for the period from 1 January to 30 June 2013 and audit of the annual financial statements for 2013, the Alior Bank Group uses the services of Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k (previously Ernst & Young Audit Sp. z o.o.); the contract was signed on 13.06.2013. The contract was concluded for the period until the end of the audit of the financial statements for 2013.

The registered auditor's fee in PLN in 2012/ 2013 for:

	2012	2013
Audit of the annual financial statements	400 000	450 000
Other certifying services, including establishing financial statements review	1 558 238	387 000

Alior Raty Sp. z o.o. in the annual financial statement for 2013 has used the services of Mazars Audyt sp. z o.o. Amount of remuneration for audit of the annual financial statements – 39 360 PLN.

CHAPTER XIV

A glass lantern slide by A. L. Simpson

XIV. ASSESSMENT OF OPERATIONS OF THE ALIOR BANK GROUP AND THE PROSPECTS FOR 2014

1. Assessment of operations of the Alior Bank S.A. Group

Despite the quite difficult macroeconomic situation in 2013, characterized by slower economic growth and a deterioration in public finance, stagnation on the labour market, slow growth in wages and salaries and a cycle of interest rate reductions which have brought the reference rate to the lowest level ever (for more information, see: Chapter II – External environment of the Bank's operations), Alior Bank Group managed to generate a net profit of PLN 227,9 million and achieved ROE of 11.0%

The main source of the Bank's revenues in 2013 was the net interest income, which, despite pressure resulting from low interest rates, increased in annual terms by PLN 262.9 million to PLN 1,540 million due to a dynamic growth in lending and effective management of the loan portfolio structure.
In 2013, the main sources of the Bank's revenues also included net fee and commission income, which increased by 79.2 PLN million in annual terms and represented 17.9 % of the Bank's revenues generated in 2013.
Another significant component of the Bank's revenues generated in 2013 was the trading result representing 14.7% of the revenues, in particular the result generated on currency and interest rate transactions concluded on behalf of the Bank's customers.

The net financial result was also affected by strict cost control. As a result, the costs (excluding the costs of the 2012 incentive plan) increased by 13.1%. In the opinion of the Bank's Management Board, based on the Bank's financial results one can assume as at the date of this Report that the Bank should be able to achieve its strategic goals for 2016, i.e. win a 4% share in the market and maintain the Costs / Revenues ratio at a level of up to 45% and ROE above 16%.

2. Development prospects of the Alior Bank S.A. Group

In accordance with the information provided in Chapter II – the External environment of the Bank's operations, in connection with the anticipated acceleration of economic growth in Poland in 2014, the macroeconomic conditions in which banks operate should improve. The forecasts prepared by Alior Bank assume GDP growth of 2.9% in 2014 (y/y), compared with 1.6% in 2013. An improvement in the foundations of growth will contribute to economic recovery. The positive trends which started in mid-2013 are expected to continue. They include mainly growing private consumption and relatively strong growth in wages and salaries, which, in combination with low inflation, will contribute to an increase in the disposable income of households. Private consumption will become the driving force of the economy in place of net export, which supported economic recovery in the recent quarters (due to the significant slow-down of import).

At the same time, it should be noted that in the coming months GDP growth will remain lower than before the financial crisis. In combination with the fact that to date the economic recovery has not brought a significant decrease in the unemployment rate, this can exert pressure on the scale of growth in demand for loan products offered by the Bank.

Furthermore, the low inflation level and low interest rates maintained by the Monetary Policy Council on the one hand stimulate interest in bank loans, but on the other hand they encourage customers to seek alternative forms of saving (other than bank deposits). Together with the price competition between banks, this exerts pressure on the results achieved by banks.

At the same time, according to the information published by the National Bank of Poland, despite stronger indications of recovery in the enterprise sector at the end of 2013, improvement is still rather slow and many enterprises are still exposed to increased risk, which has an adverse effect on their willingness to invest, increase employment or increase wages and salaries. Entrepreneurs who have not yet experienced any positive effects of economic recovery expect such effects at the end of 2014.
In the Bank's opinion, in view of the circumstances described above, the Bank will more likely have to recognize impairment write-downs in respect of loans in 2014.

In view of the external circumstances described above, in order to achieve its strategic goals, Alior Bank intends to continue the implementation of the existing projects and initiate new ones to extend and optimize its product offer and maintain the present rate of attracting new customers. Such actions constitute the foundation of the Bank's strategy of deepening its relations with the existing customers and attracting new customers for the existing distribution network.

One of the most important initiatives was the cooperation agreement for preparing a comprehensive offer of bank products and services available through multiple channels signed on 11 December 2013 with T-Mobile Poland. This agreement will create unprecedented synergies between the most innovative Polish bank and a telecommunications operator.

On the basis of this agreement, customers will be offered such products as bank accounts, deposits, loans, borrowings and credit limits and bank cards. The operator and the Bank will provide services to individuals (including persons conducting business activity) and SMEs. The products and services created and implemented under the agreement will be available in T-Mobile sales outlets, through mobile devices, webpages, at the Contact Centre and Virtual Branch.
Alior Bank's ambition is to attract 2 million customers in 5 years on the basis of this initiative. The planned ROE should reach 16% in the third year and approximately 40% in the fifth year.

Development of the network of Alior Express mini branches is an important element of Alior Bank's development strategy. The Bank opened 121 mini branches in 2013. Consequently, as at end of 2013 the Bank's network comprised 221 such branches. The network of Alior Express mini branches, conveniently located and offering the basic bank products, such as settlements, deposits and loans and the possibility of paying bills free of charge, will become an important channel for attracting customers in the future.
The effectiveness of this form of distribution of bank products is confirmed by high quarterly increases in the number of customers and the volumes of loans and deposits.

In 2014, the Bank intends to continue the dynamic development of Consumer Finance. On the basis of sales of instalment loans in a wide range of retail shops, the Bank is building its customer base for further development of sales of loan products (mainly cash loans).
In the Bank's opinion, the increase in the sales of products to such customers represents a significant source of interest and commission income.

In accordance with an investment agreement signed by the Bank at the end of 2013, the Bank is authorised to take over a package of shares which will result in exceeding 50% stake in the total number of votes at the general meeting of Money Makers S.A. The operations of Money Makers will focus on asset management services.

An extensive offer of investment products is particularly important due to the fact that the NBP maintains interest rates at a historically low level, thus creating an opportunity for offering alternatives to low-interest bank deposits.

CHAPTER XV

A photo by Philip de Bay "Men's Frock Coats"

XV. MANAGEMENT REPRESENTATIONS

1. 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.

2. Policies adopted in the preparation of financial statements

The Bank's Management Board hereby represents that to its best knowledge, the annual consolidated financial statements for 2013 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 2013.

3. Material contracts

The Bank's Management Board represents that as at 31 December 2013 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 2013, 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 32 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.

4. Court proceedings in progress

In 2013, in respect of business customers, the Bank issued 1,080 executory titles of a total value of PLN 282,175 thousand.

In cases relating to retail customers, the number of executory titles issued by the Bank in 2013 was 10,151 and related to debt with a total value of PLN 392,038 thousand.

The value of proceedings relating to liabilities or receivables of Alior Bank in progress in 2013 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 2013, and none of the proceedings jointly, could threaten the Bank's financial liquidity.

Signatures of the Management Board

Wojciech Sobieraj
CEO

5.03.2014 r., Signature

Artur Maliszewski
Deputy CEO

5.03.2014 r., Signature

Krzysztof Czuba
Deputy CEO

5.03.2014 r., Signature

Witold Skrok
Deputy CEO

5.03.2014 r., Signature

Michał Hucał
Deputy CEO

5.03.2014 r., Signature

Katarzyna Sułkowska
Deputy CEO

5.03.2014 r., Signature

Niels Lundorff
Deputy CEO

5.03.2014 r., Signature