
MANAGEMENT BOARD REPORT

DATED 29 APRIL 2016

prepared by the Management Board of Bank BPH S.A.

in accordance with Art. 536 of the Commercial Companies Code

**justifying the demerger of
Bank BPH S.A.**

DEFINITIONS USED IN THE MANAGEMENT BOARD REPORT

The following terms shall have the following meaning in this Management Board Report:

- Alior Bank, Acquiring Bank** Alior Bank S.A., with its registered seat in Warsaw, address: ul. Łopuszańska 38D, 02-232 Warsaw, entered into the Register of Business Entities maintained by the District Court in Warsaw, XIII Commercial Division under KRS No.0000305178, NIP 1070010731, with a fully paid-up share capital amounting to PLN 727,074,630.00.
- Antitrust Clearance** (i) the issuance by the relevant antitrust authority (the “**Antitrust Authority**”) of a (unconditional or conditional) decision consenting to a concentration involving the acquisition of control over Demerged Business pursuant to the respective competition law; or (ii) the issuance by a competent court (in result of an appeal filed by the Acquiring Bank against the decision of the Antitrust Authority) of a final and non-appealable judgment in favour of the appeal and amending the decision consenting to the concentration; or (iii) the issuance by the Antitrust Authority of a decision on discontinuing the proceedings or the Antitrust Authority returning the clearance request on account of the transaction not being subject to notification pursuant to the respective competition law; or (iv) the lapse of the deadline set out in the respective competition law within which the Antitrust Authority may issue a decision regarding a concentration, provided that under the respective competition law, in the case of the Antitrust Authority’s failure to issue a decision within the specified deadline, the concentration may be implemented without the consent of the Antitrust Authority.
- Banking Law**..... the Act of 29 August 1997 on the banking law (consolidated text: Journal of Laws of 2015, item 128, as amended).
- Banks**..... BPH and the Acquiring Bank.
- BPH, Bank Being Divided** Bank BPH S.A., with its registered seat in Gdańsk, address: ul. Płk. Jana Pałubickiego 2, 80-175 Gdańsk, entered in the Register of Business Entities kept by the District Court for Gdańsk-Północ in Gdańsk, VII Commercial Division of the National Court Register, under KRS No. 0000010260, NIP 6750000384, with a fully paid-up share capital amounting to PLN 383,339,555.00.
- CCC**..... the Commercial Companies Code dated 15 September 2000 (consolidated text: Journal of Laws of 2013, item 1030, as amended).

Demerged Business	an organised part of the enterprise of BPH connected with the pursuit of BPH's business other than the Mortgage Business).
Demerger	the demerger of BPH pursuant to the terms and conditions presented in the Demerger Plan.
Demerger Date	the date on which the Demerger becomes effective, i.e. the date of registration of the share capital increase of the Acquiring Bank by way of the issuance of the Demerger Issue Shares as a result of the Demerger.
Demerger Issue Shares	at least one (1) and no more than [Y] (where [no more than [Y] (where [Y] means the maximum number) of series J ordinary bearer shares in the Acquiring Bank with a nominal value of PLN 10 (ten zlotys) each issued in connection with the Demerger and subject to the Share Exchange Ratio adjusted in accordance with the Dilution Adjustment Formula specified in point 3.2.
Demerger Plan	the demerger plan prepared in accordance with Art. 533 of the CCC and signed by the management boards of BPH and Alior Bank on 29 April 2016.
Demerged Shareholders	means any person or entity who holds shares in BPH which, as at the Reference Date, are registered in a securities account or entered in the relevant registers maintained by brokerage houses or banks conducting brokerage activity and, in the case of collective accounts, the entity indicated to the entity maintaining such collective account by the holder of such account as the entity entitled to the BPH shares recorded on such account, other than the GE shareholders.
GE Shareholders	means: (i) GE Investments Poland sp. z o.o., a limited liability company organised and existing under the laws of the Republic of Poland with its registered office in Gdańsk, entered into the Register of Business Entities under KRS No. 0000103388; and / or (ii) DRB Holdings B.V., a company organised and existing under the laws of the Netherlands, with its registered office in Amsterdam, entered into the commercial register (Kamer van Koophandel) under number 24272907; and / or (iii) Selective American Financial Enterprises, Inc., a corporation organised and existing under the laws of the state of Delaware, registered under number 2241439, with its registered office at 901 Main Avenue, Norwalk, CT 06851; and/or other affiliates of the entities indicated in points (i) – (iii) above.
Management Boards	the management board of BPH and the management board of the Acquiring Bank.
Mortgage Business	an organised part of the enterprise of BPH conducting banking activity connected with the credit facilities

secured by mortgages on real estate which were granted to individuals (*osoby fizyczne*) (except for the Building Society (*Kasa Mieszkaniowa*)) for purposes not related to commercial activity (*działalność gospodarcza*) or farming (*gospodarstwo rolne*) activity as well as including the rights and liabilities excluded from the scope of the Demerged Business (in accordance with the scope presented in Schedule 1 to the Demerger Plan).

NDS	the National Depository for Securities (<i>Krajowy Depozyt Papierów Wartościowych S.A.</i>).
PFSA	the Polish Financial Supervision Authority (<i>Komisja Nadzoru Finansowego</i>).
Public Offering Act	the Act on Public Offerings, the Terms Governing the Introduction of Financial Instruments to Organised Trading, and on Public Companies (Journal of Laws of 2013, item 1382, as amended).
Reference Date	the date as of which the list of the entitled shareholders will be established based on the rules specified in the Demerger Plan.
Share Exchange Ratio	the agreed exchange ratio of the shares in BPH to the shares in the Acquiring Bank calculated in accordance with the rules described in point 3.
WSE	Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

INTRODUCTION

On 29 April 2016, BPH and Alior Bank signed the Demerger Plan setting out, in accordance with Art. 529 § 1.4, Art. 533 § 1, and Art. 534 of the CCC, among others, the manner in which the Demerger will be effected and the Share Exchange Ratio, and therefore BPH's Management Board, acting under Art. 536 of the CCC, has prepared this Management Board Report justifying the Demerger.

1. DESCRIPTION OF THE INTENDED DEMERGER

1.1. Legal Basis of the Demerger and the agreements related to the Demerger

The Demerger will be effected in accordance with the procedure specified in Art. 529 § 1.4 of the CCC. Under the Demerger, a part of the business of BPH, i.e. the Demerged Business, will be transferred to the Acquiring Bank, while the remaining part of the business of BPH, i.e. the Mortgage Business, will remain in BPH.

Pursuant to Art. 530 § 2 of the CCC, the Demerged Business will be transferred to the Acquiring Bank on the date of registration of the share capital increase of the Acquiring Bank by way of the issuance of the Demerger Issue Shares as a result of the Demerger (the “**Demerger Date**”).

As a result of the Demerger, pursuant to Art. 531 § 1 of the CCC, the Acquiring Bank will on the Demerger Date assume all of the rights and obligations of BPH connected with the Demerged Business. Consequently, immediately following the Demerger Date, BPH will conduct activity limited to the Mortgage Business and the activity of the Acquiring Bank will be enlarged by the Demerged Business.

On 31 March 2016, the GE Shareholders and Alior Bank concluded a share purchase and demerger agreement in which they expressed the intention to demerge the Demerger Business to Alior Bank. Additionally, on 1 April 2016, the GE Shareholders, Alior Bank and BPH concluded a pre-demerger and cooperation agreement related to the cooperation regarding the Demerger. The information about the conclusion of the above-mentioned agreements was publicly announced in current report of BPH No. 10/2016 dated 1 April 2016.

1.2. Required regulatory consents or permits

The Demerger will be executed subject to obtaining the following regulatory approvals:

- obtaining a decision from the PFSA permitting the Demerger in accordance with Article 124c, section 2 of the Banking Law;
- obtaining a decision from the PFSA permitting the amendments to the Acquiring Bank's statute to be made in connection with the Demerger as provided for in Schedule 4 to the Demerger Plan in accordance with Article 34, section 2 and in connection with Article 31, section 3 of the Banking Law;
- obtaining a decision from the PFSA permitting the amendments to BPH's statute to be made in connection with the Demerger in accordance with Article 34, section 2 and in connection with Article 31, section 3 of the Banking Law;
- obtaining a decision from the PFSA stating that there are no grounds to object against the Acquiring Bank exceeding the threshold of 33%, 50% or more of the votes at the general meeting of BPH or, alternatively, the lapse of the statutory deadline for the delivery of a decision containing an objection raised with respect to the above in accordance with Article 25 of the Banking Law;
- if required, obtaining a decision from the PFSA stating that there are no grounds to object against GE Investments Poland sp. z o.o. exceeding the threshold of 50% of the votes at the general meeting of BPH or, alternatively, the lapse of the statutory deadline

for the delivery of a decision containing an objection raised with respect to the above in accordance with Article 25 of the Banking Law; and

- obtaining the Antitrust Clearance.

1.3. Resolutions of the general meetings of the Banks

In accordance with Art. 541 of the CCC, the Demerger will require resolutions of the general meetings of the Banks, including resolutions regarding:

- (i) consent to the Demerger Plan;
- (ii) consent to the amendments to the Acquiring Bank's statute to be made in relation to the Demerger as provided for in Schedule 4 to the Demerger Plan; and
- (iii) consent to the amendments to the statute of the Bank Being Divided to be made in relation to the Demerger.

1.4. Increase in the Acquiring Bank's share capital in connection with the Demerger

In connection with the Demerger, the Acquiring Bank's share capital will be increased by at least PLN 10 (ten zlotys) and by no more than PLN [X] (where [X] means the maximum value of the increase of the share capital of the Acquiring Bank in connection with the Demerger, calculated subject to the Share Exchange Ratio adjusted in accordance with the Dilution Adjustment Formula described in point 3.2) through the issuance of the Demerger Issue Shares, which will be granted and allocated to the Demerged Shareholders based on the rules presented in the Demerger Plan in points 5 and 6.

The Acquiring Bank will take actions to procure the admission and introduction of the Demerger Issue Shares to trading on the regulated market operated by the WSE. To that end, the Acquiring Bank will file a motion with the PFSA requesting approval of the respective offering document in accordance with the Act on Public Offering, if such offering document will be required, and will file a motion for the registration of the Demerger Issue Shares with the NDS as well as a motion with the WSE for the introduction of the Demerger Shares to trading on the regulated market. Furthermore, if the offering for the Demerger Issue Shares should constitute a public offering within the meaning of the Public Offering Act, the offering document referred to above will also cover such public offering.

1.5. Decrease in BPH's share capital in connection with the Demerger

In connection with the Demerger, BPH's share capital will be decreased so as to cause that the GE Shareholders will be the only shareholders of BPH and all of the BPH shares held by the Demerged Shareholders will cease to exist.

In connection with the Demerger, BPH's share capital will be decreased by the amount equal to the product of the number of shares held by the Demerged Shareholders as at the date of the general meeting of BPH approving the Demerger and their nominal value. Such number of shares held by the Demerged Shareholders as at the date of the general meeting of BPH approving the Demerger will be calculated based on the following formula:

$$S_{DS} = T - S_{GE}$$

where: S_{DS} – means the number of shares held by the Demerged Shareholders, i.e. the number of shares which cease to exist as a result of the Demerger and by which total nominal value the share capital of BPH will be decreased; T – means the total number of shares in the share capital of BPH; and S_{GE} – means the total number of shares held by the GE Shareholders of which the management board of BPH is notified by the GE Shareholders prior to the meeting of the shareholders of BPH approving the Demerger.

The management board of BPH is authorised to: (i) calculate the exact number of shares which will cease to exist as a result of the Demerger; and (ii) calculate the amount of the decrease of the share capital based on the above formula; and (iii) propose a respective

supplement to the resolution on the decrease of the share capital of BPH to be adopted by the general meeting of BPH is attached as Schedule 2 to the Demerger Plan.

2. ECONOMIC JUSTIFICATION OF THE DEMERGER

The process of exploring strategic options for the sale of the GE Shareholders' interest in BPH was initially communicated in October 2014 (current report of Bank BPH S.A. No. 19/2014 dated 15 October 2014). In April 2015, General Electric Company announced the reduction of the size of its financial businesses through the sale of most of GE Capital's assets and by focusing on continued investment and growth in its world-class industrial businesses (current report of Bank BPH S.A. No. 6/2015 dated 10 April 2015). In June 2015, General Electric Company announced that it was exploring several potential transaction scenarios in connection with the sale of its majority stake in BPH, including a full carve-out of the BPH mortgage portfolio from the sale (current report of Bank BPH S.A. No. 12/2015 dated 9 June 2015).

On 31 March 2016, after an active sales process lasting several months, the GE Shareholders and Alior Bank entered into a share purchase and demerger agreement. On 1 April 2016, Alior Bank, the GE Shareholders and BPH entered into a pre-demerger cooperation agreement. The Demerger is a consequence of the above agreements.

The GE Shareholders' decision is, as a result of General Electric Company's global strategy, to limit its banking operations and to dispose most of GE Capital's assets.

The Acquiring Bank's acquisition of the Demerged Business from BPH is a consequence of the development strategy presented many times and consistently pursued by the Management Board of the Acquiring Bank, based on a dynamic organic growth and acquisitions, coupled with the achievement of the highest levels of return on equity.

Since the commencement of its operations, Alior Bank has always focused on the provision of high-margin, unsecured retail loans. The loan offering is mainly complemented by PLN mortgage and housing loans for retail clients and in the case of corporate clients, working capital loans and investment loans. As a result of the foregoing strategy of operations, Alior Bank's loan portfolio share of high-margin unsecured retail loans is greater as compared to the market average, which enables the Acquiring Bank to maintain a high level of the net interest margin, with an acceptable and manageable level of risk costs.

In view of the above, the acquisition of a sizable, mainly CHF-denominated mortgage loan portfolio, with its relatively low profitability, was of no interest to the Acquiring Bank. Another, equally important factor which contributed to the lack of Alior Bank's interest in acquiring the CHF housing loan portfolio, was Alior Bank's inability to ensure viable sources of its financing given the current market conditions.

Simultaneously, the acquisition of the Demerged Business only, together with an attractive and complementary deposit and loan portfolio, the operational efficiency of Alior Bank in the implementation of the integration processes and the advanced and high-capacity IT infrastructure will enable the Acquiring Bank to strengthen its presence in the market, increase the scale of operations and achieve the highest achievable synergies while minimising integration costs.

The acquisition of the Demerged Business will be beneficial for the clients of both Banks (offering an improved product range, a comprehensive distribution network and effective sales and support processes), the shareholders (a higher rate of return on invested capital achievable thanks to the related cost and income synergies) and will enable Alior Bank become one of the leading players on the Polish banking market. At the same time, the

Demerger is the only legal form of the transaction which would provide the expected legal security for all of the parties and stakeholders involved and which would ensure the continuance of the business operations of both the Mortgage Business and the Demerged Business immediately upon the registration of the Demerger.

3. SHARE EXCHANGE RATIO

3.1. Exchange ratio of the shares in BPH for the shares in Alior Bank

The Share Exchange Ratio based on which the Demerged Shareholders (subject to Article 550 § 1 of the CCC) will receive the Demerger Issue Shares is as follows: for 1 (one) share in BPH, the Demerged Shareholders will be granted and allocated 0.44 (forty-four hundredths) of a Demerger Issue Share. The above-mentioned Share Exchange Ratio will be adjusted by dividing it by the dilution adjustment ratio (RF) determined in accordance with the Dilution Adjustment Formula described in point 3.2 below.

3.2. Dilution Adjustment Formula

The dilution adjustment will be calculated based on the following formula:

$$RF = ((SR * PR) + (SI * PI)) / (PR * (SR + SI))$$

where:

RF – the dilution adjustment ratio

SR – the number of Alior Bank shares on the rights issue record date for the series I shares of Alior Bank

PR – the closing price for the Alior Bank shares on the rights issue record date for the series I shares of Alior Bank

SI – the final number of the series I shares of Alior Bank issued in the public rights issue

PI – issue price for the series I shares of Alior Bank

3.3. The methods applied to determine the Share Exchange Ratio

The following three generally accepted valuation methods have been used, *inter alia*, to determine the Share Exchange Ratio:

- the dividend discount model, which presents the value of the Bank as the sum of discounted predicted future dividends;
- the comparable companies method, which is based on multiples of valuations calculated following an analysis of comparable publicly listed companies; and
- market capitalisation, which is based on stock prices on the Warsaw Stock Exchange.

3.4. Recommendation regarding the Share Exchange Ratio

In its appraisal of the values of the Banks and the determination of the Share Exchange Ratio, (i) the management board of BPH took into account the fairness opinion prepared by Ernst & Young spółka z ograniczoną odpowiedzialnością Corporate Finance sp. k.; and (ii) the management board of the Acquiring Bank took into account the fairness opinion prepared by IPOPEMA Securities S.A.

4. PRINCIPLES OF ALLOCATING THE SHARES IN BANKS

4.1. Shares in BPH following the Demerger

As a result of the Demerger:

- (i) the GE Shareholders will not become shareholders of the Acquiring Bank and will only remain shareholders of BPH together holding 100% of the shares in and 100% of the votes at the general meeting of BPH; and
- (ii) the other shareholders of BPH, i.e. the Demerged Shareholders, will cease to be shareholders of BPH. Subject to the next sentence, as a result of the Demerger and as of the Demerger Date, the Demerged Shareholders will become shareholders of the Acquiring Bank and such Demerged Shareholders will be granted and allocated Demerger Issue Shares based on the Share Exchange Ratio.

Pursuant to Article 550 §1 of the CCC, no Demerger Issue Shares will be issued in exchange for the shares the Acquiring Bank has in BPH and no Demerger Issue Shares will be issued in exchange for the own shares held by BPH, if any.

4.2. Rules for the calculation of the number of the Demerger Issue Shares and value of the Additional Payments

- 4.2.1 The number of Demerger Issue Shares to be allotted to each and every Demerged Shareholder of BPH will be determined by multiplying the number of shares in BPH held by the relevant Demerged Shareholder as at the Reference Date by the Share Exchange Ratio and by rounding the product thereof down to the nearest integer (if the product is not an integer).
- 4.2.2 Each and every Demerged Shareholder who as a result of the rounding down referred to in sub-clause 4.2.1 has not been allotted a fraction of the Demerger Issue Shares he was entitled to according to the Share Exchange Ratio will receive an additional cash payment (the “**Additional Payment**”).
- 4.2.3 The Additional Payment due and payable to a given Demerged Shareholder will be calculated in accordance with the following formula:

$$D = A \times W,$$

where: **D** – means the Additional Payment; **A** – means the fraction by which the product referred to in sub-clause 4.2.1 was rounded down; and **W** – means the arithmetic mean of the volume weighted average price quotation per share in the Acquiring Bank over 30 (thirty) consecutive days of the quotation of the shares in the Acquiring Bank on the WSE preceding the Reference Date.

The amount of the Additional Payment will be rounded up to 1 grosz (PLN 0.01), with each PLN 0.005 being rounded up.

The Additional Payments will be paid to the Demerged Shareholders within up to 14 days from the Reference Date through the intermediation of the NDS.

As pursuant to Article 550 § 1 of the CCC no Demerger Issue Shares will be issued in exchange for the shares the Acquiring Bank has in BPH as at the Reference Date, the Acquiring Bank will also not be entitled to receive an Additional Payment.

- 4.2.4 The restriction referred to in Article 529 § 3 of the CCC will apply to the Additional Payments. The Additional Payments will be paid from the reserve capital (*kapitał zapasowy*) of the Acquiring Bank. The Additional Payments will be reduced by the due amount of income tax if such tax is levied on the Additional Payments under the applicable laws.
- 4.2.5 Before the Demerger Date, the management board of the Acquiring Bank will submit the representation referred to in Article 310 of the CCC, in connection with Article 532 of the CCC, determining the number of the Demerger Issue Shares, with the proviso that the management board of the Acquiring Bank may decide to submit such representation after the Demerger Date. In such case, the representation will be submitted within 15 (fifteen) business days from the Reference Date. The representation will concern: (i) the number of the Demerger Issue Shares allocated to the Demerged Shareholders based on the rules specified

in sub-clause 4.2.1; or (ii) the number of shares subscribed for by the financial institution referred to in sub-clause 4.2.6.

- 4.2.6 Within 15 (fifteen) business days from the Reference Date, the management board of the Acquiring Bank will make every effort to ensure that the Demerger Issue Shares that have not been allotted to the Demerged Shareholders as a result of the rounding down in accordance with sub-clause 4.2.1 will be subscribed for by a financial institution selected by the management board of the Acquiring Bank. The Demerger Issue Shares are to be subscribed for in exchange for the price representing the arithmetic mean of the volume weighted average price quotations per share in the Acquiring Bank over 30 (thirty) consecutive days of the quotation of the shares in the Acquiring Bank on the WSE preceding the Reference Date.

5. PARTICULAR PROBLEMS RELATED TO THE VALUATION OF THE BANKS

No particular problems arose in the course of the valuation of the BPH's assets and shares.

6. ADDITIONAL INFORMATION

6.1. Date from which the Demerger Issue Shares will participate in the Acquiring Bank's profit

The Demerger Issue Shares allocated to the Demerged Shareholders will participate in the profit generated by the Acquiring Bank for the financial year commenced on 1 January of the year in which the Demerger is registered in the court register.

6.2. Rights granted by the Acquiring Bank to the shareholders and other persons with special rights in the Bank Being Divided

It is not planned to grant any rights to the shareholders of BPH and/or to other persons holding special rights in BPH.

6.3. Special benefits for the members of the corporate bodies of the Banks and for other persons who participated in the Demerger

In the event of the implementation of the Demerger, the following programmes will be put in place providing for specific benefits for members of the governing bodies of the companies and for other individuals involved in the Demerger:

(i) The Programme of Bonuses for the Continuation of Employment addressed to a selected group of employees of key importance to the Demerged Bank (including Members of the Management Board), under which bonuses will be awarded for continuing the employment relationship with the Demerged Bank, and, subsequently, with respect to the employees transferred in connection with the Demerger to the Acquiring Bank – for continuing the employment relationship with the Acquiring Bank in the course of the special period of time preceding the implementation of the Demerger and during the period of time immediately following the Demerger. The costs of this programme are estimated to be no more than PLN 20 million and will be financed in full by the GE capital group.

(ii) Transactional bonus addressed to a group of employees of the Demerged Bank of key importance during the Demerger process (including Members of the Management Board). The payment of the bonuses under this programme is conditional on, inter alia, the successful completion of the Demerger process and achieving of the targeted business objectives. The costs of the transactional bonus programme should not exceed PLN 13 million, provided that Alior Bank and the GE Shareholders may decide to increase the above-mentioned sum.

As of the date on which the Demerger Plan is agreed, no programme granting any special benefits to the members of the authorities of the Acquiring Bank and other persons participating in the Demerger has been adopted in the Acquiring Bank.

7. SUMMARY AND RECOMMENDATION

The economic and financial advantages, both for the Banks themselves and for their shareholders, allow to conclude that the Demerger is justified in strategic, operating and cost terms.

Therefore, the Management Board of BPH recommends to the general meeting of BPH to adopt the resolutions consenting to effecting the Demerger Plan, and the amendments to BPH's statute, including those resulting from the Demerger.

On behalf of Bank BPH S.A.:

Richard Gaskin
President of the Management Board

Grzegorz Jurczyk
Deputy President of the Management Board