

MERITUM BANK ICB S.A.

**LONG-FORM AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

I. GENERAL NOTES

1. Background

Meritum Bank ICB S.A (hereinafter 'the Bank') began operating in year 1990 under the name of Banku Współpracy Europejskiej S.A. Memorandum of Association was prepared in form of a Notarial Deed in National Notarial Office in Warsaw dated February 20, 1990 and was registered in Repetitory No. A-III-4231/90. On January 20, 2009 the Bank changed its name to Meritum Bank ICB S.A. The Company's registered office is located in Gdańsk at Piastowska 7 Street.

The Company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000005245 on April 12, 2001.

The Company was issued with tax identification number (NIP) 526-030-02-10 on June 8, 1993 and statistical number (REGON) 002005177 on December 27, 2005.

Details of transactions with affiliated entities and the list of companies in which the Company holds at least 20% of shares in the share capital or in the total number of votes in the company's governing body are included in Notes 10 and 33 of the supplementary notes to the audited financial statements for year ended 31 December 2014.

The financial statements of the Bank were prepared for the year ended 31 December 2014 ('the financial year').

The principal activities of the Company are as follows:

- accepting a-vista and term deposits and maintaining deposit accounts;
- maintaining other bank accounts;
- granting loans;
- issuing and confirming bank guarantees and letters of credit;
- issuing bank securities;
- conducting bank monetary settlements;
- granting cash loans and consumer loans;
- cheque and bill of exchange transactions and transactions in warrants;
- issuing payment cards and performing transactions with the use of cards;
- forward financial transactions;
- purchasing and sale of debts;
- safekeeping of objects and securities and offering safety deposit box services to clients;
- purchasing and sale of foreign currencies;
- intermediary services in cash transfers and foreign currency settlements;
- granting and confirming of suretyships;
- other mentioned in the Bank's statute.

As at December 31, 2014, the Company's issued share capital amounted to 379.342 thousand zlotys. Equity as at that date amounted to 277.845 thousand zlotys.

In accordance with the Company's share register as at December 31, 2014 the ownership structure of the Company's issued share capital was as follows:

No.		Share capital (in PLN)	Number of shares	% share in total votes	Par value of shares (in PLN)	% of issued share capital
1	INNOVA FINANCIAL HOLDING S.a.r.l.	189,221,670	6,307,389	46.98%	30	49.88%
2	WCP Cooperatief U.A.	91,454,130	3,048,471	24.07%	30	24.11%
3	Europejski Bank Odbudowy i Rozwoju	90,806,580	3,026,886	23.90%	30	23.94%
4	Other shareholders	7,859,220	261,974	5.03%	30	2.07%
	Total	379,341,600	12,644,720	100.0%	=====	100.0%

The following changes took place in the ownership structure of the Company's issued share capital during the financial year and between the balance sheet date and the date of the opinion:

a) during the financial year:

- on January 9, 2014 the increase in share capital of the Bank was registered following the contribution of 2.444.460 PLN capital by Europejski Bank Odbudowy i Rozwoju in exchange for 81.842 shares,
- on January 9, 2014 the increase in share capital of the Bank was registered following the contribution of 5.093.700 PLN capital by INNOVA FINANCIAL HOLDING S.a.r.l. in exchange for 169.790 shares,
- on January 9, 2014 the increase in share capital of the Bank was registered following the contribution of 2.461.860 PLN capital by WCP Cooperatief U.A. in exchange for 82.062 shares,
- on March 26, 2014 the increase in share capital of the Bank was registered following the contribution of 5.093.700 PLN capital by INNOVA FINANCIAL HOLDING S.a.r.l. in exchange for 169.790 shares,
- on March 26, 2014 the increase in share capital of the Bank was registered following the contribution of 2.444.430 PLN capital by Europejski Bank Odbudowy i Rozwoju in exchange for 81.481 shares,
- on April 4, 2014 the increase in share capital of the Bank was registered following the contribution of 2.461.890 PLN capital by WCP Cooperatief U.A. in exchange for 82.063 shares.

b) between the balance sheet date and the date of the opinion:

- on February 19, 2015 Alior Bank S.A. acquired from INNOVA FINANCIAL HOLDING S.a.r.l., WCP Cooperatief U.A. and Europejskiego Banku Odbudowy i Rozwoju 12.382.746 shares of Meritum Banku representing 97.9% of Bank's share capital and 95% of overall votes number on the Bank's General Meeting.

As at March 12, 2015, the Company's Management Board was composed of:

Krzysztof Czuba	- acting President of the Board
Joanna Krzyżanowska	- First Vice-President of the Board
Witold Skrok	- acting Vice-President of the Board
Grażyna Musiatowicz - Podbiał	- Board Member
Hanna Wangler	- Board Member

There were following changes in the Company's Management Board during the reporting period as well as from the balance sheet date to the date of the opinion:

On February 19, 2015 the Supervisory Board of the Bank dismissed from the Management Board Mr Bartosz Chyła – Board Member acting as a President of the Board, Mr Piotr Urbańczyk – Vice-President of the Board and Mrs Agnieszka Porębska – Kość – Board Member.

On February 19, 2015 the Supervisory Board of the Bank delegated, in replace of the dismissed former Management Board Members, Members of the Supervisory Board: Mr Krzysztofa Czuba for temporary execution of activities of the President of the Management Board and Mr Witold Skrok for the temporary execution of activities of the Vice-President of the Management Board.

Additionally, as at February 19, 2015 the Supervisory Board of the Bank appointed Mrs Grażyna Musiatowicz-Podbiał and Mrs Hanna Wangler for the Management Board Member function.

2. Financial Statements

2.1 Auditors' opinion and audit of financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by Extraordinary Shareholders Meeting on June 19, 2013 to audit the Bank's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on May 24, 2014 with the Company's Management Board, we have audited the financial statements for the year ended 31 December 2014.

Our responsibility was to express an opinion on the financial statements based on our audit. The auditing procedures applied to the financial statements were designed to enable us to express an opinion on the financial statements taken as a whole. Our procedures did not

extend to supplementary information that does not have an impact on the financial statements taken as a whole.

Based on our audit, we issued an unqualified auditors' opinion with the emphasis of matter paragraph dated March 12, 2015, stating the following:

'To the General Shareholders' Meeting

1. We have audited the attached financial statements for the year ended 31 December 2014 of Meritum Bank ICB S.A. ('the Bank') located in Gdańsk, 7 Piastowska street containing the introduction to the financial statements, the balance sheet as at 31 December 2014, the profit and loss account, the cash flow statement and the statement of changes in equity for the period from 1 January 2014 to 31 December 2014 as well as the supplementary notes to the financial statements ('the attached financial statements').
2. The truth and fairness¹ of the attached financial statements, the preparation of the attached financial statements in accordance with the required applicable accounting policies and the proper maintenance of the accounting records are the responsibility of the Bank's Management Board. In addition, the Bank's Management Board and Members of the Supervisory Board are required to ensure that the attached financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013, item 330 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached financial statements and to express an opinion on whether, based on our audit, these financial statements comply, in all material respects, with the required applicable accounting policies, whether they truly and fairly² reflect, in all material respects, the financial position and results of the operations of the Bank and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.
3. We conducted our audit of the attached financial statements in accordance with:
 - chapter 7 of the Accounting Act,
 - National Auditing Standards issued by the National Council of Statutory Auditors,in order to obtain reasonable assurance whether these financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Bank's Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Bank's operations for the period from 1 January 2014 to 31 December 2014, as well as its financial position³ as at 31 December 2014;

¹ Translation of the following expression in Polish: '*rzetelność i jasność*'

² Translation of the following expression in Polish: '*rzetelnie i jasno*'

³ Translation of the following expression in Polish: '*sytuacja majątkowa i finansowa*'

- have been prepared in accordance with the required applicable accounting policies of the Accounting Act and regulations issued based on that Act and based on properly maintained accounting records;
- are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements and the Bank's Articles of Association.

5. Without qualifying our opinion, we draw attention to the following issue:

As described in point 1.4 of the introduction to the attached financial statements, as at January 29, 2015 the Bank's Management Board accepted and presented for approval of the Polish Financial Supervision Authority the financial-economic projection for the year 2015 with elements within standards relating to the recovery proceedings program, particularly within the risk area. As at the date of signing the attached financial statements, the updated recovery proceedings program for 2015 has not been approved by the Polish Financial Supervision Authority.

6. We have read the Directors' Report for the period from 1 January 2014 to 31 December 2014 and the rules of preparation of annual financial statements ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree on current and periodic information.'

We conducted the audit of the Company's financial statements during the period from November 24, 2014 to March 12, 2015. We were present at the Company's head office from November 24, 2014 to December 12, 2014 and from February 16, 2015 to February 27, 2015.

2.2 Representations provided and data availability

The Management Board confirmed its responsibility for the truth and fairness⁴ of the financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and stated that it had provided us with all financial information, accounting records and other required documents as well as all necessary explanations. The Management Board also provided a letter of representations dated March 12, 2015 confirming that:

- the information included in the books of account was complete,
- all contingent liabilities had been disclosed in the financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the financial statements,

and confirmed that the information provided to us was true and fair to the best of the Management Board's knowledge and belief, and included all events that could have had an effect on the financial statements.

At the same time declare that during the audit of the financial statements, there were no limitations of scope.

⁴ Translation of the following expression in Polish: "rzetelność i jasność"

2.3 Financial statements for prior financial year

The Company's financial statements for the year ended 31 December 2013 were audited by Jolanta Alvarado Rodriguez, key certified auditor no. 11299, acting on behalf of Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. located in Warsaw, Rondo ONZ 1, registered on the list of entities authorised to audit financial statements under no. 130. The key certified auditor issued an unqualified opinion on the financial statements for the year ended 31 December 2013.

The Company's financial statements for the year ended 31 December 2013 were approved by the General Shareholders' Meeting on April 30, 2014, and the shareholders resolved to appropriate the 2013 net profit in the amount of PLN 11.678 to cover prior period net losses of the Bank.

The financial statements for the financial year ended 31 December 2013, together with the auditors' opinion, a copy of the resolution approving the financial statements, a copy of the resolution on the appropriation of profit and the Directors' Report, were filed on May 14, 2014 with the National Court Register.

The closing balances as at 31 December 2013, after the restatement of comparative data as described in note 1.6 and 1.7 of the introduction to the audited financial statements of the Bank, were correctly brought forward in the accounts as the opening balances at 1 January 2014.

3. Analytical Review

3.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the financial performance of the Bank for the years 2012 – 2014. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2014 and 31 December 2013. The comparative financial data for the years 2013 and 2012 were restated to the comparative data in the audited financial statements for the years 2014 and 2013 according to the description in point 1.6 and 1.7 of the introduction to the audited financial statements.

	2014	2013*	2012**
Total assets	3,428,906	2,958,369	2,204,305
Shareholders' equity	277,845	212,550	201,991
Net profit/ loss	44,552	11,678	1,819
Gross profit/loss	57,891	13,874	(3,684)
Common capital adequacy ratio	15.47%	13.59%	13.83%
Profitability ratio	47.3%	12.6%	(3.5%)

$$\frac{\text{Gross profit/loss} \times 100}{\text{Overhead costs and amortization}}$$

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(in thousand zlotys)*

	2014	2013*	2012**
Cost level ratio	35.0%	41.3%	56.7%
<u>Overhead costs and amortization</u> Result from banking activity			
Return on capital	18.2%	5.6%	1.1%
<u>Net profit/loss x 100</u> Average level of equity capital			
Return on assets	1.4%	0.5%	0.1%
<u>Net profit/loss x 100</u> Average level of assets			
Rate of inflation:			
Yearly average	0.0%	0.9%	3.7%
December to December	-1.0%	0.7%	2.4%

*restated data

**not comparable data

3.2 Comments

The following trends may be observed based on the above financial ratios:

- Profitability ratio increased from the level of -3.5% in year 2012 to the level of 12.6% in year 2013, and then to the level of 47.3% in year 2014;
- Cost level ratio decreased from the level of 56.7% in year 2012 to the level of 41.3% in year 2013, and then to the level of 35.0% in year 2014;
- Return on Capital ratio increased from the level of 1.1% in year 2012 to the level of 5.6% in year 2013, and then to the level of 18.2% in year 2014;
- Return on assets increased from the level of 0.1% in year 2012 to the level of 0.5% in year 2013, and then to the level of 1.4% in the year 2014.

3.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the Company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2014 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In point 1.4 of the introduction to the audited financial statements for the year ended 31 December 2014, the Management Board has stated that the financial statements were

prepared on the assumption that the Company will continue as a going concern for a period of at least twelve months subsequent to 31 December 2014.

Additionally, as described in point 1.4 of the introduction to the audited financial statements, as at January 29, 2015 the Bank's Management Board accepted and presented for approval of the Polish Financial Supervision Authority the financial-economic projection for the year 2015 with elements within standards relating to the recovery proceedings program, particularly within the risk area. As at the date of signing the attached financial statements, the updated recovery proceedings program for 2015 has not been approved by the Polish Financial Supervision Authority.

3.4 Application of regulations mitigating banking risk

As at December 31, 2014 the regulations of the Banking Law, the Resolutions of the Management Board of the National Bank of Poland, Resolution of Polish Financial Supervisory Authority and the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) Nr 648/2012 (CRR) and other regulations issued by the Commission (EU) pursuant to this Regulation, envisaged banking regulatory norms in relation, among others, to following items:

- concentration of credit risk,
- concentration of investments in shares,
- classification of loans and guarantees to risk groups and the creation of provisions for the risk associated with the activities of banks,
- liquidity measures,
- level of obligatory reserve,
- capital adequacy.

During the audit we have not identified any other facts indicating that during the period from 1 January 2014 to the day of issuance of this report the Bank did not comply with the above regulations except for the matter described in note 1.3 supplementary notes to the financial statements, in which the Bank pointed that as at February 28, 2014, capital ratio Tier 1 achieved lower level than required by PFSA 9%. We have received a written representation from the Management Board that in the financial period and to the date of the opinion no other regulatory norms have been violated.

3.5 Correctness of calculation of Capital adequacy ratio

During our audit we found no significant irregularities in determining the common capital adequacy ratio as at 31 December 2014 in accordance with the Regulation of the European Parliament and the Council (EU) No. 575/2013 from 26 June 2013 on prudential requirements for credit institutions and investment firms (CRR).

II. DETAILED REPORT

1. Accounting System

The Bank's accounts are kept using the DEF3000 computer system at the Company's head office. The Company has up-to-date documentation, as required under Article 10 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013, item 330 with subsequent amendments – 'the Accounting Act'), including a chart of accounts approved by the Company's Management Board.

During our audit no material irregularities were noted in the books of account which could have a material effect on the audited financial statements and which were not subsequently adjusted. These would include matters related to:

- the reasonableness and consistency of the applied accounting policies;
- the reliability of the accounting records, the absence of errors in the accounting records and the trail of entries in the accounting records;
- whether business transactions are supported by documents;
- the correctness of opening balances based on approved prior year figures;
- consistency between the accounting entries, the underlying documentation and the financial statements;
- fulfilment of the requirements for safeguarding accounting documents and storing accounting records and financial statements.

2. Assets, Liabilities and Equity, Profit and Loss Account

Details of the Bank's assets, liabilities and equity and profit and loss account are presented in the audited financial statements for the year ended 31 December 2014.

Verification of assets, liabilities and equity was performed in accordance with the Accounting Act. Any differences were properly adjusted in the books.

3. Notes to the Financial Statements

The introduction to the financial statements and the supplementary notes to the financial statements for the year ended 31 December 2014 (jointly 'notes to the financial statements') were prepared, in all material respects, in accordance with the requirements of the Accounting Act and regulations issued based on that Act.

4. Directors' Report

We have read the Directors' report on the Company's activities in the period from 1 January 2014 to 31 December 2014 and the basis for preparation of annual financial statements ('Directors' Report') and concluded that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with the relevant provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (Journal of Laws No. 33, item 259 with subsequent amendments).).

5. Notices and results of supervisory controls

As described in point 1.4 of the introduction to the audited financial statements, as at January 29, 2015 the Bank's Management Board accepted and presented for approval of the Polish Financial Supervision Authority the financial-economic projection for the year 2015 with elements within standards relating to the recovery proceedings program, particularly within the risk area. As at the date of signing the attached financial statements, the updated recovery proceedings program for 2015 has not been approved by the Polish Financial Supervision Authority.

6. Materiality levels

When determining the materiality level, professional judgement was applied taking into account the specific characteristics relating to the Bank. This included both qualitative and quantitative considerations.

7. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board confirming that no laws, regulations or provisions of the Company's Articles of Association were breached during the financial year.

8. Work of Experts

During our audit we have taken into account the results of the work of the independent property appraisers – in the calculation of the level of loan loss provisions the Bank took into consideration the value of collateral established in valuations performed by property appraisers engaged by the Bank.

on behalf of
Ernst & Young Audyt Polska spółka z
ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Key Certified Auditor

Dominik Januszewski
Certified Auditor
No. 9707

Warsaw, March 12, 2015