



Share Purchase and Demerger Agreement regarding the acquisition of the demerged business of Bank BPH S.A.

Current Report No. 14/2016 of 1 April 2016

Legal basis: Article 56 Section 1 item 1 – inside information; Article 56 Section 1 item 2 – current and periodic information

Contents of the report: Pursuant to Article 56 Section 1 item 1 of the Act of 29 July 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies (the “**Public Offering Act**”) and Article 56 Section 1 item 2 of the Public Offering Act in conjunction with § 5 Section 1 item 3 of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognized as equivalent (the “**Ordinance**”), the Management Board of Alior Bank S.A. (the “**Bank**”) hereby announces that:

- (i) with reference to the Bank’s offer to execute the transaction involving the purchase of the Bank BPH Core Business (as defined below) from the affiliates of GE Capital International Holdings Limited (“**GE Capital**”), on 4 March 2016 the Bank received an invitation to commence negotiations (the “**Negotiations**”); and
- (ii) on 31 March 2016 the Negotiations were completed and the Bank executed with GE Investments Poland sp. z o.o. (“**GEIP**”), DRB Holdings B.V. and Selective American Financial Enterprises, LLC (these three entities jointly the “**Bank BPH Sellers**”) a share purchase and demerger agreement regarding the acquisition of the Bank BPH Core Business (as defined below) (the “**Share Purchase and Demerger Agreement**”).

The disclosure of the information of the commencement of the Negotiations was postponed on 4 March 2016, pursuant the Article 57 Section 1 of the Public Offering Act. Explanations concerning the reasons behind the postponed disclosure of the commencement of the Negotiations were provided to the Polish Financial Supervision Authority (the “**PFSA**”) on 4 March 2016.

The Transaction

The transaction contemplated in the Share Purchase and Demerger Agreement involves:

- (i) an acquisition by the Bank from Bank BPH Sellers of the shares representing a significant stake in Bank BPH S.A. (“**Bank BPH**”); and
- (ii) a demerger of Bank BPH in accordance with Article 529 §1 item 4 of the Polish Commercial Companies Code to be effected through a transfer (spin-off) of the Bank BPH Core Business (as defined below) to the Bank (the “**Demerger**”) and the issuance by the Bank of new shares



to shareholders of Bank BPH indicated in the Demerger plan, other than the Bank and the Bank BPH Sellers and their affiliates

(jointly referred to as the “**Transaction**”).

Overview of the Transaction

As a result of the Transaction, on the date of the registration of the Bank’s share capital increase in connection with the Demerger by the relevant registry court (the “**Demerger Effective Date**”), the Bank will acquire Bank BPH’s core business (the “**Bank BPH Core Business**”) that will consist of an organised part of the enterprise (*zorganizowana część przedsiębiorstwa*), including all the assets and liabilities of Bank BPH, excluding certain assets and liabilities that will remain in Bank BPH following the Demerger (the “**Bank BPH Mortgage Business**”). The Bank BPH Mortgage Business will include the mortgage loan portfolio of Bank BPH (in particular all PLN and non-PLN mortgage loans granted to individuals for their housing needs), financial liabilities to entities of the GE group, and other assets and liabilities relating to the above-mentioned mortgage loan portfolio. Additionally the Bank BPH Mortgage Business will include the majority interest in BPH PBK Zarządzanie Funduszami sp. z o.o. (“**BPH PBK**”) (the sole shareholder of BPH Towarzystwo Funduszy Inwestycyjnych S.A. (“**BPH TFI**”)), and liabilities of Bank BPH relating to BPH PBK and/or BPH TFI. The Bank BPH Sellers undertook to the Bank that the Bank BPH Core Business will have its regulatory total capital ratio, taking into account solely shareholders’ equity (“**Bank BPH Core Business CET1**”), as of the Demerger Effective Date at the level equal to 13.25%.

The acquisition of the Bank BPH Core Business by the Bank as a result of the Demerger will be preceded by the acquisition by the Bank of a relevant number of shares in Bank BPH from, *inter alia*, the Bank BPH Sellers in the Tender Offer (as defined and described below). As a result of the Demerger, all of these shares shall cease to exist. As a result of the Demerger the Bank will issue new shares to the minority shareholders of Bank BPH, if such shareholders remain in Bank BPH at the relevant time, and the Bank BPH Sellers will remain the sole shareholders of Bank BPH (and therefore the economic owners of the Bank BPH Mortgage Business).

Tender Offer

The acquisition of the shares in Bank BPH by the Bank will be conducted through a public tender offer for all outstanding shares in Bank BPH or for 66% of the share capital of the Bank BPH (the “**Tender Offer**”). The Bank is obliged to announce the Tender Offer after the satisfaction of the conditions set forth in the Share Purchase and Demerger Agreement (see “*Implementation of the Transaction*” below). However, the Bank has the right to announce the Tender Offer before the satisfaction of these conditions.

The exact number of the shares that will be sold to the Bank by the Bank BPH Sellers will be determined by dividing the consideration due to the Bank BPH Sellers for their interest in the Bank BPH Core Business by the Tender Offer price.

Between the completion of the Tender Offer and the earlier of: (i) the Demerger Effective Date and (ii) a date falling six months after the completion of the Tender Offer (the “**Interim Period**”), the



Bank agreed not exercise any rights attached to the shares held in Bank BPH, subject to exceptions set forth in the Share Purchase and Demerger Agreement. During the Interim Period the Bank BPH Sellers will remain the reference shareholders of Bank BPH.

Price

The purchase price for the 87.23% interest in the Bank BPH Core Business held by the Bank BPH Sellers amounts to PLN 1,225 million, subject to adjustments. The entire Bank BPH Core Business is valued at PLN 1,532 million. It implies a P/TBV (price / tangible book value) multiple of 0.93x. The final price due to the Bank BPH Sellers will be adjusted depending on the adjusted tangible book value of the Bank BPH Core Business as at the Demerger Effective Date (for reference, the unadjusted tangible book value of the entire Bank BPH Core Business amounted to PLN 1,646 million as of 30 September 2015).

The Bank will offer the minority shareholders of Bank BPH a chance to sell their shares in Bank BPH for a price set out in the Tender Offer. If these shareholders still own shares in Bank BPH as at the Demerger Effective Date, these shares will be exchanged for shares in the Bank as a result of the Demerger.

Financing

The Transaction will be financed through the issuance of new shares by the Bank to its existing shareholders in a public rights offering (the “**Rights Offering**”). The closing of the Transaction and preservation of capital ratios of the Bank at the levels adequate to the scale of the operations of the combined Bank and the Bank BPH Core Business will be secured by the Rights Offering. The Bank is planning to hold a general meeting to approve the Rights Offering within the deadline set out in the Share Purchase Agreement and to complete the Rights Offering in June 2016, subject to market conditions.

The value of the Rights Offering will allow the Bank to both finance the planned Transaction as well as ensure an appropriate capitalization level providing a platform for future growth of the combined entity. The CET1 ratio for the combined entity will exceed 10.75%.

The final number of shares to be issued in the Rights Offering and the issue price will be determined at a later stage of the Transaction. The Management Board of the Bank expects the issue price to be at a discount to the theoretical ex-rights price (TERP) not higher than typically observed in such transactions.

Implementation of the Transaction

The closing of the Transaction depends on the satisfaction of certain conditions precedent specified in the Share Purchase and Demerger Agreement, which include the following:

- (i) obtaining consent of a relevant antimonopoly authority;
- (ii) obtaining approvals and clearances of the PFSA for Bank BPH, the Bank and GEIP;
- (iii) approval and execution of the Demerger plan by Bank BPH and the Bank;



- (iv) adoption of a resolution by the general meeting of the Bank approving the Rights Offering (the “**Capital Increase Resolution**”);
- (v) registration of the share capital increase of the Bank based on the Capital Increase Resolution by the registry court;
- (vi) adoption of a resolution by the general meeting of the Bank approving the Demerger;
- (vii) obtaining certain tax rulings (*interpretacje podatkowe*) in respect of the Demerger.

In accordance with the Share Purchase and Demerger Agreement, the conditions must be satisfied on or before the Long Stop Date which is set for 1 June 2016 for the condition in item (iv) above, 1 May 2016 for the condition (iii) above, subject to possible extension, and 1 November 2016 for the remaining conditions. If the conditions are not satisfied by the relevant Long Stop Dates, unless the parties agree to extend such dates, the Share Purchase and Demerger Agreement may be terminated by either party.

The Bank will be disclosing the fact of satisfying or not satisfying the above-mentioned conditions to the Transaction in current reports.

Break Fee

The Bank undertook to exercise its best endeavors to ensure that conditions referred to in items (iv), (v), (vi) in the section “Implementation of the Transaction” above are fulfilled before the relevant Long Stop Dates. If the Share Purchase and Demerger Agreement is terminated due to the those conditions not being satisfied by the agreed dates, the Bank shall pay to GEIP a break fee equal to EUR 16,000,000 increased by VAT, if applicable. If the Bank fails to exercise its best endeavors to ensure that those conditions are satisfied, the break fee shall not be the Bank BPH Sellers’ exclusive remedy and it shall be applied towards the amount of damages for which the Bank is liable.

Principle rules of allocation of the Bank’s shares in the Demerger

In exchange for the Bank BPH Core Business being transferred to the Bank as a result of the Demerger:

- (i) no new shares in the share capital of the Bank will be issued to the Bank;
- (ii) all the shares held by the Bank in Bank BPH shall cease to exist and the Bank BPH Sellers shall become the only shareholders of Bank BPH; and
- (iii) shareholders of Bank BPH other than the Bank and the Bank BPH Sellers and the Bank BPH Sellers’ affiliates that hold shares in Bank BPH as at the relevant date set out in the Demerger plan, if any, will receive shares in the share capital of the Bank in accordance with the share exchange ratio for exchanging shares in Bank BPH for shares in the Bank, established for the Demerger.

The share exchange ratio established for the Demerger



The Bank and the Bank BPH Sellers agreed that the share exchange ratio for exchanging Bank BPH shares for the Bank's shares issued during the Demerger (the "**Demerger Shares**") (the "**Share Exchange Ratio**") shall be within the range of between 0.46 to 0.35 Demerger Shares for one Bank BPH share. The Share Exchange Ratio will be established with reference to the market prices and fundamental values of each of the banks.

The final Share Exchange Ratio is subject to the agreement of the Bank and Bank BPH in the Demerger plan.

Pre-Demerger Agreement

On 1 April 2016 the Bank also entered into the Pre-Demerger and Cooperation Agreement with Bank BPH, with the support of the Bank BPH Sellers (the "**Pre-Demerger Agreement**"). The Pre-Demerger Agreement sets out preliminary terms and principles of the Demerger, including the general terms and conditions of cooperation between the parties in the preparation of the Demerger plan and the implementation of the Demerger. The Pre-Demerger Agreement also sets out the principles for agreeing the Share Exchange Ratio and the principles of allocation of the assets and liabilities of Bank BPH to Bank BPH Core Business and Bank BPH Mortgage Business. It also contains certain commitments of Bank BPH relating to conducting its activities between the signing of the Share Purchase and Demerger Agreement and the Demerger Effective Date.

According to the Pre-Demerger Agreement, the Demerger plan is to be agreed by the Bank and Bank BPH by 30 April 2016, subject to a possible extension.

Support letter issued by PZU

On 31 March 2016 the Bank was informed by its significant shareholder, Powszechny Zakład Ubezpieczeń S.A. ("**PZU**"), that on 31 March 2016 in relation to signing and implementation of the Share Purchase and Demerger Agreement, at the request of the Bank, PZU issued a support letter (the "**Support Letter**") to the Bank BPH Sellers in which PZU undertook, subject to any regulatory requirements and/or requests of the PFSA, *inter alia*, to:

- (i) vote all shares it holds directly in the Bank as of the date of the Support Letter (i.e. 25.19% of the share capital of the Bank) or as of the date of the shareholders' meeting of the Bank convened in connection with the Transaction, whichever is higher, in favor of the following resolutions proposed by the Bank at the said shareholders' meeting of the Bank to implement the Transaction: (i) the Capital Increase Resolution and (ii) a resolution regarding the approval of the Demerger;
- (ii) subscribe and pay for new shares in the Bank offered for subscription in the Rights Offering *pro rata* to its current shareholding in the Bank provided, however, that in no case will PZU be obliged to subscribe and pay for shares which, together with the current shareholding of PZU (and of any and all its related entities, the shareholding of which in the Bank is attributable to PZU pursuant to the respective regulations regarding significant block of shares in public companies), would constitute more than 33% of all shares and/or votes in the Bank; and



- (iii) use its best endeavors to obtain, in a timely manner consistent with the Share Purchase and Demerger Agreement, all regulatory consents (if any) required for PZU for the purpose of the Bank's completion of the Transaction.

In addition, during the period between the date of issuing the Support Letter and the Long Stop Date, PZU undertook that, without a prior written consent of Bank BPH Sellers, PZU would not sell, transfer or otherwise dispose of any of its shares directly held in the Bank as at the date of issuing the Support Letter.

Additional information regarding the Transaction

The obligations of the Bank BPH Sellers under the Share Purchase and Demerger Agreement are guaranteed by GE Capital Global Holdings, LLC.

On the day of the execution of the Share Purchase and Demerger Agreement the Bank entered into a transitional services agreement with GE Capital US Holdings, Inc., concerning the continuation, for a transition period indicated in the agreement, of certain GE group services provided in respect of Bank BPH Core Business, including application services, access rights, IT and operational support service.

In addition, under the Share Purchase and Demerger Agreement the following agreements will be executed by the Bank with the relevant counterparties:

(A) on the date of execution of the Demerger plan:

- (i) an outsourcing agreement concerning the servicing of the Bank BPH Mortgage Business by the Bank;
- (ii) an outsourcing agreement concerning the provision of IT services to Bank BPH by the Bank; and
- (iii) lease agreements concerning the use of the Bank's office space by Bank BPH; and

(B) on the Demerger Effective Date:

- (i) a transitional trademark license agreement concerning GE Capital Group' trademarks to be used by the Bank BPH Core Business until completion of the rebranding; and
- (ii) an intellectual property cross-license agreement concerning the use of certain GE Capital Group's intellectual property by the Bank BPH Core Business.

The Bank shall inform the public of entering into those agreements in separate current reports, if required in accordance with Polish law.

If following the completion of the Tender Offer, the Bank and the Bank BPH Sellers hold jointly shares constituting at least 90% of the share capital in Bank BPH pursuant to the Share Purchase and Demerger Agreement, the Bank may, at its own discretion, proceed with a squeeze-out of the



minority shareholders of Bank BPH and request the Bank BPH Sellers to act in concert with the Bank with respect to the squeeze-out.

The Share Purchase and Demerger Agreement is a “significant agreement” within the meaning of the Ordinance because its value exceeds 10% of the Bank’s equity.

The Share Purchase and Demerger Agreement may be terminated in certain circumstances set out therein such as, for example, Bank BPH or the Bank losing their respective banking licenses.

If prior to the Demerger Effective Date a change in the legal and/or accounting framework for FX mortgages or other banking industry-wide event occurs that might reasonably be expected to materially adversely affect Bank BPH and as a result cause the Bank BPH Core Business CET1 to amount to less than 13.25% as at the expected Demerger Effective Date, the Bank BPH Sellers undertook to restore the Bank BPH Core Business CET1 via, *inter alia*, a recapitalization of Bank BPH up to the amount agreed upon in the Share Purchase and Demerger Agreement. If the amount required exceeds this value, the Bank BPH Sellers may elect to either proceed with the restoration of the Bank BPH Core Business CET1 or to opt out of it and terminate the Share Purchase and Demerger Agreement. If the Bank BPH Sellers fail to act, the Bank has the right to terminate the agreement.

Strategic rationale for the Transaction

The execution of the agreement is consistent with the development strategy presented many times and consistently pursued by the Management Board of the Bank, based on a dynamic organic growth and acquisitions, coupled with the achievement of the highest levels of return on equity. As a result of the Transaction the combined bank will strengthen its position on the consolidating market. The number of customers will grow to 3.3 million. The deposit base of the Bank will increase by more than 1/3 (PLN 12 billion), while the portfolio of high-margin net loans will increase by 1/4 (PLN 8.5 billion). Upon the combination the Bank’s assets will reach c. PLN 60 billion, which will place the Bank at the 9th position in the banking sector. The experience of both banks’ employees will form a solid basis for the development of innovative products and service offerings and further increase in efficiency.

The Bank expects to benefit from pre-tax annual synergies of c. PLN 300 million, before including PLN 160 million of synergies resulting from the implementation of Bank BPH’s remedy plan. The full run-rate synergies are envisaged to be achieved in 2019. One-off integration costs to deliver the planned synergies will be incurred until end of 2018, of which the majority will be incurred in 2017.

Acquisition of the Bank BPH Core Business will be financed by the Bank through an issue of new ordinary shares with pre-emptive rights for existing shareholders. PZU has committed to subscribe to its pro rata share in the offering resulting from its shareholding in the Bank. The enhanced capital position will allow the combined bank to maintain capitalization levels exceeding 10.75% CET1 ratio and 13.75% CAR.

The Transaction is subject to fulfillment of conditions precedent, including consent of the relevant antimonopoly authority and approvals and clearances of the PFSA. The Transaction is expected to close by the end of 2016.



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The Company’s securities have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”), and may not be offered or sold in the United States, unless registered under the Securities Act or unless an exemption from the registration requirements set forth in the Securities Act applies to them. No public offering of the securities will be made in the United States and the Company does not intend to make any such registration under the Securities Act.

This material does not constitute a recommendation within the meaning of the Regulation of the Polish Minister of Finance Regarding Information Constituting Recommendations Concerning Financial Instruments or Issuers Thereof of 19 October 2005.

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Alior Bank Spółka Akcyjna
ul. Łopuszańska 38D
02-232 Warszawa

Adres do korespondencji:
Alior Bank SA
ul. Postępu 18B
02-676 Warszawa

Sąd Rejonowy dla miasta st. Warszawy
XIII Wydział Gospodarczy
KRS: 0000305178, REGON: 141387142
NIP: 1070010731
Kapitał zakładowy: 727 074 630 PLN
(opłacony w całości)

Zarząd w składzie:
Wojciech Sobieraj – prezes Zarządu,
Małgorzata Bartler – wiceprezes Zarządu
Krzysztof Czuba – wiceprezes Zarządu
Joanna Krzyżanowska – wiceprezes Zarządu
Witold Skrok – wiceprezes Zarządu
Barbara Smalska – wiceprezes Zarządu
Katarzyna Sułkowska – wiceprezes Zarządu



This material contains certain estimates relating to the Bank BPH core business (“**Core BPH**”). The above estimates were prepared on the basis of preliminary financial data as of 30 September 2015 regarding the Core BPH. These data were not the subject of Alior Bank’s normal procedures regarding the closing of accounting books at the end of each period and the process of verifying the financial data (including the corrections required for the purpose of presenting financial information) in accordance with IFRS. These procedures have not been performed by Alior Bank with respect to financial data regarding the Core BPH at all.

The estimates were prepared by Alior Bank as of the date of their preparation, based on the assumption that the source data regarding the Core BPH were correct and reliable and that no circumstances had or would arise or occur which could materially affect these financial data after their provision to Alior Bank.

Neither of the above estimates nor source data regarding the Core BPH were subject of an audit, a review or any other evaluation by any external auditor in regard to the completeness and reliability of either the adopted assumptions of the specified estimates or the accounting principles that were used to prepare them.

Statements contained herein may constitute “forward-looking statements”. Forward-looking statements are generally identifiable by the use of the words “may”, “will”, “should”, “aim”, “plan”, “expect”, “anticipate”, “estimate”, “believe”, “intend”, “project”, “goal” or “target” or the negative of these words or other variations on these words or comparable terminology.

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