

# **REPORT**

**of the Supervisory Board of Alior Bank Spółka  
Akcyjna  
with its registered office in Warsaw  
on its operations in 2012**

**March 2013**

In the reporting period, the Supervisory Board of Alior Bank Spółka Akcyjna (hereinafter referred to as “the Bank”), under the provisions of the Code of Commercial Companies, Banking Law and other legal regulations in force, the Bank’s Articles of Association and the Rules of the Supervisory Board, exercised continuous supervision over the operations of the Bank in all areas of its operation.

While performing its statutory duties, in 2012 the Supervisory Board participated actively in the monitoring and supervision of the key areas of Bank’s operation, including risk management, implementation of strategic projects or meeting requirements posed by supervision authorities.

A vital element of activities performed by the Supervisory Board in the reporting period was the supervision over the financial results of the Bank, including the performance of the financial plan for 2012 and gaining the expected financial result at the end of 2012. The Supervisory Board analysed the implementation of the development strategy and the execution of the Bank’s budget on an on-going basis. The Board received and analysed, on an on-going basis, the interim reports presenting the current financial results of the Bank as well as the solvency ratio and capital requirements of the Bank.

The Supervisory Board received, on an on-going basis, the institutional control reports of the Internal Audit Department of the Bank and operating risk experts. While acting in line with the instruction included in the Bank’s Policy regarding compliance risk, the Supervisory Board received reports describing the key compliance-related events.

As in the previous years, the Board focused also on the volume and quality of customer portfolio, lending volume, margins, employment plans, personnel costs, opportunities to reduce operating costs of the Bank’s branches, marketing policy and strategic projects of the Bank. The Management Board presented the Supervisory Board with the current data regarding the number of customers, market share and advertising campaigns.

The subject of Supervisory Board’s particular focus were the works related to the initial public offering of the Bank’s shares and their listing at the Warsaw Stock Exchange, preceded by the concept of selling the controlling interest to a strategic investor, considered by the majority shareholder (Carlo Tassara). The Management Board informed the Members of the

Supervisory Board about the status of talks conducted by Carlo Tassara with potential investors and later, after the selection of the public offering formula, about the works on the prospectus and the procedure of new series C shares issue. While working on the public offering, the Supervisory Board adopted relevant resolutions regarding the increase in the share capital of the Bank and the allocation of series C shares.

### **Report on the assessment of the financial statements of the Bank and its Capital Group for the year ended on 31 December 2012**

Pursuant to article 382 § 3 of the Code of Commercial Companies, the Supervisory Board of the Bank assessed the financial statements (individual and consolidated) submitted by the Management Board of the Bank for the year ended on 31 December 2012.

The financial statements of the Bank include:

- statement of financial position, drawn up as at 31 December 2012, with assets, liabilities and capitals totalling PLN 21,355,920,000,
- profit and loss statement for the period between 1 January 2012 and 31 December 2012, with net profit of PLN 172,393,000,
- statement of comprehensive income for the period between 1 January 2012 and 31 December 2012 with income amounting to PLN 196,188,000,
- statement of changes in equity for the financial year between 1 January 2012 and 31 December 2012, with an increase in shareholders' equity by PLN 799,925,000,
- statement of cash flows for the financial year between 1 January 2012 and 31 December 2012, with an increase in cash by 526,005,000,
- notes to the financial statements.

The financial statements of the Bank's Capital Group include:

- statement of financial position, drawn up as at 31 December 2012, with assets, liabilities and capitals totalling PLN 21,352,348,000,
- profit and loss statement for the period between 1 January 2012 and 31 December 2012, with net profit of PLN 174,063,000,
- statement of comprehensive income for the period between 1 January 2012 and 31 December 2012 with income amounting to PLN 197,858,000,

- statement of changes in equity for the financial year between 1 January 2012 and 31 December 2012, with an increase in shareholders' equity by PLN 799,926,000,
- statement of cash flows for the financial year between 1 January 2012 and 31 December 2012, with an increase in cash by 568,258,000,
- notes to the financial statements.

The financial statements of the Bank and its Capital Group for the year ended on 31 December 2012 have been drawn up in accordance with accounting principles as set out in the International Financial Reporting Standards and related Interpretations announced in the form of European Commission's regulations, and to the extent not covered by these Standards, in line with the provisions of the Accounting Act and its executive provisions.

The certified auditor, Ernst & Young Audit Sp. z o.o. with its registered office in Warsaw, Rondo ONZ 1, reported no reservations as to the reliability and correctness of said financial statements or to their compliance with accounting principles as set out in the International Financial Reporting Standards approved by the European Union and based on the accurate accounting ledgers. The certified auditor also confirmed the compliance of the financial statements with the legal regulations and provisions of the Bank's Articles of Association pertaining to the contents thereof.

The detailed results of the audit have been presented by the certified auditor in the report on the audit of the financial statements.

***The Supervisory Board hereby acknowledges that the financial statements of the Bank and its Capital Group for the year ended on 31 December 2012 have been drawn up correctly and in accordance with the provisions of the law and the Bank's Articles of Association. The Board hereby concludes that the said financial statements are in accordance with the ledgers and documents of the Bank and present data which give a true and fair view of the financial situation of the Bank and the Capital Group.***

***The Supervisory Board recommends that the Annual General Meeting of the Bank's Shareholders adopt the resolutions to approve the financial statements of the Bank and its Capital Group for the year ended on 31 December 2012.***

**Assessment of the Management Board's report on the Bank's and its  
Capital Group's operations in 2012**

Pursuant to article 382 § 3 of the Code of Commercial Companies, the Supervisory Board assessed the Management Board's report on the Bank's and its Capital Group's operations in 2012.

The Supervisory Board hereby acknowledges that the Management Board's report is complete under the provisions of the Accounting Act and has been drawn up adequately and in line with the regulations of the law. The Management Board's report presents the summary of all major activities of the Bank in the reporting period. The financial data presented therein are in line with the data presented in the financial statements.

*The Supervisory Board recommends that the Annual General Meeting of the Bank's Shareholders adopt the resolutions to approve the Management Board's report on the Bank's and its Capital Group's operations in 2012.*

**Assessment of the Management Board's motion concerning the distribution  
of Bank's profit for 2012**

Pursuant to article 382 § 3 of the Code of Commercial Companies, the Management Board submitted to the Supervisory Board a motion pertaining to the distribution of the Bank's profit for 2012, specified in the Management Board's Resolution no. 68/2013 of 13 March 2013.

The Management Board proposed to allocate the Bank's profit from operations in financial year 2012, amounting to net PLN 172,393,165.49 (one hundred seventy two million three hundred ninety three thousand one hundred sixty five zlotys and 49/100), as follows:

1. part of the profit, totalling PLN 14,291,242.28 (fourteen million two hundred ninety one thousand two hundred forty two and 28/100) to cover the loss from previous years;
2. the remaining part of the profit, amounting to PLN 158,101,923.21 (one hundred fifty eight million one hundred one thousand nine hundred twenty three and 21/100) to increase the supplementary capital.

*The Supervisory Board hereby gives a positive opinion to the Management Board's motion and recommends that the Annual General Meeting of the Bank's Shareholders adopt the distribution of Bank's profit for 2012 as proposed above.*

### **Concise assessment of the Bank's situation in 2012**

In 2012 the global economy faced a clear slowdown of growth rate accompanied by turbulence on the international financial markets. Over the larger part of the year the financial markets were affected by fears regarding the bankruptcy of Greece and its removal from the eurozone and by liquidity problems of the Spanish banking sector which jeopardised the solvency of the entire state.

Despite the unfavourable market, Alior Bank recorded another year of dynamic growth and generated highest financial result ever:

- net profit before taking into account the costs of the stock exchange debut totalled PLN 332.5 million;
- balance sheet total went up by 37.9% to PLN 21.4 billion;
- the distribution network of Alior Bank expanded from 438 to 750 own and partner outlets and thus became one of the larger banking products distribution networks in Poland;
- the cost efficiency of the Group improved. The C/I ratio remained at 64.3%, i.e. almost unchanged against 2011, however the amount of PLN 159.1 million pertained to one-off costs incurred in 2012 which were related to the stock-exchange debut and to including the single effect of valuation of the incentive scheme for the executive staff in costs of operation; before taking these one-off costs into consideration, the C/I ratio was at 53.1%, i.e. as high as 10.7 percentage points below the 2011 level.
- in the opinion of the Supervisory Board, the group is effective in managing credit risk, the result from write-downs and provisions went up by 49.2% to PLN 282.3 million with concurrent increase in total receivables from customers by 43.4%, the cost of write-downs and provisions measured against the average total outstanding credits dropped, consequently, from 2.4% to 2.3%.

The Bank's equity went up by 101.9% to PLN 2.2 billion through the public offering and owing to the profit generated by the Bank, and the solvency ratio increased to 17.0%. This provides solid grounds for further safe development of the Bank's operations.

The Group is consistently following the policy of using only customer deposits to cover lending, without engaging deposits from the interbank market. At the end of 2012 the total customer deposits amounted to PLN 17.5 billion and the customer deposit / credit ratio totalled 120.1%, which in the Supervisory Board's opinion provides a good-quality, stable and cost-effective funding for the lending activities of the Group.

Excess liquidity determined on the basis of the standards of the Polish Financial Supervision Authority at the end of 2012 amounted to PLN 1,872 million. Improved liquidity resulted also from increase in equity due to the issue of shares (PLN 700 million) and the issues of subordinated bonds (PLN 310 million).

In the Supervisory Board's opinion, the risk management system takes into consideration any and all major risks for Alior Bank S.A.'s Capital Group. The risk identification, measurement and management process is adequate to the type and size of risk. Moreover, in line with the strategy specified by the Supervisory Board, the Group holds no speculative position, therefore minimising any major types of market risk (foreign exchange risk, interest rate risk, commodity risk, volatility risk etc.).

## **Report on the fulfilment of the duty to supervise the Bank's operations in 2012**

### **Composition of the Supervisory Board**

The composition of the Supervisory Board as at 1 January 2012 was as follows:

- Helene Zaleski – Chairwoman of the Supervisory Board
- Józef Wancer – Deputy Chairman of the Supervisory Board
- Małgorzata Iwanicz-Drozdowska – Member of the Supervisory Board
- Marek Michalski – Member of the Supervisory Board
- Krzysztof Oblój – Member of the Supervisory Board

On 28 March 2012, the Annual General Meeting of the Bank's Shareholders elected the Supervisory Board for the second term and appointed the following persons as members:

- Małgorzata Iwanicz-Drozdowska
- Marek Michalski
- Krzysztof Oblój
- Józef Wancer
- Helene Zaleski

During the meeting held on 11 July 2012, the Supervisory Board elected the Chairperson and Deputy Chairperson and appointed: Helene Zaleski as the Chairwoman of the Supervisory Board and Józef Wancer as Deputy Chairman.

As at 31 December 2012 the composition of the Bank's Supervisory Board was as follows:

- Helene Zaleski – Chairwoman of the Supervisory Board
- Józef Wancer – Deputy Chairman of the Supervisory Board
- Małgorzata Iwanicz-Drozdowska – Member of the Supervisory Board
- Marek Michalski – Member of the Supervisory Board
- Krzysztof Oblój – Member of the Supervisory Board

The above composition of the Supervisory Board was valid as at the date of this report.

#### **Organisation of the Board's works**

Helene Zaleski, as the Chairwoman, managed the works of the Supervisory Board over the reporting period.

The Supervisory Board operates under the Articles of Association and the Rules of the Supervisory Board they adopted. The meetings of the Supervisory Board are convened on a case by case basis, at least three times in each financial year. The resolutions of the Supervisory Board are adopted by absolute majority of votes in an open ballot, unless the provisions of the law or the Articles of Association stipulate otherwise. In matters pertaining to the members or upon a request of at least one member, the Chairperson of the Supervisory Board orders a secret ballot. In the case of equal number of votes for and against, casting vote belongs to the Chairperson of the Supervisory Board. For the resolutions to be valid at least



half of the Members of the Supervisory Board must attend the meeting and all members must be invited. The Supervisory Board may establish standing and ad-hoc committees.

In such a case, the Supervisory Board draws up the rules of the committee, its composition and objectives.

In 2012, the Remuneration Committee operated within the Supervisory Board and the Board itself, with all 5 members, carried out the tasks of the audit committee.

In line with the Articles of Association of the Bank, at least two members of the Supervisory Board meet the criteria of independence from the Bank and entities having materials relations with the Bank. The independence criteria for the members of the Supervisory Board are specified in the Rules of the Bank's Supervisory Board, in accordance with the criteria set out in the Code of Best Practice for WSE Listed Companies.

#### **Operations of the Supervisory Board**

In 2012 the Supervisory Board held 5 meetings and adopted 122 resolutions, pertaining to, e.g.: assessment of the financial statements and the report on the Bank's operations in 2011, motions regarding the distribution of profit and vote of approval for the members of the Management Board of the Bank for 2011, approval of the Supervisory Board's report on operations in 2011, approval of the Bank's financial plan, amendment of the assets and liabilities management policy of the Bank, approval of some regulations and procedures of the Bank, granting consent to award funding to entities in cases stipulated by the Articles of Association and credit competence principles employed by the Bank, approval of the Management Board's decision regarding the issue of subordinated bonds denominated in EURO, appointment of the Chairperson and Deputy Chairperson of the Supervisory Board, amendment of the Articles of Association and drawing up a uniform text of the amended Articles (pursuant to an authorisation awarded by the General Meeting), granting consent to incur liabilities and manage assets the value of which exceeds 5% of equity funds with regard to one entity, approval of the Management Board's motions submitted to the General Meeting of the Bank's Shareholders (including motions regarding the twofold increase in share capital and conditional increase in share capital and the issue of subscription warrants), approval of limits regarding the issue of bank securities, adoption of the Rules of the Remuneration Committee and Policy on Variable Components of Remuneration of Persons Holding

Managerial Positions at the Bank and approval of the Management Board's decision to establish Alior Sync Sp. z o.o. company (currently Alior Raty Sp. z o.o.).

The subject of Supervisory Board's particular focus were the works related to the initial public offering of the Bank's shares and their listing at the Warsaw Stock Exchange, preceded by the concept of selling the controlling interest to a strategic investor, considered by the majority shareholder (Carlo Tassara). While working on the public offering, the Supervisory Board adopted resolutions which approved the Management Board's motions to the General Meeting regarding the issue of new series C shares and trading all shares issued by the Bank. The Supervisory Board also allocated series C shares to subscribing members of the Management Board of the Bank.

### **Report on the performance of Audit Committee's tasks**

The Supervisory Board of the Bank, exercising the right under article 86, item 3 of the Act on certified auditors and their association, entities authorised to audit financial statements and on public supervision, in 2012 performed the tasks of the audit committee in the Bank in their full scope, which covers in particular: the monitoring of the financial reporting process, efficiency of internal control, internal audit and risk management systems, monitoring of financial audit activities and of the independence of the certified auditor and the entity authorised to audit financial statements.

In the reporting period the tasks of the audit committee which consisted in monitoring the financial reporting process, monitoring of the efficiency of internal control, internal audit and risk management systems, were carried out by the Supervisory Board on an on-going basis through the analysis and discussion of reports and presentations submitted by the Management Board during the Supervisory Board's meetings and every six months with regard to operational or compliance risk management. As far as the monitoring of financial audit and independence of financial auditors is concerned, the Supervisory Board held interim meetings and discussions with the certified auditor handling the Bank's financial statements.

### **Remuneration Committee**

The Remuneration Committee was established pursuant to the resolution of the Supervisory Board on 7 December 2011 for the purpose of applying the principles governing the drafting

of the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions at the Bank adopted pursuant to the resolution of the Polish Financial Supervision Authority no. 258/2011 dated 4 October 2011 which entered into force on 31 December 2011. The Remuneration Committee: (i) expresses opinions on the policy on variable components of remuneration, in line with the principles of sound and prudent risk, capital and liquidity management and taking into account in particular the long term interest of the Bank and its shareholders, (ii) expresses opinions on the admissibility of payment of variable components of remuneration in part pertaining to deferred payment of variable components of remuneration, (iii) expresses opinions and monitors the variable components of remunerations paid to persons holding managerial positions at the Bank related to risk management and Bank's compliance with the binding legal regulations and internal rules and (iv) expresses opinion on the classification of positions which is subject to the policy on variable components of remuneration.

The Remuneration Committee is made of the following members: H el ene Zaleski, Marek Michalski and J ozef Wancer.

In 2012 the Remuneration Committee held one meeting (on 3 April 2012) at which the Committee approved the Rules of the Committee and took cognisance of the recommendation regarding the list of people covered by the Policy on Variable Components of Remuneration of Persons Holding Managerial Positions at Alior Bank S.A.

### **Summary**

**The Supervisory Board hereby requests that the General Meeting of the Bank's shareholders adopt this report on the Supervisory Board's operations in 2012 and give the vote of approval to all the Supervisory Board's members for the performance of their duties in the reporting period.**

Warsaw, 18 March 2013

Chairwoman of the  
Supervisory Board

Helene Zaleski

.....  
Józef Wancer  
Deputy Chairman

of the Supervisory Board

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Małgorzata Iwanicz-Drozdowska  
Member of the Supervisory  
Board

.....  
Marek Michalski  
Member of the Supervisory  
Board

NB

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Krzysztof Oblój  
Member of the Supervisory  
Board