

*ALIOR BANK S.A. GROUP*

**LONG-FORM AUDITORS' REPORT  
ON THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

## **I. GENERAL NOTES**

### **1. Background**

The holding company of the Alior Bank S.A. Group (hereinafter 'the Group') is Alior Bank S.A. ('the holding company', 'the Bank').

The holding company was incorporated on the basis of a Notarial Deed dated 21 April 2008. The holding company's registered office is located in Warsaw at Aleje Jerozolimskie 94.

The holding company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, Polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152 item 1223 with subsequent amendments – 'the Accounting Act'), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the European Union.

The holding company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000305178 on 30 April 2008.

The holding company was issued with tax identification number NIP: 1070010731 on 12 May 2008 and statistical number REGON: 141387142 on 21 April 2008.

Since 14 December 2012 Alior Bank S.A. has been listed on the Warsaw Stock Exchange.

The principal activities of the holding company are as follows:

- accepting deposits payable on demand or term deposits, and keeping accounts of these deposits,
- keeping other bank accounts,
- granting credits,
- granting and confirming bank guarantees and opening and maintaining letters of credit,
- issuing bank securities,
- conducting bank monetary settlements,
- granting monetary loans,
- issuing debit cards and performing operations through the use of these cards,
- term financial operations,
- purchase and sale of monetary claims,
- storage of objects and securities and renting safe-deposit boxes,
- the purchase and sale of currencies,
- granting and confirming guarantees and collaterals,
- agency activity in the field of monetary transfers and currency settlements,

- assumption of obligations related to the issue of securities,
- trade in securities,
- provision of consultation and advisory services in financial matters,
- factoring services,
- forfeiting services,
- conducting brokerage activity,
- performing agency activities in the field of an insurance agency,
- performing activities related to the issue and servicing of financial instruments other than securities,
- rendering specialist services to the subsidiaries and affiliates of the Bank such as the provision of IT systems and technology, data processing, the development, exploitation and maintenance of software and IT infrastructure as well as any other services to improve the cooperation with the Bank's subsidiaries and affiliates in the offering of financial services thereby;
- subscribe for or acquire shares and rights to shares as well as equity interests in other companies,
- convert, on the terms and conditions to be agreed with a debtor, claims into such debtor's assets,
- purchase and sell real property,
- agency services with regard to the execution of leasing agreements,
- issuing instruments of electronic money,
- agency services with regard to granting credits and loans,
- the sale of coins, notes and old coins issued by the National Bank of Poland, and designated for collection and other purposes,
- performing any other commissioned activities related to the issue of securities,
- services which involve the performance of actual activities with regard to brokerage in the purchase and sale of foreign currencies.

The scope of activities of the Group's subsidiaries, jointly controlled entities and associates are similar to this of the holding company.

- Alior Instytut Szkoleń sp. z o.o. – provision of specialist training;
- Alior Raty sp. z o.o. – provision of financial intermediary services;
- Obrót wierzytelnościami Alior Polska sp. z o.o., spółka komandytowo-akcyjna – trading in overdue receivables;
- PAGO Pierwszy Fundusz Inwestycyjny Zamknięty Niestandaryzowany Fundusz Sekurytyzacyjny – setting up and managing investment funds.

As at 31 December 2012, the holding company's issued share capital amounted to 635,830 thousand zlotys. The Group's equity as at that date amounted to 2,246,352 thousand zlotys.

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for the year ended 31 December 2012  
(in thousand zlotys)*

In accordance with information provided by the Bank the ownership structure of the Bank's issued share capital as at 31 December 2012 was as follows:

	Number of shares	Number of votes	Par value of shares (in zlotys)	% of issued share capital
Alior LuxSar l & Co S.C.A.	22,918,382	22,918,382	229,183,820	36.04%
Europejski Bank Odbudowy i Rozwoju	5,614,035	5,614,035	56,140,350	8.83%
Genesis Asset Managers, LLP Wellington Management Company, LLP	3,874,561	3,874,561	38,745,610	6.09%
Others	3,186,065	3,186,065	31,860,650	5.01%
	27,989,922	27,989,922	279,899,220	44.02%
TOTAL	63,582,965	63,582,965	635,829,650	100%

The following changes took place in the ownership structure of the holding company's issued share capital during the financial year and between the balance sheet date and the date of the report (regarding shareholders with more than 5% of shares):

- On 14 December 2012 the Bank made an initial public offering of shares on the Warsaw Stock Exchange. The offering consisted of 36,812,965 shares, including 12,332,965 new shares and 24,480,000 existing shares held by entities from Carlo Tassara Group.
- On 20 December 2012, after registration of the capital increase in the Court Register, the share of Alior LuxSar l & Co SCA in voting rights on General Assembly of the holding company decreased. After the registration the number of shares held directly and indirectly by Alior Lux Sarl & CO S.C.A amounts to 22,918,382 shares, which constitutes 36.04% of issued share capital of the Bank.
- On 18 December 2012 Wellington Management Company LLP acquired 3,186,065 shares of the Bank, which constituted 5.01% of issued share capital of the Bank.
- On 4 February 2013 Wellington Management Company LLP disposed of 50,061 shares of the Bank, which resulted in falling below 5% of share capital of the Bank.

Movements in the issued share capital of the holding company in the financial year were as follows:

	Number of shares	Par value of shares
Opening balance	50,000,000	500,000
Increase in share capital	13,582,965	135,830

**This is a translation of a document originally issued in the Polish language.**

	----- 63,582,965 =====	----- 635,830 =====
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As at 6 March 2012, the holding company's Management Board was composed of:

Wojciech Sobieraj	- President of the Management Board
Krzysztof Czuba	- Vice-President of the Management Board
Niels Lundorff	- Vice-President of the Management Board
Artur Maliszewski	- Vice-President of the Management Board
Witold Skrok	- Vice-President of the Management Board
Michał Hucał	- Vice-President of the Management Board
Katarzyna Sułkowska	- Vice-President of the Management Board

There were no changes in the holding company's Management Board during the reporting period. From the balance sheet date to the date of this report there were the following changes in the holding company's Management Board::

- On 10 February 2013 Mr. Cezary Smorszczewski resigned as member of the Board and Vice-President of the Management Board of the holding company.
- On 11 February 2013 the Supervisory Board of the Bank appointed to the Management Board of the Bank Mr. Michał Hucał to the Vice-President of the Management Board of the holding company.

## 2. Group Structure

As at 31 December 2012 Alior Bank S.A. Group consisted of the following subsidiaries:

Entity name	Consolidation method	Type of auditor's report	Name of authorised entity that audited financial statements	Balance sheet date
Alior Instytut Szkoleń sp. z o.o.	full	<i>no requirement to audit financial statements</i>	<i>no requirement to audit financial statements</i>	31.12.2012
Alior Raty sp. z o.o.	full	<i>no requirement to audit financial statements</i>	<i>no requirement to audit financial statements</i>	31.12.2012
Obrót wierzycelnościami Alior Polska sp. z o.o.	full	<i>no requirement to audit financial statements</i>	<i>no requirement to audit financial statements</i>	31.12.2012
PAGO Pierwszy Fundusz Inwestycyjny	full	<i>audit in progress</i>	<i>DARIUSZ OCHALIK KANCELARIA</i>	31.12.2012

Zamknięty  
Niestandaryzowany  
Fundusz  
Sekurytyzacyjny

*BIEGŁEGO  
REWIDENTA*

List of entities from Group were disclosed in Note 1 of the summary of significant accounting policies and other explanatory notes (“the additional notes and explanations”) to the consolidated financial statements of the Group for the year ended 31 December 2012.

### **3. Consolidated Financial Statements**

#### **3.1 Auditors' opinion and audit of consolidated financial statements**

Ernst & Young Audit sp. z o.o. 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 Audit sp. z o.o. was appointed by the Supervisory Board of the holding company on 24 April 2012 to audit the Group's consolidated financial statements.

Ernst & Young Audit sp. z o.o. and the key certified auditor in charge of the audit 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 (2009 Journal of Laws, No. 77, item 649 with subsequent amendments).

Under the contract executed on 11 December 2012 with the holding company's Management Board we have audited the consolidated financial statements for the year ended 31 December 2012.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditors' unqualified opinion dated 6 March 2013, stating the following:

#### **“To the Supervisory Board of Alior Bank S.A.**

1. We have audited the attached consolidated financial statements of Alior Bank S.A. Group (‘the Group’), for which the holding company is Alior Bank S.A. (‘the Bank’) located in Warsaw at Aleje Jerozolimskie 94, for the year ended 31 December 2012, containing the consolidated income statement for the year ended 31 December 2012, the consolidated statement of comprehensive income for the year ended 31 December 2012, the consolidated statement of financial position as at 31 December 2011, the statement of changes in equity for the year ended 31 December 2012, the consolidated statement of cash flows for the year ended 31 December 2012, and the summary of significant accounting policies and other explanatory notes (‘the attached consolidated financial statements’).

2. The truth and fairness<sup>1</sup> of the attached consolidated financial statements, the preparation of the attached consolidated financial statements in accordance with the required applicable accounting policies and the proper maintenance of the consolidation documentation 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 consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (2009 Journal of Laws No. 152, item 1223 with subsequent amendments – 'the Accounting Act'). Our responsibility was to audit the attached consolidated 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 and whether they truly and fairly<sup>2</sup> reflect, in all material respects, the financial position and results of the operations of the Group.
3. We conducted our audit of the attached consolidated 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 consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management Board of the Bank, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. In our opinion, the attached consolidated financial statements, in all material respects:
  - present truly and fairly all information material for the assessment of the results of the Group's operations for the year ended 31 December 2012, as well as its financial position<sup>3</sup> as at 31 December 2012;
  - have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
  - are in respect of the form and content, in accordance with the legal regulations governing the preparation of financial statements.
5. We have read the Management Board's report on the operations of Alior Bank S.A. Group for the year ended 31 December 2012 ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information published by

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<sup>1</sup> Translation of the following expression in Polish: 'rzetelność i jasność'

<sup>2</sup> Translation of the following expression in Polish: 'rzetelne i jasne'

<sup>3</sup> Translation of the following expression in Polish: 'sytuacja majątkowa i finansowa'

issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (2009 Journal of Laws No. 33, item 259 with subsequent amendments).”

We conducted the audit of the consolidated financial statements during the period from 11 December 2012 to 6 March 2013. We were present at the holding company's head office from 11 December 2012 to 20 December 2012 and from 21 January 2013 to 6 March 2013.

### **3.2 Representations provided and data availability**

The Management Board of the holding company confirmed its responsibility for the truth and fairness<sup>4</sup> of the audited consolidated financial statements and the preparation of the financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the audited consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 6 March 2013, from the Management Board of the holding company confirming that:

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

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

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

### **3.3 Consolidated financial statements for prior financial year**

In previous years Bank prepared only standalone financial statements. For the purpose of drafting a share issue prospectus by the parent company and in accordance with the requirements of Commission Regulation (EC) No. 809/2004 of 29 April 2004 (Regulation No. 809), implementing Directive 2003/71/EC of the European Parliament and of the Council regarding information disclosed in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements (OJ L. of the EU of 2004, No. 149, item 1 as amended), the Bank prepared consolidated financial statement for years 2009 – 2011.

## **4. Analytical Review**

### **4.1 Basic data and financial ratios**

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<sup>4</sup> Translation of the following expression in Polish: “*rzetelność i jasność*”

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Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2010 – 2012. The ratios were calculated on the basis of financial information included in the financial statement for the year ended 31 December 2012 and in the consolidated financial statements for years 2009-2011.

	2012	2011	2010
Total assets	21,352,348	15,483,622	9,311,914
Shareholders' equity	2,246,352	1,112,481	975,545
Net profit	174,063	152,181	-103,990
Capital adequacy ratio	17.00%	9.83%	15.40%
<b>Profitability ratio</b>	<b>24.93%</b>	<b>25.93%</b>	<b>-21.96%</b>
<u>Profit before tax</u>			
general and administrative expenses			
<b>Cost to income ratio</b>	<b>64.29%</b>	<b>64.31%</b>	<b>96.87%</b>
<u>general and administrative expenses</u>			
total operating income			
<b>Return on equity</b>	<b>10.36%</b>	<b>14.58%</b>	<b>-10.13%</b>
<u>net profit</u>			
average shareholders' equity			
<b>Return on assets</b>	<b>0.95%</b>	<b>1.23%</b>	<b>-1.34%</b>
<u>net profit</u>			
average assets			
<b>Rate of inflation:</b>			
yearly average	3.7%	4.3%	2.6%
December to December	2.4%	4.6%	3.1%

\* total operating income consist of net interest income, net fee and commission income, trading result, net gain on other financial instruments and net other operating income

\*\* the average balance is calculated as the arithmetic average of opening and closing balance

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## **4.2 Comments**

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

- Net profit of the Group for 2012 amounted to 174,063 thousand zlotys in comparison to the net profit of 152,181 thousand zlotys in 2011 and net loss of 103,990 thousand zlotys in 2010.
- Compared to 2011, there was an increase in total assets of the Group in 2012. The total assets as at 31 December 2012 amounted to 21,352,348 thousand zlotys.
- The profitability ratio increased from -21.96% in 2010 to 25.93% in 2011 and then decreased to 24.93% in 2012.
- Cost to income ratio decreased from 96.87% in 2010 to 64.31% in 2011 and to 64.29% in 2012.
- Return on equity ratio increased from -10.13% in 2010 to 14.58% in 2011 and then decreased to 10.36% in 2012.
- Return on assets ratio increased from -1.34% in 2010 to 1.23% in 2011 and then decreased to 0.95% in 2012.
- The capital adequacy ratio as at 31 December 2012 amounted to 17.00% as compared to 9.83% at 31 December 2011 and 15.40% as at 31 December 2010.

## **4.3 Going concern**

Nothing came to our attention during the audit that caused us to believe that the holding company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2012 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations,

In Note 2 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2012 the Management Board of the holding company has stated that the financial statements of the Group's entities included in the consolidated financial statements were prepared on the assumption that these entities will continue as a going concern for a period of at least 12 months subsequent to 31 December 2012 and that there are no circumstances that would indicate a threat to its continued activity.

## **II. DETAILED REPORT**

### **1. Completeness and accuracy of consolidation documentation**

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

### **2. Accounting policies for the valuation of assets and liabilities**

The Group's accounting policies and rules for the presentation of data are detailed in Note 2 of the additional notes and explanations to the Group's audited consolidated financial statements for the year ended 31 December 2012.

### **3. Structure of assets, liabilities and equity**

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2012.

The data disclosed in the audited consolidated financial statements reconcile with the consolidation documentation.

#### **3.1 Shareholders' funds including non-controlling interest**

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. There was no non-controlling interest as at 31 December 2012. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 26 of the additional notes and explanations to the audited consolidated financial statements.

#### **3.2 Financial year**

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2012 and include the financial data for the period from 1 January 2012 to 31 December 2012.

### **4. Consolidation adjustments**

#### **4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities,**

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

**4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends**

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

**5. Disposal of all or part of shares in a subordinated entity**

During the financial year the Group did not sell any shares in subordinated entities.

**6. Items which have an impact on the Group's result for the year**

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2012.

**7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the European Union**

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting.

**8. Issues specific for the audit of the Bank**

We have addressed the issue of complying by Bank with the obligatory norms mitigating banking risks and the issue of correctness of calculation of capital adequacy ratio in our report dated 6 March 2013, supplementing the independent auditors' opinion on the financial statements of the Bank for the year ended 31 December 2012.

**9. Additional Notes and Explanations to the Consolidated Financial Statements**

The additional notes and explanations to the consolidated financial statements for the year ended 31 December 2012 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union.

**10. Directors' Report**

We have read the Management Board's report on the operations of the Group for the year ended 31 December 2012 ('the Directors' Report') and concluded that the information derived from the audited consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with the relevant regulations 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 (2009 Journal of Laws No, 33, item 259 with subsequent amendments).

### **11. Materiality level**

When determining the materiality level, professional judgment was applied taking into account the specific characteristic relating to the Group. This included consideration of quantitative and qualitative aspects.

### **12. Conformity with Law and Regulations**

We have obtained a letter of representations from the Management Board of the holding company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year, which could have an impact on the audited consolidated financial statements of the Group.

### **13. Work of Experts**

During our audit we have taken into account the results of the work of real estate experts – in calculation regarding the level of loan impairment we took into consideration the valuations of collateral, prepared by property appraisers, that were engaged by the Bank.

on behalf of  
Ernst & Young Audit sp, z o,o,  
Rondo ONZ 1, 00-124 Warsaw  
Reg, No 130

Key Certified Auditor

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Dominik Januszewski  
certified auditor  
No. 9707

Warsaw, 6 March 2013