MMXV

2015

MANAGEMENT BOARD REPORT OF THE ALIOR BANK S.A. GROUP
FOR 2015

ALIOR BANK
WYŻSZA KULTURA BANKOWOŚCI

TABLE OF CONTENTS

Letter from the CEO

Dear Sirs,

In 2015, despite the unfavourable environment, Alior Bank consistently reinforced its position on the market and continued its growth along all the key business lines; it also successfully pursued strategic initiatives aimed at increasing its scale of operations and profitability.

On 26 October 2015, only four months after the legal merger, and eight months after concluding the transaction, the operational business combination between Meritum Bank and Alior Bank was effected.

I am proud to inform everyone that this was the fastest and most efficient merger ever carried out in the Polish banking sector. Both in operational and technological terms, this attests to Alior Bank's readiness to actively participate in further consolidations.

The integration with Meritum Bank was accompanied by changes in the organizational structure of Alior Bank which will enable maximizing the use of the potential of the merged banks and achieving significant synergies in terms of costs and revenues. In effect we have created a solid foundation for further dynamic organic growth.

In 2015 Alior Bank actively developed strategic cooperation with the global telecommunications operator, T-Mobile. The joint project, completed under the brand T-Mobile Usługi Bankowe (banking services) provided by Alior Bank, brings exceedingly better business results, which, among other things, is the result of intensifying sales of credit products and increasing the possibilities of financing the operator's equipment. This allows us to have an optimistic view of the future and confirms that cooperation with T-Mobile will be an important element of building Alior Bank's growth.

One of the effects of the successful cooperation with T-Mobile Polska was the expansion of the strategic alliance with the global telecommunications operator by another important and large Central European market – in August 2015 Alior Bank signed an agreement with the Romanian operator Telekom Romania Mobile Communications from the Deutsche Telekom Group. The project is of strategic importance for Alior Bank as it is the first step towards the Bank's expansion on foreign markets. After obtaining the decision of the local regulator of the branch of Alior Bank as a foreign credit institution in record time, preparations for the operational start of the project planned for the third quarter of 2016 are in progress.

I would like to emphasize that one of the aims of Alior Bank is developing current and entering into new strategic alliances with lead global companies. An example of such action is the conclusion of an agreement with the British hypermarket chain Tesco for the continuation of cooperation on the Polish market in August 2015.

The prior year was a difficult period for banks, as they had to operate in an environment of low interest rates. Reducing interchange rates and the increase in contributions to the Bank Guarantee Fund related to the deterioration in the position of the SKOK sector and cooperative banks had a negative impact on the industry's returns.

However, all this constituted a prelude to the challenges that await banks in 2016. For the first time in history, Polish banks will have to deal simultaneously with many factors directly affecting their condition.

On the one hand, these comprise: the tax on assets, the contribution to the Mortgage Loan Restructuring Fund (Fundusz Restrukturyzacji Kredytów Hipotecznych) and the unresolved issue of loans denominated in Swiss francs, and on the other: more stringent capital requirements, new regulations for the sale of financial products and growing competitive pressure in the industry, in particular with reference to credit products.

However, I would like to ensure you that Alior Bank does not intend to stray off the growth path and will make every effort to meet the expectations of its customers, investors and shareholders. I have much hope in sector consolidations which should further grow in the new reality. Alior Bank has all the necessary assets to play a lead role in these processes.

I kindly invite you to read the report.

Yours faithfully,

Wojciech Sobieraj
CEO

Letter from the President of the Supervisory Board

Dear Sirs,

The previous year was a period of serious challenges both for Alior Bank and for the whole banking sector. Banks had to face unfavourable external conditions resulting from the prevailing low interest rates, administrative decisions to reduce interchange rates, and the need to provide additional finance to the SKOK and cooperative banks sector.

Despite the unfavourable market conditions, the Management Board effectively pursued the adopted strategy and continued the key initiatives aimed at further reinforcing the market position of Alior Bank. The Supervisory Board carefully monitors Alior Bank's strategic initiatives and supports the Management Board in their pursuit.

The merger with Meritum Bank, completed in record time, is a model transaction for the whole sector. Using the best experiences of both institutions as well as the changes in the organizational structure which accompanied the merger will enable the Bank to improve its effectiveness and offer its current and potential customers even more attractive modern products and services. Alior Bank proved that it is ready to actively participate in further consolidation of the Polish financial sector.

The Supervisory Board was pleased to receive information about the Bank's expanding cooperation with the global telecommunications operator T-Mobile on another European market. Commencing operational activities by the Bank's branch in Romania will be an important step on the way to building Alior Bank's strong position on the international market.

In the prior year four changes were made to the composition of the Bank's Management Board. In June 2015 Ms Joanna Krzyżanowska joined Alior Bank's Management Board. In October 2015 Mr Michał Hucał resigned from the Board and Ms Małgorzata Bartler and Ms Barbara Smalska were appointed to the Management Board. As Chair of the Supervisory Board I would like to cordially greet the new Management Board Members and thank Mr Michał Hucał for his commitment and substantial input into the development of Alior Bank.

In 2015 the composition of the Supervisory Board also underwent some changes. I would like to warmly thank Mr Stanisław Popów for his significant input into the work of the Board and to wish him further professional success. In December 2015 Mr Przemysław Dąbrowski and Mr Sławomir Niemierka joined the Supervisory Board. I am certain their competencies will contribute to the efficient operation of the Supervisory Board in the future.

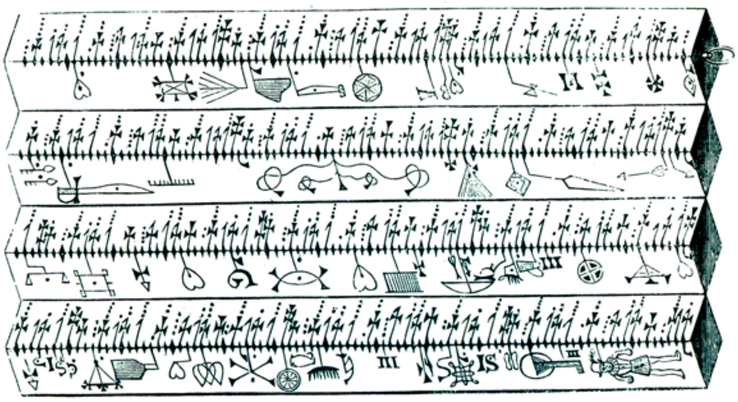
On behalf of the Supervisory Board I would like to cordially thank the Management Board and all the employees for their commitment and I wish them continued successes in 2016.

Your faithfully,

Helene Zaleski
President of the Supervisory Board

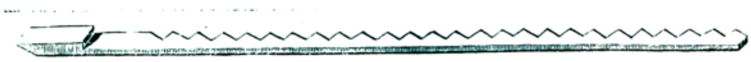
Numerare necesse est.

NUMERARE NECESSE EST – ONE COULD SAY, PARAPHRASING THE FAMOUS LATIN QUOTE. COUNTING IS A NECESSITY. IF IT WASN'T FOR THE INVENTION OF NUMERAL SYSTEMS THE HUMAN RACE WOULDN'T MAKE ECONOMIC AND CIVILISATIONAL PROGRESS. DESCRIBING OWNERSHIP, CONCLUDING COMMERCIAL CONTRACTS, MAKING ASTRONOMICAL CALCULATIONS NECESSARY FOR TRAVELLING – THE SYMBOLS AND TOOLS USED FOR ACCOUNTING, MEASURING TIME, ARITHMETIC CALCULATIONS HAVE CHANGED OVER THE CENTURIES, BUT THE NEED FOR EXACT COUNTING HAS ALWAYS BEEN THE SAME.
BY PRESENTING THE STATE OF ALIOR BANK'S BOOKS AD MMXV (2015), WE WOULD LIKE TO ALSO RECALLTHE HISTORY OF COUNTING AND HONOUR ALL THE PEOPLE WHOFOR CENTURIES TRIED TO DESCRIBE THE WORLD IN THE MOST METICULOUS WAY BY USING NUMBERS.

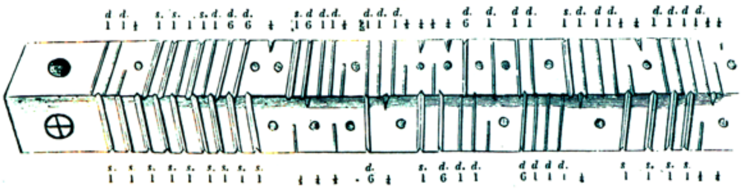


472.—Clog Almanac.

468.—Leathern Pouch.



471.—Exchequer Tally.



473.—Saxon Reive Pole.

No. 1

Tally stick

A TALLY STICK IS A NOTCHED TWIG OR A DIFFERENT ITEM ON WHICH MAN TRIED TO MARK THE NUMBER OF THINGS OR PHENOMENA SINCE THE ANCIENT TIMES. THE OLDEST KNOWN TALLY STICK IS A BABOON'S BONE OF CA.37.000 YEARS OF AGE ON WHICH AN ANCIENT INHABITANT OF AFRICA MADE 29 NOTCHES, PERHAPS IN ORDER TO COUNT THE NIGHTS BETWEEN TWO FULL MOONS. IN THE MIDDLE AGES TALLY STICKS WERE USED BY EXCHEQUERS AS ACCOUNTING TOOLS – IT WAS NOT UNTIL 1826 THAT THEIR USE WAS ABOLISHED IN ENGLAND. EVEN TODAY SOME PEOPLES OF ASIA AND AFRICA USE NOTCHED STICKS FOR MAKING INVENTORIES OR MEMORISING NUMBERS.

CHAPTER I

Summary of Alior Bank's operations in 2015

I. Summary of Alior Bank's operations in 2015

Major events and business initiatives carried out in 2015

Undoubtedly, the most important events in 2015 included the following:

- A legal and operational merger of Alior Bank with Meritum Bank. The legal merger (as confirmed by the entry in the National Court Register on 30 June 2015) was followed by the operational merger of Meritum Bank and Alior Bank, which took place on 26 October 2015, i.e. barely four months after the legal merger.

  The merger allows Alior Bank to use the best practices and solutions as well as technological potential of both organizations and their employees to strengthen its competitive advantages and to firmly establish its position as innovation leader. As a result of the operational merger, the Meritum Bank brand disappeared from the market.

  On the information technology side, the merger involved not only a typical migration of the Meritum Bank's customers, but also the development of entirely new solutions, including new applications for the credit process and automated back-office processes.

  In connection with the merger, Alior Bank's organizational structure changed, too. The Bank's third centre, after Warsaw and Kraków, was opened in Gdańsk. The centre will be developing competencies in customer relations, consumer finance, including loans and advances, and cooperation with partners and agents. In close cooperation with the IT centre in Gdańsk, new solutions and products for the entire bank will be developed and implemented. Large back office and operations teams also operate in Gdańsk.

- On 30 May 2015, a preliminary agreement for the sale of 18,318,473 shares in Alior Bank, representing 25.26% of the share capital, was concluded by and between Alior Lux S.a.r.l. & Co. S.C.A., Alior Polska Sp. z o.o. and PZU S.A. The agreement was concluded based on the condition that the necessary permission to conduct the transaction is obtained from the Polish Financial Supervision Authority, Polish Antimonopoly Office (UOKiK) and the Antimonopoly Committee of Ukraine. Pursuant to the said agreement, shares in Alior Bank are purchased by PZU in three tranches. The execution of each successive tranche takes place 70 days after the execution of the preceding tranche. By 17 December 2015, all the conditions precedent included in the agreement of 30 May 2015 had been fulfilled.

  The settlement of the first tranche of Alior Bank's shares comprising 7,244,900 shares representing approx. 9.96% of the Bank's share capital took place on 12 October 2015. On 18 December 2015, the acquisition of the second tranche of Alior Bank's shares comprising 7,244,900 shares representing approx. 9.96% of the Bank's share capital was settled. In the third tranche, PZU will purchase 3,828,673 of the Bank's shares held by Alior Lux S.a.r.l. & Co. S.C.A.

  The Management Board supports its opinion that having PZU SA as a strategic investor will be a solid foundation for the long-term development of Alior Bank and will strengthen its market position.

- On 7 August 2015, Alior Bank signed an agreement with a Romanian operator Telekom Romania Mobile Communications of the Deutsche Telekom Group. Thus, the Bank is expanding its strategic alliance with a global telecom operator to another market in Central Europe. The objective of the initiative pursued jointly by Alior Bank and Telekom Romania Mobile Communications is to create a Bank's branch office in Romania which will operate based on a model similar to the current cooperation between Alior Bank and T-Mobile Polska. The project initiated is of strategic importance to Alior Bank, because it is a first step in the Bank's expansion to foreign markets.

  The agreement signed gives Alior Bank access to more than 6 million customers of Telekom Romania Mobile Communications which are part of one of the largest economies in the region characterized by a high potential for growth in the area of banking services.

Alior Bank's long-term objective is to build a strong market position on the Romanian banking market by acquiring 800 thousand customers within 5 years.

- In August 2015, an agreement on continuing the strategic cooperation with the UK hypermarket network Tesco on the Polish market was concluded. Currently, financial services under the Tesco Finanse brand are available in 71 hypermarkets. The cooperation to date brought very good effects, such as a 50% increase in the monthly sales volume of cash loans compared with 2014. The Bank plans to strengthen cooperation by expanding its sales network to new locations in the partner's retail outlets, and by gradually expanding the portfolio of products and services available to Tesco's customers. By 2019, it is planned to acquire 350 thousand new customers served through Tesco Finanse.
- On 23 June 2015, the Polish Financial Supervision Authority granted Money Makers S.A. (a subsidiary of Alior Bank) permission to conduct activities consisting of establishing investment funds or foreign funds and managing such funds. After transformation, Money Makers S.A. started operating as an investment fund management company (Towarzystwo Funduszy Inwestycyjnych) in July 2015.
- In the 4th quarter of 2015, the product range was increased to include operating leases, finance leases and loans offered via a subsidiary Alior Leasing. As part of this offer, customers can finance a wide range of fixed assets, including agricultural machinery, vehicles, and other machinery and equipment, both simple and highly complex.

Alior Bank's business activity in 2015 was characterized mainly by a dynamic increase in total assets (32.6% on a year-on-year basis compared with 4.4% for the entire banking sector) which was due to both the acquisition of Meritum Bank and the organic growth fuelled by sales which focused mainly on cash loans, housing loans and corporate loans, executed based on own distribution network.

Sales of current accounts and cash loans through T-Mobile Banking Services were not insignificant, either, as well as Consumer Finance lending activity (instalment loans).

Cooperation with T-Mobile enabled customers to open personal accounts with a debit card in 637 T-Mobile sales outlets (including 155 store-in-store outlets which provide a full range of banking services).

Currently, any customer may also obtain a cash loan for any purpose of up to PLN 150 thousand, to be repaid in as many as 120 monthly instalments. A loan application may be submitted either in store-in-store outlets or through remote access channels. An agreement may be concluded remotely, without the need to visit a branch, and customers are able to obtain funds in their bank account even on the same day.

Moreover, on 11 June 2015, the offer of T-Mobile Banking Services was expanded to include products dedicated to entrepreneurs. Sole traders may open a current account and ancillary accounts with a debit card covered with free of charge Assistance insurance. T-Mobile customers may also take advantage of a debit limit in a current account of up to PLN 20 thousand. The offer for business customers is available in store-in-store outlets.

In the third quarter 2015, as part of a development of cooperation with a T-Mobile Polska S.A. operator, a new offer for tellecomunications equipment financing has been developed in the operators' outlets. The current customer of T-Mobile Polska S.A. is granted with financing without further formalities, based on the historical cooperation with an operator. The offer is being granted to the new customers on the basis of certificate of income. In November 2015 a basic account has been enriched with 5-percent cash-back, paid to the customers for non-cash transactions made with debit card. A maximum cash-back paid to the account amounts to PLN 600 per year.

In terms of instalment loans (Consumer Finance), the Bank's offer is available in all of its three distribution channels (stationary, direct and online). In 2015, the strongest sales growth was recorded in the stationary and on-line channels, while in the direct sales channel sales remained stable.

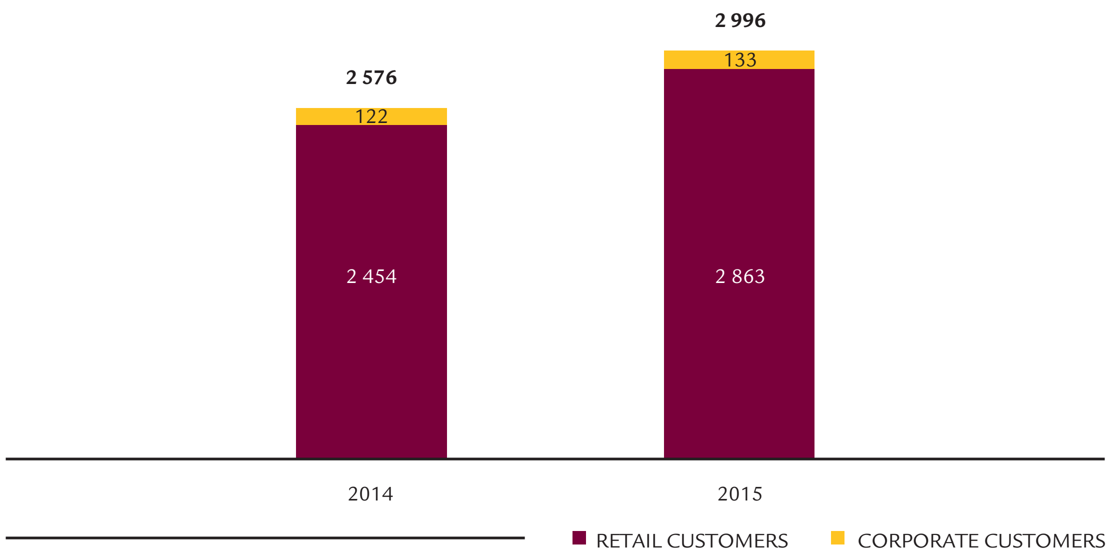
Cooperation with the key partners, namely Euro RTV AGD, PayU Allegro, Agata Meble, Philipiak, Vorwerk, LSP is progressing very well. At the same time, the Bank maintained its very strong position on the agency market which is characterized by high margins.

As a result of these activities, in 2015 the Bank continued to expand its customer base which offers a potential for further development of cooperation and sales of other products.
More intensive cooperation with such customers ensures a higher level of sales of cash loans and other Alior Bank's products.

In the coming year 2016, the Bank plans to significantly expand its Advisors' network and to attract new key partners, to strengthen Alior Bank's market position.

It should be emphasized that the Bank, as part of its strategy, focuses not only on increasing its customer base, but also undertakes measures aimed at deepening the Bank's relations with existing customers.

While pursuing the strategy of a dynamic asset growth, the Bank simultaneously strives to ensure that desirable operating effectiveness is maintained, as measured by ROE which at the end of 2015 amounted to 9.5% Excluding charges against the profit non-resulting from the ordinary course of business, and linked with the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and the creation of the National Borrower Support Fund, the ROE at the end of 2015 would have amounted to 11.1%.



As at the end of December 2015, the number of customers served reached nearly 3 million. Approximately 2.86 million are retail customers, and over 132.7 thousand are business customers. On a year-on-year basis, the number of customers as at the end of 2015 increased by 16.3%. This was due to an increase in the number of retail customers served of 16.7% and of 8.4% in the number of corporate customers served.

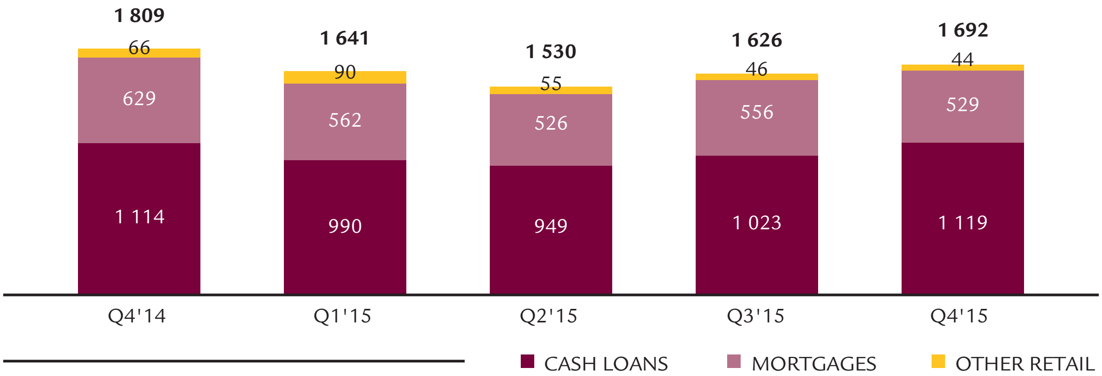
The most important channels for acquisition of new retail customers included: branch offices of Alior Bank (63% of customers acquired in 2015), T-Mobile Banking Services (28% of customers acquired in 2015), and Consumer Finance (9% of customers acquired in 2015).

It should be mentioned that in addition to organic growth, the level of customer acquisition was affected by the operational merger with Meritum Bank conducted on 26 October 2015.

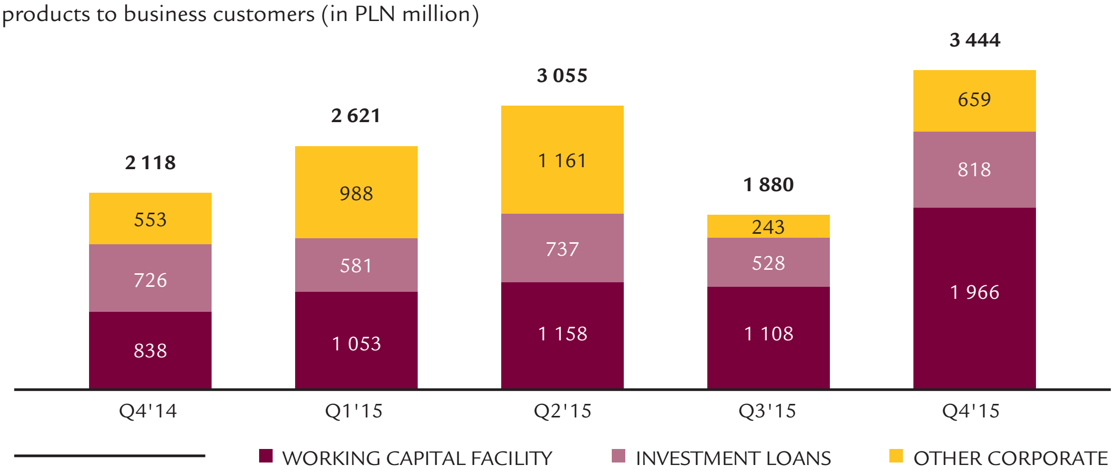
Alior Bank provides services mainly to customers from Poland. The share of foreign customers in the total number of the Bank's customers is negligible.

The detailed amounts of quarterly sales (excluding renewals) in the individual credit product groups for retail customers and corporate customers are presented in the diagrams below.

Sales of products to retail customers (in PLN million)



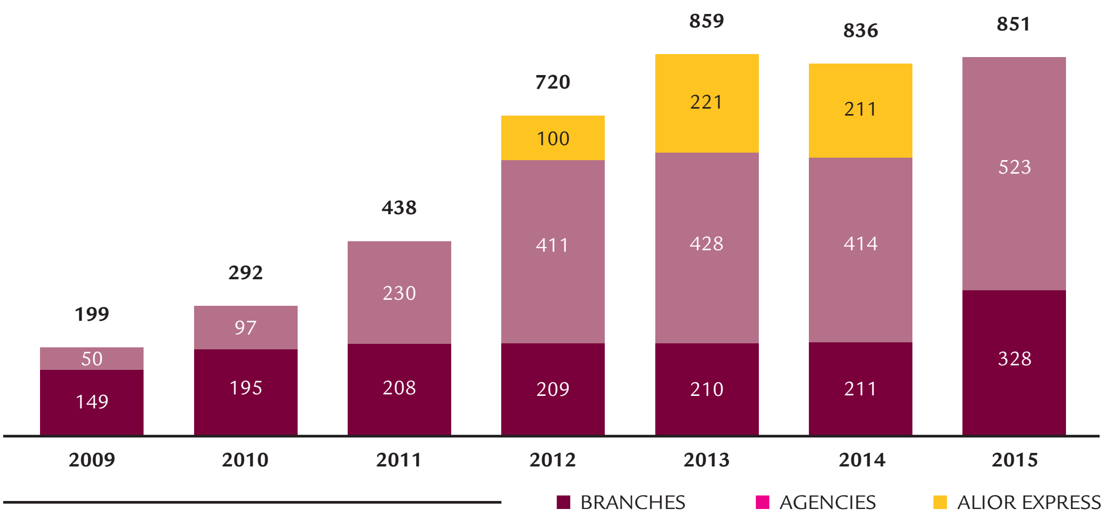
Sales of products to business customers (in PLN million)



Distribution network and employment level

Distribution network

As at the end of 2015, the Bank had 851 outlets (328 traditional branches, including 6 Private Banking branches, 12 Regional Business Centres and 523 partner outlets). The Bank's products are also offered through a network of nearly 3 thousand outlets of financial intermediaries.



In connection with the merger with Meritum Bank, Alior Bank initiated a process of changes in its existing distribution model. The target network of Alior Bank will comprise flagship branches, standard branches and partner outlets.

By the end of 2015, the Bank selected 45 large "flagship" branches to serve retail and business customers. Flagship branches will offer products according to the standard of private banking, currently available only to high net worth customers, to retail and business customers. Flagship branches will not offer any cash services. Flagship branches will be located mainly in big cities.

The Alior Bank Express brand will disappear from the market. Some of Alior Bank Express outlets are being upgraded to the standard of universal branches which offer a wider range of products and services, including products for micro-businesses and investment products. Selected Alior Bank Express outlets were included in the Bank's franchise network. Due to the overlapping of outlets in certain locations, approximately a dozen franchise outlets were closed.

On the other hand, transactional services and additional products were introduced in the franchise network which was enlarged by the Meritum Bank outlets. In the target model, the franchise network will comprise more than 600 outlets.

The implementation of a new distribution model is aimed at increasing the number of products sold per employee, and thus, improving sales efficiency.

In addition, Alior Bank uses distribution channels based on a state-of-the-art IT platform, including online banking, mobile banking and call centres.

The distribution network described above is strongly supported by 607 service outlets where the Bank's products are offered under the T-Mobile Banking Services brand and delivered by Alior Bank. Out of these service outlets, as at the end of 2015, full banking services were provided by 155 dedicated T-Mobile Banking Services outlets, where customers were served with such banking products as: loan, credit card, debit limit, deposit, currency account, account for individual and business customer.

In addition, as at the end of 2015, the Bank had 71 outlets located in Tesco markets.

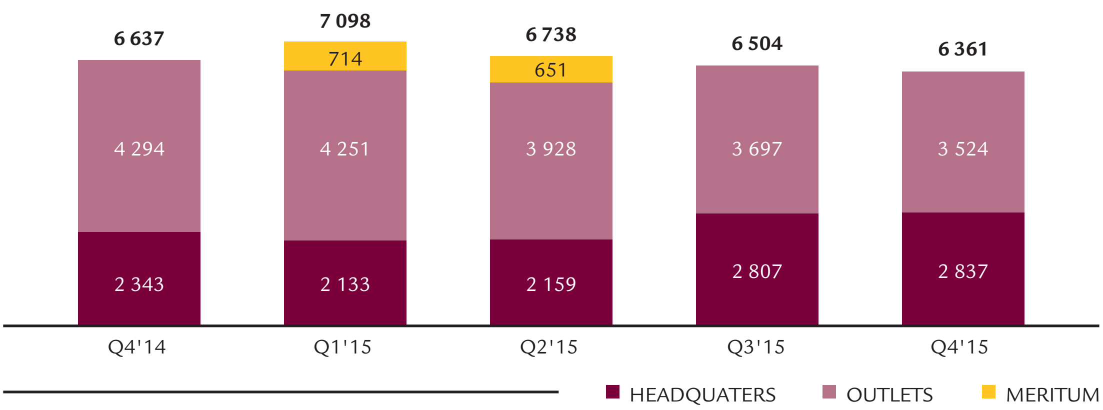
Number of employees

As at the end of 2015, the employment level at Alior Bank was 6.361 full-time positions (FTEs). This figure means a decrease by 276 FTEs, i.e. 4.2%, compared with the end of 2014.

Changes in the employment level were connected with both the acquisition of Meritum Bank and the fact that the employment rationalization programme conducted in the form of group redundancies was completed by the end of December 2015.

At the same time, it should be emphasized that changes enabled to achieve the planned synergies in the process of the banks merger and had no negative impact on the effective performance of the business tasks in 2015.

Employment level expressed by the number of FTEs:



Key financial data

The achievements described above which resulted in an increase in the scale of operations significantly contributed to the level of net profit earned.

The net profit of the Bank's Group (attributable to the equity holders of the parent company) earned for 2015 amounted to PLN 309,6 thousand and was PLN 13,1 thousand, i.e. 4.1%, lower than the net profit earned for the prior year.

Selected financial indicators and financial results of the Alior Bank Group are presented in the table below:

in PLN '000 / %	2015	2014	2013
Total assets	40 003 010	30 167 568	25 549 871
Loans and advances to customers, net	30 907 057	23 647 990	19 657 900
Amounts due to customers	33 663 542	24 427 988	20 832 459
Equity attributable to equity holders of the parent company	3 512 859	3 013 163	2 184 732
Net interest income/(expense)	1 501 013	1 229 570	998 561
Total income	2 166 013	1 872 988	1 540 027
Operating expenses	-1 107 892	-925 271	-847 358
Net profit attributable to the Parent Company	309 648	322 744	227 902
NIM	4.60	4.75	4.67
ROE (%)	9.5	12.4	11.0
ROA (%)	0.9	1.2	1.0
Costs / Income	51.1	49.4	55.0
Loans / Deposits	91.8	96.8	94.4
Solvency ratio	12.54	12.80	12.11

The key factors which affected the Alior Bank Group's financial results in the first half of 2015 included:

- organic growth, driven mainly by the growth of the loan portfolio (supported by a series of initiatives, including offering products in cooperation with T-Mobile Polska) and the merger of Alior Bank with Meritum Bank. The increased scale of operations supported by diligent monitoring of costs significantly contributed to the development of the main income statement items in 2015;
- the continued recovery of economic growth in Poland which increases the demand for debt financing in an environment of low interest rates. According to initial estimates of the Polish Central Statistical Office (GUS), the seasonally-adjusted gross domestic product increased in IV quarter 2015 by 1.1% in real terms compared with the previous quarter and was 3.7% higher than in the previous year;
- an environment of record low interest rates (the interest rate cut in March 2015 brought, e.g. the Lombard rate to the level of 2.5%) which exerted pressure on the level of net interest income;
- the reduction in interchange rates from the former 0.5% to 0.3% for credit card transactions and to 0.2% for debit card transaction starting from February 2015;
- the increase in the level of fees paid by banks to the Bank Guarantee Fund (BFG) in 2015. The increase applied both to the rate of the mandatory annual premium paid into the aid fund (from 0.1% to 0.189%) and to the prudential levy (from 0.037% to 0.05%). As a result of these changes and the increased scale of operations conducted by the Bank, the level of fees paid to BFG in 2015 amounted to PLN 60.9 million and was 116% higher than in 2014;
- launching of the National Borrower Support Fund by Bank Gospodarstwa Krajowego at the beginning of 2016. The fund is intended for private individuals who found themselves in difficult financial position and are obliged to repay housing loan instalments which represent a significant burden on a household's budget. The resources of the Fund are accumulated from lenders' payments made in proportion to the size of a lender's portfolio of housing loans to household which are overdue for more

than 90 days. In connection with the above, in the fourth quarter of 2015, Alior Bank paid the amount of PLN 9.15 million to the Fund which was charged against the profit for the fourth quarter of 2015.
- suspension by the Polish Financial Supervision Authority of the operations of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin as of 21 November 2015, and filing a bankruptcy petition for that bank. On 30 December 2015, the District Court in Warsaw issued a decision on the bankruptcy of the said bank. In connection with the above, in accordance with Resolution of the Management Board of the Bank Guarantee Fund of 26 November 2015 on the payment of guaranteed deposits to Spółdzielczy Bank Rzemiosła i Rolnictwa, on 30 November 2015 Alior Bank paid PLN 56.98 million to BFG towards the payment of guaranteed deposits. The said amount was charged against the profit in the fourth quarter of 2015.

As at the end of 2015, the Group's total assets increased by 32.6% year-on-year to PLN 40,003.0 thousand. Net loans and advances to customers increased by 30.7% in the same period, to PLN 30,907.1 thousand, and amounts due to customers increased by 37.8% to PLN 33,663.5 thousand. Due to a larger scale of deposit acquisition compared with the growth of lending activity, the loans-to-deposits ratio amounted to 91.8% as at the end of 2015, i.e. improved by 5 p.p. compared with the end of 2014.

Increases in balance sheet items were accompanied by a dynamic growth of total revenue with interest income as the main component of this growth In 2015, total revenue increased to PLN 2,166 thousand, i.e. by 15.6% year-on-year. The main component of revenue was the interest income (which increased by 22.7% year-on-year in 2015) represented over 69.6% of total revenue.

In 2015, the Group's operating expenses amounted to PLN 1,107.9 million and increased by 19.7% compared with the same period of the prior year, i.e. by 4.1 pp more than the increase of revenue in the same period.

Consequently, the cost-to-income ratio was 51.1% as at the end of 2015, 1.7 pp higher than in the first half of the prior year.

However, it should be noted that operating expenses presented above include costs relating to one-off events (the bankruptcy of Spółdzielczy Bank Rzemiosła in Wołomin and the creation of the National Borrower Support Fund) which increased the operating expenses in the fourth quarter of 2015 by PLN 66.13 million in total.

Excluding the impact of these one-off events on the income statement, operating expenses in 2015 amounted to PLN 1,041.8 million, i.e. were 12.6% higher compared with 2014 and, at the same time, 3 p.p. less than the revenue growth. Consequently, the cost-to-income ratio was 48.1%, 1.3 pp less than in the prior year.

The increase in the scale of operations was accompanied by efforts to maintain the solvency ratio at the level required by the law. Due to a share issue conducted in connection with the merger with Meritum Bank and the inclusion of the net profit earned in 2014 and in the first half of 2015 in equity, the capital ratio amounted to 12.54%, despite an increase in risk-weighted assets. The solvency ratio was 0.26 p.p. higher than the solvency ratio at the end of 2014.

Description of factors that might affect the financial results of the Bank in the coming months is presented in details in the chapter: Assessment of operations of Alior Bank and its prospects for 2016.

No. 2

Raports written in clay

CONQUESTS OF SUMERIAN AND BABYLONIAN KINGS, MESOPOTAMIAN MYTHS OR SETS OF LAWS ARE NOT THE ONLY STORIES TOLD BY CLAY TABLETS WITH CUNEIFORM SCRIPT. SOMETIMES THEY HAPPEN TO BE “SIMPLE” COMMERCIAL LETTERS, REPORTS OR ACCOUNTING BOOKS NOT MUCH DIFFERENT THAN CONTEMPORARY ONES. ALLOWANCES OF BEER AND BREAD FOR COURIERS, BARLEY FOR TEMPLE GUARDS OR FLOUR FOR MILL BOOK-KEEPERS ARE COMMON SUBJECTS OF SUCH TABLETS. SOME OF THEM ARE REALLY EXTRAORDINARY, LIKE FOR EXAMPLE DATE CAKE RECIPE FOR KING ZIMRI-LIM.

II

CHAPTER II

Alior Bank at the Warsaw Stock Exchange

II. Alior Bank at the Warsaw Stock Exchange

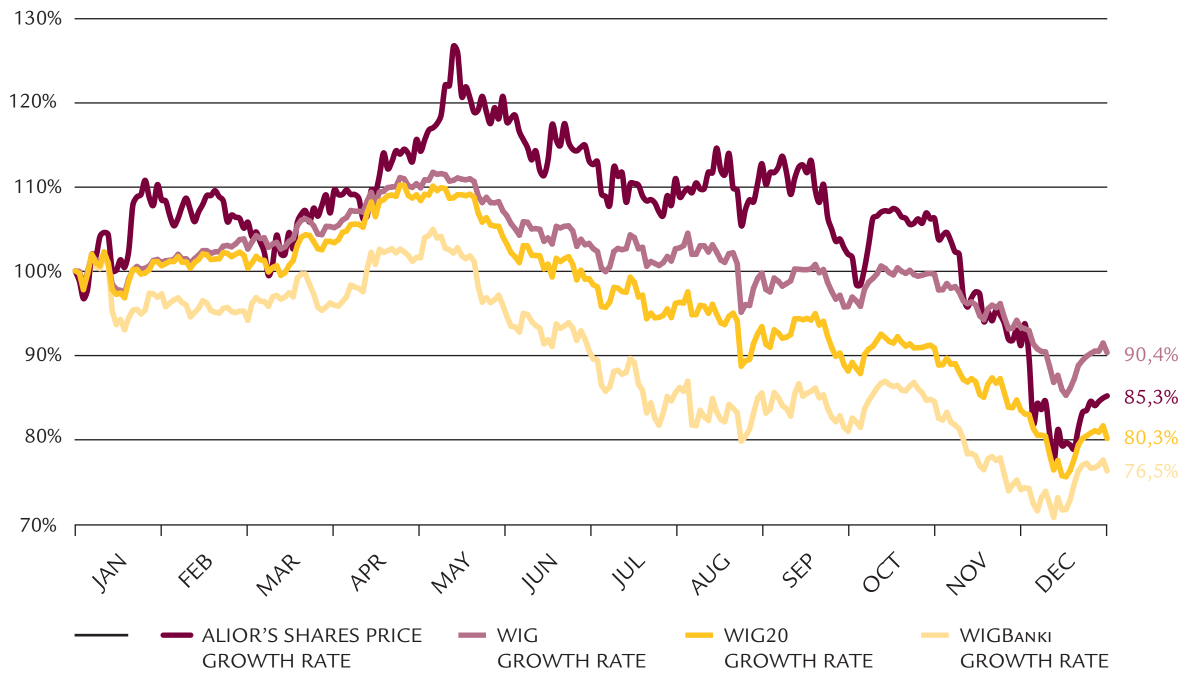
Quotations of Alior Bank's shares on the WSE in 2015

Alior Bank made its debut on the Warsaw Stock Exchange on 14 December 2012. On 21 March 2014, barely 15 months after the stock exchange debut, the Bank joined the circle of the twenty largest and most liquid companies quoted on the Warsaw trading floor. The total value of trading in the Bank's shares in 2015 amounted to PLN 2.94 billion (compared with PLN 2.95 billion in 2014). Throughout 2015, more than 248 thousand transactions involving Alior's shares were conducted, compared with slightly more than 164 thousand transactions concluded in 2014.

In 2015, the price of the Bank's shares decreased by 14.7% reaching PLN 66.50 as at the end of December 2015. This should be compared with the value of the WIG Banki index which decreased by 23.5% in the same period, while the quotations of the WIG20 index fell by more than 19.7%. As at the end of 2015, Alior Bank's P/E and P/BV ratios amounted to 13.0 and 1.39, respectively. In accordance with the data published in the WSE's Official Bulletin, the same ratios for the entire banking sector amounted to 12.0 and 0.81, respectively.

The main reasons of the depreciation of Alior Bank's shares are: significant burden to the net profit generated in the future quarters, resulting from entry into force the act on tax applied to some financial institutions (the so called banking tax), increase of the contributions made by the banks to the Bank Guarantee Fund in 2015, as well as uncertainty of the level of the burden to come in the coming years, costs incurred by the Bank in the fourth quarter 2015 in connection with the the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and the launching of the Borrower Support Fund, or finally concerns about the level of the possible loss resulting from the proposed solutions in scope of the conversion of CHF-denominated loans.

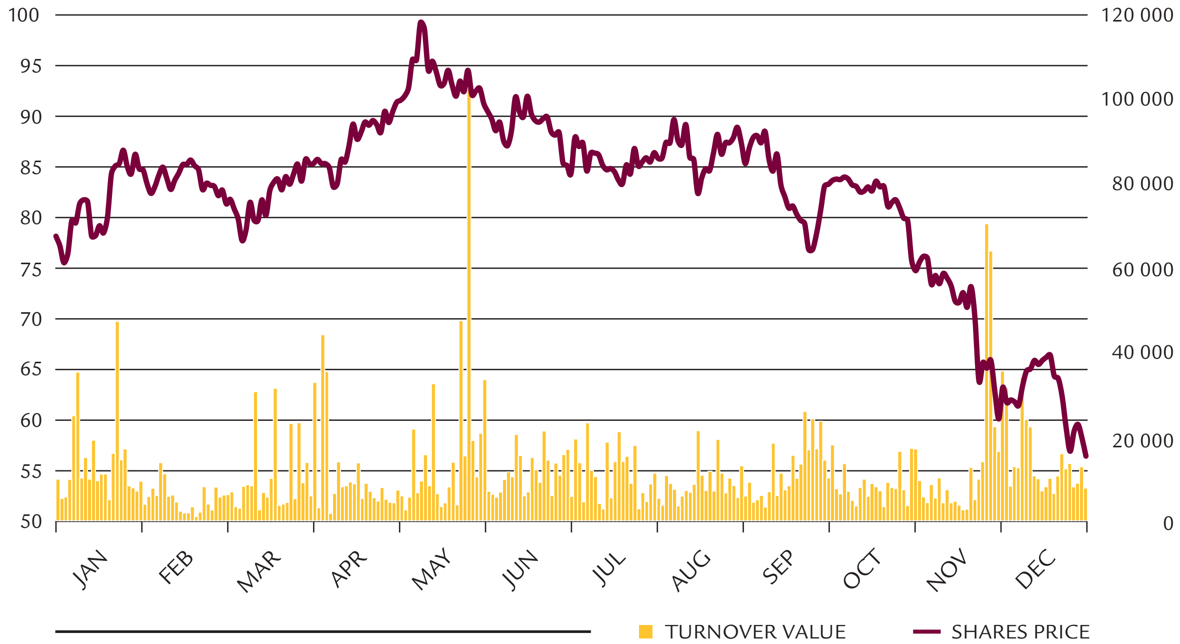
The diagram below presents the evolution of Alior Bank's share quotations against the background of the evolution of WIG and WIG Banki indices in 2015 (quotations as at 30 December 2014 = 100%).



The clearly lower dynamics of WIG Banki index quotations in 2015 compared with the WIG index was due to the fact that banks operated in the environment of historically low interest rates in 2015, which translated into a decrease in core revenue, and also resulted from factors mentioned above.

Alior Bank's shares listed on the WSE remain the subject of interest of many financial institution which prepare recommendations for their clients, due to, inter alia, the high liquidity of their quotations. As at the end of 2015, analytical reports on Alior's shares were prepared by 22 financial institutions, both Polish and international, including, inter alia: Barclays Capital, JP Morgan, Citibank, Morgan Stanley, Wood&Company, DM PKO BP, DM BZWBK.

The development of share prices and turnover volumes of the Bank's shares on the WSE in 2015 is presented in the diagram below:



Ratings

On 5 September 2013, Fitch Ratings Ltd. granted a BB rating with a stable perspective to Alior Bank S.A. The rating remained unchanged in accordance with the assessment made on 1 March 2016.

The full rating evaluation of the Bank assigned by Fitch is as follows:
1. Long-Term Foreign Currency IDR: BB, outlook stable;
2. Short-Term Foreign Currency IDR: B;
3. National Long-Term Rating: BBB+(pol), outlook stable;
4. National Short-Term Rating: F2(pol);
5. Viability Rating (VR): bb;
6. Support Rating: 5;
7. Support Rating Floor: 'No Floor'.

Definitions of Fitch ratings are published on its website at www.fitchratings.com, which includes ratings, criteria and methodologies.

Investor relations

Alior Bank perceives a consistent information strategy as an important element contributing to the development of the market value of its shares. Consequently, Alior Bank carefully maintains regular, timely and effective communication with capital market participants.

As a public company, the Bank takes active measures to meet the information needs of its stakeholders, while striving to ensure universal and equal access to information in accordance with the highest market standards and the applicable laws.

These activities are conducted by the Investor Relations Department which reports to the President of the Bank's Management Board. The tasks of the Investor Relations Department are aimed mainly at ensuring constant, immediate access to information on all material changes occurring within the Company which have or may have an impact on the price of its shares.

As part of these activities, the Investor Relations Department organizes meetings of the Bank's Management Board and its top management with capital market participants, including potential investors and analysts who prepare reports on the Bank. These meetings are also aimed at discussing the current financial and operating situation of the Company and at presenting, in a fair manner, the Company's operating strategy and planned areas of further development. Apart of the above listed issues, also issues related to the present macroeconimic situation, condition of the financial sector and competitive environmentof the Bank, are being discussed.

In 2015, 279 meetings were held, including 170 meetings with 120 foreign investors and 109 meetings with 45 local investors. The meetings took place both at the premises of Alior Bank and as part of domestic and international conferences and roadshows. The Bank also participated in many conferences organized by domestic and foreign brokerage houses.

Moreover, to ensure equal access to information for all investors, Alior Bank organizes online chats for domestic individual investors to enable them to have direct contact with the Bank's top management.

At the same time, webpages dedicated to investor relations, updated on an on-going basis and available on the Bank's website (www.aliorbank.pl), are another important tool of communication with capital market participants. These webpages (maintained in both Polish and English) contain a wide range of information necessary for investors to perform a comprehensive assessment of Alior Bank's operations (e.g. current and periodic reports, presentations of financial results, information on General Shareholders' Meetings, corporate documents and current ratings and evaluations ordered by the Bank).

No. 3

Egyptian numerals

THE NUMERAL SYSTEM OF ANCIENT EGYPTIANS, UNLIKE THAT OF BABYLONIANS, WAS DECIMAL. ONE, TWO, THREE... UP TO NINE NOTCHES MEANT NUMBERS FROM 1 TO 9, WHILE A BENT LINE WAS AN EQUIVALENT OF 10. THEN CAME THE SUBSEQUENT EXPONENTS OF 10: A STRING COIL FOR 100, A LOTUS FLOWER FOR 1000, A FINGER FOR 10 000, A FROG FOR 100 000. A MAN WITH ARMS STRETCHED WIDE, AS IF TRYING TO SHOW SOMETHING REALLY BIG, WAS THE SYMBOL FOR A MILLION OR... A LOT.

CHAPTER III

External environment of the Bank's operations

III. External environment of the Bank's operations

Poland's economic growth

Throughout 2015, the GDP growth measurements showed a strong beginning of the year (in the first quarter, GDP growth was 3.7% y/y), a relatively weaker – if still high – growth in the second quarter (3.3% y/y) and a progressing acceleration in the third and fourth quarter: 3.5% y/y and 3.9 y/y, respectively. These results are better than expected, as the market consensus between economists was of the GDP growth of 3.5% y/y in the first quarter and 3.8% y/y in the last quarter. The data on economic activity as at the end of the year confirm that the economy was growing dynamically, and the sources of growth included not only higher spending of the households, but also a strong foreign demand. To maintain such growth rates, the continuation of favourable trends in the labour market, historically low level of interest rates and low prices of fuels will be of major importance.

The data from the Central Statistical Office (GUS) on retail trade confirm that consumer demand was growing in 2015, supported by good labour market conditions. Business cycle indicators confirm the growing trend: indices for processing and construction industries were growing from the beginning of the year, to reach the highest levels since April 2014 and June 2011, respectively. Exports growth reached 12.6% y/y (the highest since March) and imports growth was 5.4% y/y. This suggests that external demand for Polish goods is recovering, supported by acceleration of the economic growth in the euro area and the weakening of the Polish złoty.

Deceleration of the global economic activity remains the key risk factor, as it may discourage enterprises from making new investments. One should also pay attention to the investment activity of local governments. In 2015, it was affected by diminishing co-financing of projects from the European Union funds, associated with the exhaustion of the funds from the 2007-2013 perspective and slow initial absorption of funds from the 2014-2020 perspective.

Situation on the labour market

Since the beginning of 2015, employment in the economy (including in the enterprise sector) has been growing and is currently at the highest level in history. The registered unemployment rate fell continuously month after month from February (11.9%) to October (9.6%), and the data of the Ministry of Labour showed a registered unemployment rate of 9.8% in December, the lowest year-end level since 2008. Nevertheless, the gross salary growth was subdued – 3.6% y/y recorded in January diminished to 2.5% y/y at the end of June, to increase to 3.1% y/y at the end of the year.

The strength of demand for labour is dampened by the challenge of finding employees. This results from the increasing number of job offers per employee, a high probability of finding work and the improved bargaining position in terms of employment conditions. These factors contribute to a growing pressure on salaries. Combined with the fall in consumer prices, real disposable income is growing, supporting private consumption.

Inflation level

The annual growth of consumer prices in Poland remains negative, even if the scale of deflation in the fourth quarter of 2015 was smaller than in previous quarters. In December, CPI inflation remained at a level of -0.5% y/y, growing from the minimum recorded in February when it stood at -1.6% y/y. The fall in prices on an annual basis was mainly due to the impact of external factors, including primarily the drop in commodity prices on the global markets which resulted, in particular, in lower energy prices. Deflation was also due to the fact that food prices were lower than a year before. Core inflation (CPI excluding food and energy prices) amounted to 0.2% y/y at the end of the year.

Situation in foreign trade

The data from the Central Statistical Office indicate that between January and December 2015, exports of goods from Poland reached the value of EUR 178.7 billion, i.e. 7.8% more than a year before. Slower growth of imports in the period (to EUR 160.7 billion, i.e. by 3.9%) resulted in a clear improvement in the balance of trade – the deficit of EUR 2.66 billion recorded in the previous year turned into a surplus of EUR 3.68 billion.

Further deterioration in the economic situation in Russia was the main factor lowering the dynamics of Polish exports in recent months. During the year, exports to Russia dropped by 28%. The drop in the rate of imports was partly due to a slight slowdown in the growth of internal demand, and in particular, the lower growth rate of investments which is an element of demand characterized by high import absorption. The growth of the import value was also limited due to the level of prices of raw materials on the global markets being lower than a year before. The share of developed countries in total exports in 2015 was 85.7% (including EU: 79.3%), and 66.6% in total imports (including EU: 59.7%), compared with 84.1% (EU: 77.5%) and 65.9% (EU: 59.0%), respectively, in 2014.

Increased political risk related to unsteadiness of the global markets

In 2015, uncertainty in the global financial markets continued to increase. A strong drop in share prices on the stock exchanges was observed, accompanied by a fall in commodity prices and the depreciation of currencies of the countries which are commodity exporters. These trends were mainly due to the economic slowdown in developing countries, a collapse in prices on the Chinese stock market, a devaluation of the Chinese juan in relation to the US dollar and asymmetrical measures introduced by the largest central banks. Global investor behaviour was determined by concerns relating to the economic situation in developing countries. The behaviour of financial market participants was strongly affected by the uncertain timing of the introduction of interest rate increases by the Fed. At its September meeting, the Fed decided to maintain interest rates at an unchanged level. This contributed to a temporary decrease in price volatility on the global financial markets. One of the reasons behind this decision was the state of the global economy and the related turbulences in those market which could, in the nearest term, negatively affect the growing economic activity in the USA. Stabilization in the stock markets and exchange rates of the currencies of the emerging economies observed in October, as well as the publication of the (significantly better than expected) data from the labour market in the USA increased the investor expectations of the Fed's already starting to increase interest rates in 2015. In line with these expectations, on 16 December 2015, the Fed increased interest rates by 25 basis points for the first time since June 2006. For the European financial markets, investors' expectations of a more expansionary monetary policy by the ECB and extension of the duration of the expanded asset purchase program (EAPP) were of significant importance. The increased expectations of a higher scale of asset purchases under EAPP resulted mainly from concerns that the economic slowdown in developing countries and falling commodity prices would have a negative effect on the GDP growth and inflation in the euro area. A temporary increase in credit risk of the peripheral countries observed in the summer was fuelled by the political situation in Greece and investors concerns that Greece may become insolvent. The risk assessment for Greece improved when this country committed to comply with the conditions of the assistance program proposed by the European Commission and the ECB.

Expectations relating to the monetary policies conducted by the ECB and the Fed contributed to changes in the EUR/USD exchange rate. The likely divergence of the ECB's and FED's monetary policies translated into a significant depreciation of the euro at the turn of October and November. This trend reversed after 3 December 2015, when the Governing Council of the ECB decided not to increase the scale of monthly purchases of securities under EAPP, contrary to investor expectations. The ECB decided to cut its deposit rate by 10 basis points to -0.3%, to extend the duration of the said asset purchase program at least until March 2017, to expand its scope to cover municipal bonds and to reinvest the principal payments on the securities purchased under the APP as they mature, for as long as necessary. As a result, an increase in the profitability of Treasury bonds was noted, of both developed and emerging economies, and the euro visibly strengthened in relation to the US dollar.

Foreign exchange rates

After considerable strengthening of the EUR/PLN exchange rate in the first quarter of 2015 (to slightly below 4.0), in the subsequent months a gradual, slight depreciation in the PLN in relation to the EUR was noted, accompanied by decreasing volatility of the exchange rate. In December 2015, significant changes in the EUR/PLN exchange rate were observed. A marked increase in the EUR/PLN rate in the first half of December resulted from a combination of local factors (mainly the investors' uncertainty as regards the economic policy of the new government) and global ones (strengthening of the euro on the global market after the ECB's decision to extend the EAPP). After a temporary strengthening in the second half of December, the closing rate at the end of the year exceeded the level of 4.25. The USD/PLN and CHF/PLN exchange rates resulted mainly from the changes of, respectively, EUR/USD and EUR/CHF exchange rates, and from the PLN/EUR exchange rate. The expected divergence of the ECB's and Fed's monetary policies, which contributed to the depreciation of the euro in relation to the US dollar, translated into a significant increase in the USD/PLN exchange rate which reached the highest level since 2004. The CHF/PLN exchange rate was influenced mainly by the changes in the EUR/PLN exchange rate. A temporary increase in the CHF/PLN exchange rate at the turn of June and July 2015 was associated with increased investor concerns of Greece solvency and the weakening of the euro in relation to the Swiss franc.

The global investment mood remains unsteady due to: political uncertainty, deterioration in the investment climate on the emerging markets, slowdown of the global economy, drops in prices of raw materials and the announced rate increases in the USA. These factors stop investors from increasing their involvement in risky assets. At the same time, the zloty exchange rate is still affected by fundamental factors – including high real-terms interest rates, accelerating economic growth, the improving balance of trade and the fiscal situation, as well as the QE programme being carried out by the ECB.

No. 4

Quipu

KNOTS ON COTTON OR WOOL STRINGS CALLED QUIPU IN THE QUECHUA LANGUAGE. FOR THOUSANDS OF YEARS ANDEAN INDIANS USED THEM FOR STORING INFORMATION, MAINLY NUMBERS. ADMINISTRATORS OF THE INCA EMPIRE USED THEM FOR CENSUSES, TAX COLLECTION, PROPERTY SPECIFICATIONS OR CALENDAR CALCULATION. TO DATE, ONLY APPROXIMATELY 750 ORIGINAL QUIPU HAVE BEEN PRESERVED.

CHAPTER IV

Main structural and financial data of Polish banking sector

IV. Main structural and financial data of Polish banking sector

Basic structural data

As at the end of December 2015 there were: 38 national commercial banks, 561 cooperative banks and 27 branches of credit institutions in Poland.

National banking network included as at the end of December 2015: 7,215 branches, 4,666 sub-branches, branch offices and other customer points of service as well as 2.615 agencies (including partnership outlets). Thus, the banking network consisted of 14,539 units as at the end of December 2015, 566 units less comparing to the same period last year.

Number of the banking sector employees amounted to 170.9 thousand people as at the end of December 2015 and was by 1.7 thousand (i.e., 1.0%) lower vs. the same period last year.

Polish banking sector has a stable ownership structure. State Treasury controlled 5 banks as at the end of December 2015. Private capital was predominant in case of 568 banks and branches of credit institutions. Foreign capital prevailed case of 53 banks and branches of credit institutions.

Main income statement items

In the period between January and December 2015, the banking sector generated a net profit at the level of PLN 11.5 billion compared with PLN 15.88 billion in a similar period of the prior year (a drop by 27,6%).

The net profit level of the sector was mainly influenced by decrease of the result on banking activities (to PLN 55.95 billion, i.e. 3% more vs. period from January to December 2014), which occurred as a result of a significant decrease in net interest income (by 4.8%), accompanied by simultaneous decrease of net fee and commission income (by 3.3%).

The decrease in net interest income mainly resulted from two interest rate cuts made by the Monetary Policy Council. The reduction in interest rates, which took place in September 2014 lowered the lombard rate to 3%. Another interest rate cut which took place in March 2015 further decreased the lombard rate to a record low level of 2.5%.

Interest rate cuts triggered in banks the process of deposit and lending policy adaptation to the low interest rates environment. As a result, there was a strong decline in the area of interest expenses (20.5% y/y) with the simultaneous, less proportional reduction of interest income (10.6% y/y).

The decline (by 3.3% y/y) in terms of achieved net fee and commission income was mainly resulted from the changes in accounting policy regarding recognition of remuneration for the sale of insurance products, as well as (in case of a few banks) a reduction of commission income from lending activity and also from the reduction of interchange fees.

Operating costs of banks (including depreciation and provisions) increased by 12.0% y/y to PLN 34.3 billion in the year 2015. This increase was mainly caused by an increase in the level of HR costs (up 1.2% to PLN 15.2 billion) as well as an increase in general and administrative expenses (up 24.8% to PLN 15.2 billion).

The increase of the fees level paid by banks to the Bank Guarantee Fund as well as the bankruptcy of the Cooperative Bank of Crafts and Agriculture in Wołomin, which forced the entities covered by the guarantee scheme to pay the mandatory payment in the amount of PLN 2 billion, significantly, negatively impacted the level of general and administrative expenses in 2015.

In addition, Bank Gospodarstwa Krajowego launched Borrowers Support Fund at the beginning of 2016, which was credited in the amount of PLN 600 m by lenders in proportion to the size of the households housing loans portfolio, which the delay in payment of principal or interest exceeds 90 days.

Negative balance of provisions and write-downs in the period from January to December 2015 increased by 0.8% and amounted to PLN 8.13 billion.

Loans and Deposits

Economic recovery was observed in the year 2015. There has been an increase in the activity of Polish enterprises and the associated with it revival of lending growth, both in the area of lending to companies as well as to households. According to initial estimates of the Polish Central Statistical Office (GUS), the seasonally-adjusted gross domestic product increased in IV quarter 2015 by 1.1% in real terms compared with the previous quarter and was 3.7% higher than in the previous year.

The amount of banking sector assets as at the end of December 2015 stood at PLN 1,599.9 billion and was by 4.4% (ie. 67.9 billion zł) higher vs. the end of 2014.

Gross receivables from non-financial sector increased as at the end of December 2015 by 7.4% compared to the previous year and amounted to PLN 961.8 billion. The main areas of growth were corporates loans (+8.8% y/y) and receivables from households (+6.7% y/ y).
Deposits of non-financial sector increased year-on-year by 9.9% to PLN 938.8 billion at the end of December 2015. The growth rate of household deposits was similar to the growth rate of corporate deposits (growth respectively by 9.8% and 10.4%). As a result, the value of household deposits as at the end of December 2015 increased to PLN 665.7 billion and the value of deposits held by the company amounted to PLN 253.3 billion at the end of December 2015.

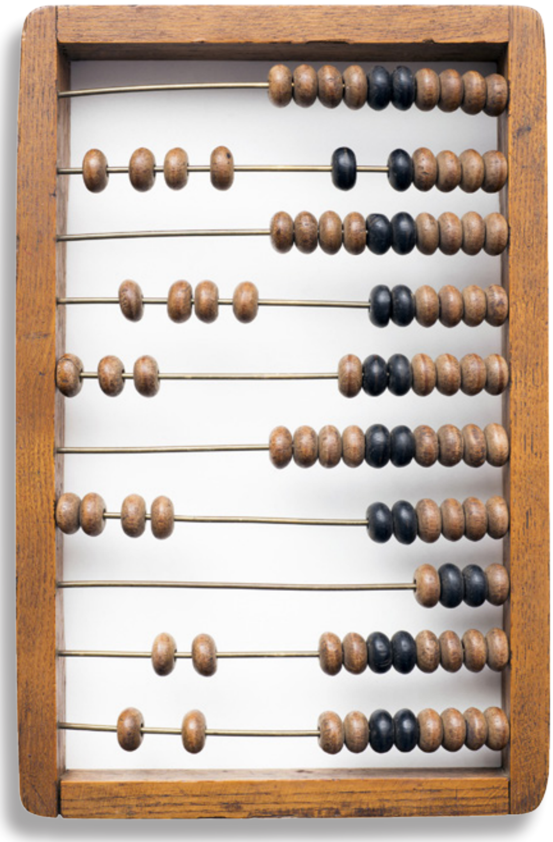
Equity and capital adequacy ratios

The level of equity for the capital adequacy ratios, calculated in accordance with the regulations contained in the CRR/CRDIV package was equal to PLN 149.2 billion as at the end of September 2015, and it went up by 7.4% as compared with the end of September 2014.

The said increase was related to the fact that selected banks retained significant amount of 2014 net profit as a result of resignation or suspension of dividend payments.

The aggregate capital adequacy ratio of the banking sector amounted to 15.56% as at the end of September 2015 (up 0.64 p.p. compared with the end of September 2014), whereas the Tier-1 ratio as at the end of the said period amounted to 14.25% (it went up by 0.53 p.p. compared with the end of September 2014).

Moderate growth of the aggregate capital adequacy ratio and the Tier-1 ratio results from the fact that the observed increase in the aggregate risk-weighted exposure (by 3% y/y vs end of September 2014) resulting from the growth of the requirement in respect of credit risk, was accompanied by an increase in the level of equity (by 7.4%).



No. 5

Abacus

THE ABACUS IS AT LEAST 4000 YEARS OLD. JUST LIKE IN CASE OF MANY OTHER FIELDS CRUCIAL FOR THE DEVELOPMENT OF CIVILISATION, ALL THREADS LEAD TO ANCIENT SUMER. EVEN TODAY MANY ASIAN MERCHANTS PREFER AN ABACUS TO CALCULATORS AS THE FASTEST MEANS OF COUNTING. IT IS ALSO RECOMMENDED FOR CHILDREN AS AN INTELLECTUAL EXERCISE WHICH – AS OPPOSED TO CALCULATORS – DEVELOP BOTH BRAIN HEMISPHERES.

V

CHAPTER V

Financial results of the Alior Bank S.A. Group

V. Financial results of the Alior Bank S.A. Group

Income statement

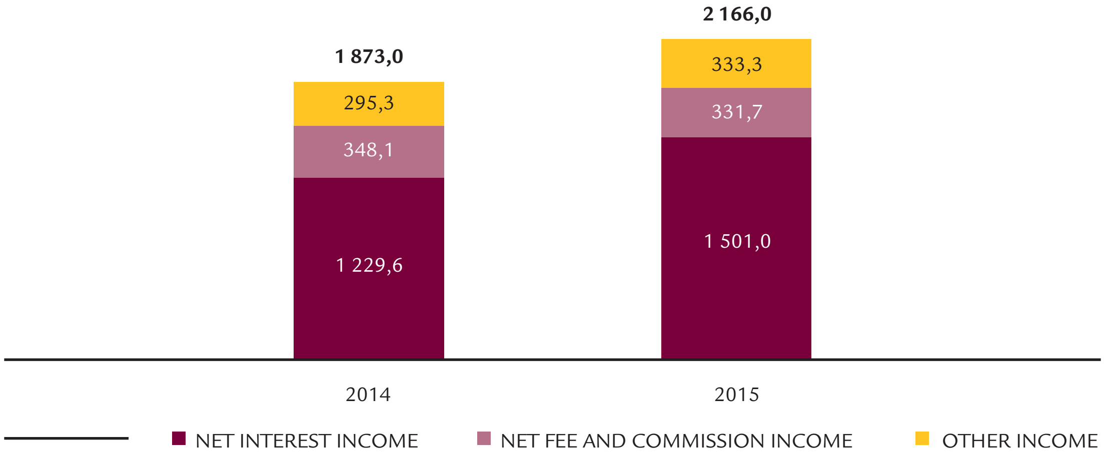
Details of the income statement of the Alior Bank S.A. Group are presented in the following table:

in PLN ‘000	1.01.15-31.12.15	1.01.14-31.12.14	change y/y in PLN million	change y/y %
Interest income	2 399 220	2 063 318	335 902	16.3
Interest expenses	-898 207	-833 748	-64 459	7.7
Net interest income/(expenses)	1 501 013	1 229 570	271 443	22,1
Dividend income	74	16	58	362.5
Fee and commission income	545 730	533 608	12 122	2.3
Fee and commission expenses	-214 062	-185 468	-28 594	15.4
Net fee and commission income / (expenses)	331 668	348 140	-16 472	-4.7
Trading result	268 679	254 898	13 781	5.4
Net result on other financial instruments	12 923	7 928	4 995	63.0
Other operating income	81 884	52 384	29 500	56.3
Other operating expenses	-30 228	-19 948	-10 280	51.5
Net other operating income / (expenses)	51 656	32 436	19 220	59.3
Costs of the Bank’s operations	-1 107 892	-925 271	-182 621	19.7
Net impairment allowance and provisions	-672 113	-546 590	-125 523	23.0
Profit before tax	386 008	401 127	-15 119	-3.8
Corporate income tax	-77 033	-79 080	2 047	-2.6
Net profit from continuing operations	308 975	322 047	-13 072	-4.1
Net profit attributable to shareholders of the parent company	309 648	322 744	-13 096	-4.1
Net loss attributable to non-controlling interests	-673	-697	24	-3.4
Net profit	308 975	322 047	-13 072	-4.1

The net profit of the Alior Bank S.A. Group (attributable to the shareholders of the parent company) amounted to PLN 309.6 million in 2015 and was PLN 13.1 million, i.e. 4.1%, lower than the net profit for the preceding year. If two events described below, i.e. the payment to the Borrowers Support Fund of PLN 9.15 million (gross) and the costs of bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin of PLN 56.98 million (gross) were excluded, the Bank’s profit for 2015 would amount to around PLN 363 million, i.e. 12.6% more in comparison to the net result schieved in 2014.

The following income statement items affected the level of net profit generated by the Group:

Comprehensive income (in PLN million)



Net interest income is the main component of the Group's income, representing 69.3% of total income. Its increase in annual terms of more than 22.1% was due to the organic growth in the volume of loans for customers and the accompanying increase in the customer deposit base, as well as the acquisition of Meritum Bank. As a result, the net portfolio of customer loans increased by 30.7% y/y, and deposits from the non-financial sector increased by 37.8%. Maintaining an adequate price policy with respect to both deposit and lending products also had a positive effect on the level of interest income, in view of the fact that the Bank operates in a low interest rate environment.

Factors having a negative effect on the net interest income in 2015 include mainly the interest rate decrease introduced in March, which reduced the interest on loans offered by the Bank and, as a result, adversely affected the interest income. It had a significant effect on the level of net interest generated, taking into account the time needed to change the costs associated with the deposit base maintained.

It should be noted that, despite a decrease in interest rates, the Group's profitability measured with the net interest margin was maintained at a very high level of 4.6% in 2015 and it was only 14 bp lower than the interest margin achieved in 2014.

At the same time, the average interest rate on loans was 0.71 pp lower and amounted to 6.02 %. In the same period, the average cost of deposits decreased to 1.73, i.e. by 0.24 pp.

The average WIBOR 3M rate amounted to 1.74% in 2015 and it was 0.77 pp lower than in 2014.

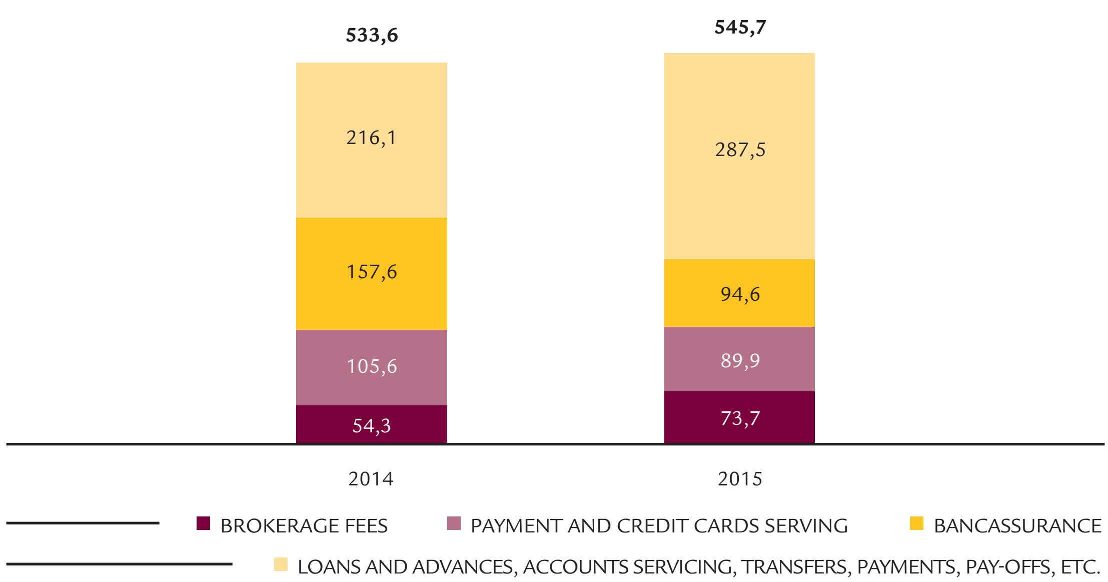
LOANS / WIBOR 3M	2015 (%) 6.02 / 1.74	2014 (%) 6.73 / 2.51
retail segment, including:	**7.00**	**7.96**
Consumer loans	9.14	10.19
Housing loans	4.15	4.61
business segment, including:	**4.73**	**5.23**
Investment loans	4.42	5.09
Working capital loans	4.87	4.69
Car loans	6.66	8.16
DEPOSITS	1.73	1.97
retail segment	**1.65**	**1.89**
Current deposits	0.39	0.85
Term deposits	2.60	2.77
business segment	**1.86**	**2.12**
Current deposits	0.07	0.10
Term deposits	1.91	2.26

Net fee and commission income/(expense) decreased by 4.7% to PLN 331.7 million. It comprised PLN 545.7 million of commission income (a y/y increase of 2.3%) and PLN 214.1 million of commission expenses (a y/y increase of 15.4%).

Fee and commission income comprised mainly commissions on loans, accounts, transfers, deposits, withdrawals and advances, etc. In 2015 they amounted to PLN 287.5 million and represented 52.7% of the fee and commission income. Their increase in relation to the previous year resulted mainly from an increase in commissions on maintaining bank accounts and, to a lesser extent, an increase in commissions on granting loans and handling money transfers and payments.

Furthermore, a decrease in income generated in 2015 from fees and commissions associated with payment and credit cards should be noted. This was due to a decrease in interchange rates, which is mentioned in the section Summary of the Alior Bank Group operations in 2015.

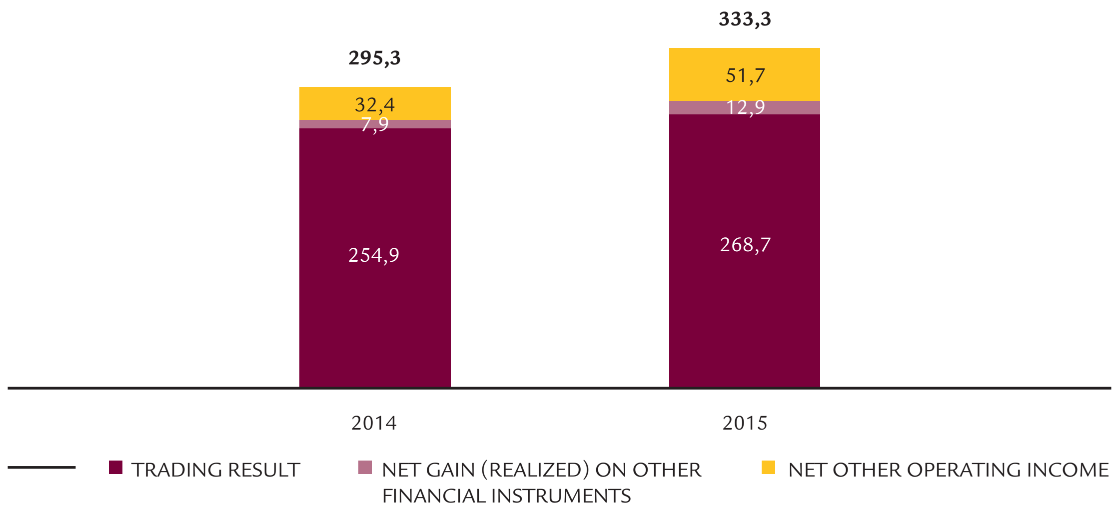
Fee and commission income (in PLN million)



The trading result, result on other financial instruments and other operating income/(expenses) increased in total by 12.9% to PLN 333.3 million. Trading result alone increased y/y by 5.4% to PLN 268.7 million i.e. by PLN 13.8 million.

The trading result was generated mostly on margins on foreign exchange transactions and interest rate derivatives concluded with the Bank's customers.

The trading result on other financial instruments and net other operating income/(expenses) (in PLN million)



In 2015 operating expenses amounted to PLN 1 107.9 million and they were PLN 182.6 million (by 19.7%) higher than operating expenses incurred in the same period in the previous year.

Payroll expenses amounted to PLN 554.4 million in the analysed period and were 6.6% higher than the payroll expenses incurred in 2014. The level of payroll expenses was significantly affected by the acquisition of Meritum Bank.

Non-payroll expenses amounted to PLN 460.8 million in 2015 and were 41.8% higher than non-payroll costs incurred in 2014.

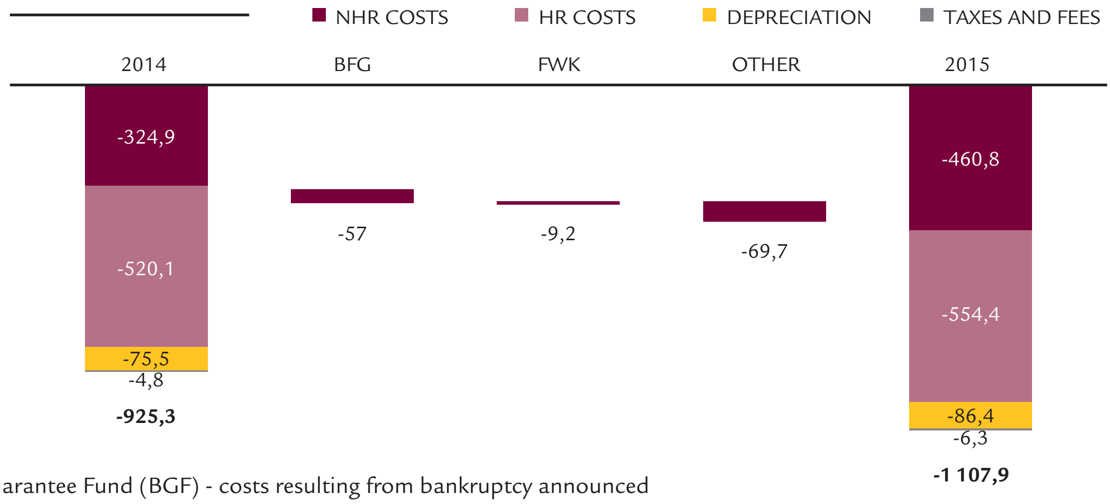
The main reasons for the increase in non-payroll expenses include, as in the case of payroll expenses, the acquisition of Meritum Bank, an increase in the scale of the operations, the costs of the payment to the Borrowers Support Fund (PLN 9.15 million), and the costs resulting from bankruptcy announced by Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin (PLN 56.98 million).

The increase in payments to the Bank Guarantee Fund also had a significant effect on the increase in non-payroll expenses. This increase concerned both the mandatory annual payment to the support fund (an increase from 0.1% to 0.189%) and the prudential payment (from 0.037% to 0.05%). As a result of these changes and the increase in the scale of the Bank's operations, the amount contributed to the Bank Guarantee Fund in 2015 increased to PLN 60.9 million and was 116% higher than the amount contributed in 2014.

In 2015 an increase of the operating costs of the Bank, excluding costs inurred resulting from the bankruptcy announced by Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and payment to the Borrowers Support Fund, thanks to careful monitoring of the expenses incurred (including the costs related to acquisition o Meritum Bank), maintained on the lower level in comparison to increase of the total operating income (12.6 % vs. 15.6 % respectively).

As a result, the Costs / Income ratio amounted to 51.1% in 2015 compared with 49.4% in 2014. After excluding the costs incurred in connection with the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and the contribution to the Borrowers Support Fund, the Costs / Income ratio in 2015 amounted to 48.1% and was 1.3 pp lower than in 2014.

Operating expenses (in PLN million)



Bank Guarantee Fund (BGF) - costs resulting from bankruptcy announced by Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin.

BSF - costs of the contribution paid to the Borrowers Support Fund.

An increase in net impairment losses and provisions, which in 2015 amounted to -PLN 672.1 million (- PLN 546.6 million in 2014; an increase of 23.0%) resulted mainly from an increase in write-downs in respect of amounts due from non-financial customers (from PLN 467.6 million to PLN 643.1 million).

This item was also significantly affected by a decrease in the amount of write-downs for IBNR in respect of customers without impairment from PLN 31.6 million in 2014 to - PLN -2.1 million in 2015.

Net provisions to average balance of gross amounts due from customers (the cost of risk ratio) decreased from 2.4% to 2.3% y/y.

Net impairment allowance (in PLN million)

	1.01.2015-31.12.2015	1.01.2014-31.12.2014	Change y/y %
Provision for amounts due from customers	-649 137	-468 699	38.5
financial sector	-5 995	-1 078	456.1
non-financial sector	-643 142	-467 621	37.5
retail customers	-446 218	-289 798	54.0
business customers	-196 924	-177 823	10.7
Debt securities	-7 981	-2 174	267.1
IBNR for customers without impairment	-2 067	-31 566	-93.5
financial sector	-842	165	-
non-financial sector	-1 225	-31 731	-96.1
retail customers	-1 683	-29 291	-94.3
business customers	458	-2 440	-
Provision for off-balance sheet liabilities	-560	-957	-41.5
Property, plant and equipment and intangible assets	-12 368	-4 896	152.6
Provision for assets held for sale*	0	-38 298	-
Net impairment allowance and provisions	-672 113	-546 590	23.0

*provision relating to shares in Polbita

Balance sheet

As at 31 December 2015, total assets and total liabilities & equity of the Alior Bank Group exceeded PLN 40 billion and were PLN 9.8 billion (32.6%) higher than as at the end of 2014.

The main items that generated the increase in total assets were amounts due from customers, which increased by PLN 7.3 billion y/y; and the main items that generated the increase in total liabilities & equity were customer deposits, which increased by PLN 9.2 billion y/y.

The following tables present the individual assets, liabilities and equity as at the end of 2015 and comparative data.

in PLN '000

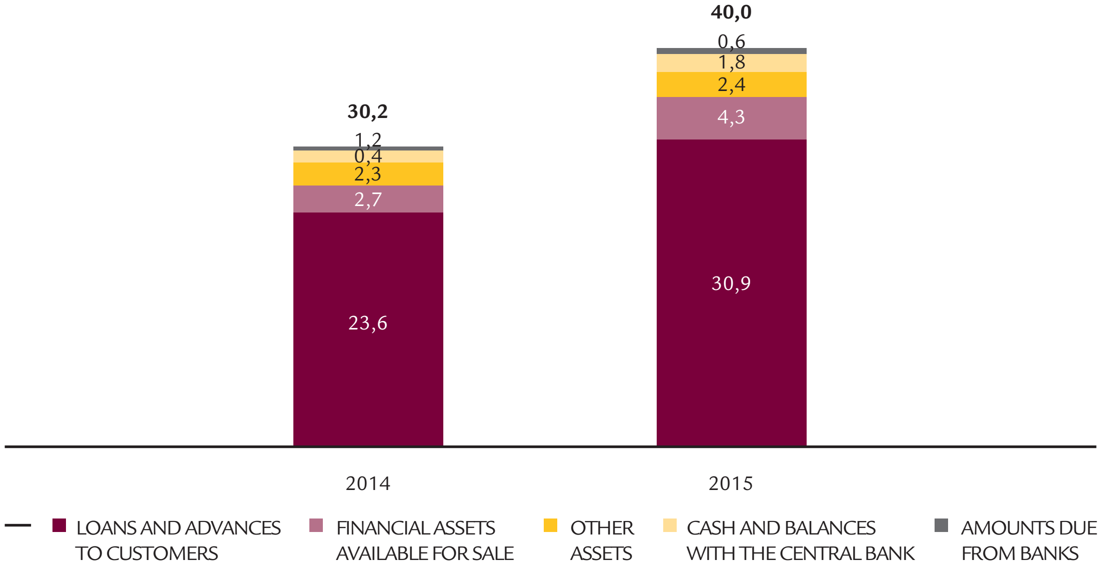
ASSETS	as at 31.12.2015	as at 31.12.2014	change y/y in PLN million	change y/y %
Cash and balances with the central bank	1 750 135	1 158 440	591 695	51.1
Financial assets held for trading	390 569	476 821	-86 252	-18.1
Available-for-sale financial assets	4 253 119	2 652 126	1 600 993	60.4
Derivative hedging instruments	139 578	80 205	59 373	74.0
Amounts due from banks	645 329	449 378	195 951	43.6
Amounts due from customers	30 907 057	23 647 990	7 259 067	30.7
Assets pledged as collateral	628 332	927 191	-298 859	-32.2
Property, plant and equipment	228 955	191 835	37 120	19.3
Intangible assets	387 048	215 564	171 484	79.6
Investments in subsidiaries	0	0	0	na
Assets held for sale	888	908	-20	-2.2
Income tax assets	275 453	147 849	127 604	86.3
Current	0	0	0	na
Deferred	275 453	147 849	127 604	86.3
Other assets	396 547	219 261	177 286	80.9
TOTAL ASSETS	40 003 010	30 167 568	9 835 442	32.6

in PLN '000

LIABILITIES AND EQUITY	as at 31.12.2015	as at 31.12.2014	change in PLN M y/y	change % y/y
Financial liabilities held for trading	310 180	349 033	-38 853	-11.1
Amounts due to banks	1 051 028	1 049 162	1 866	0.2
Amounts due to customers	33 663 542	24 427 988	9 235 554	37.8
Derivative hedging instruments	0	4 777	-4 777	-100.0
Provisions	10 813	8 311	2 502	30.1
Other liabilities	535 274	747 073	-211 799	-28.4
Income tax liabilities	21 776	24 553	-2 777	-11.3
Current	21 776	24 553	-2 777	-11.3
Subordinated liabilities	896 298	541 595	354 703	65.5
Total liabilities	36 488 911	27 152 492	9 336 419	34.4
Equity	3 514 099	3 015 076	499 023	16.6
Equity (attributable to equity holders of the parent)	3 512 859	3 013 163	499 696	16.6
Share capital	727 075	699 784	27 291	3.9
Supplementary capital	2 279 843	1 775 397	504 446	28.4
Revaluation reserve	15 215	21 426	-6 211	-29,0
Other reserves	184 735	184 008	727	0,4
Retained earnings/ (accumulated losses)	-3 657	9 804	-13 461	-137,3
Profit/(loss) for the year	309 648	322 744	-13 096	-4,1
Non-controlling interests	1 240	1 913	-673	-35,2
TOTAL LIABILITIES AND EQUITY	40 003 010	30 167 568	9 835 442	32,6

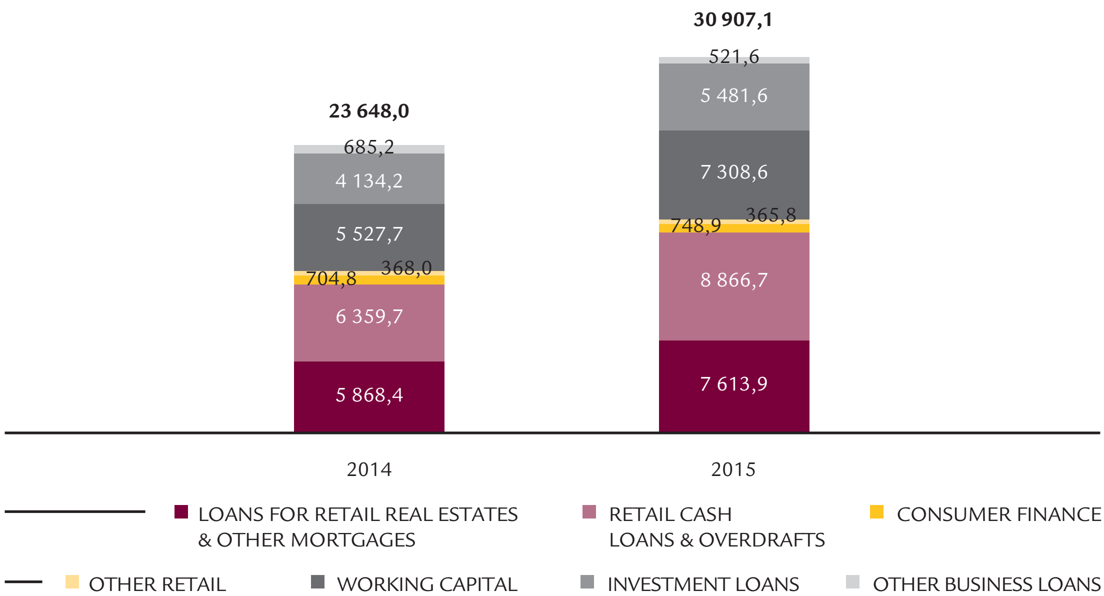
Assets comprise mainly amounts due from the Group's customers (PLN 30.9 billion). As at the end of 2015, they represented 77.3% of total assets, which means that their share decreased by 1.1 pp compared with the end of 2014. Financial assets available for sale, which as at the end of 2015 amounted to PLN 4.3 billion and represented 10.6% of total assets (as at the end of 2014: 8.8% of assets) represented another significant component of total assets.

Assets of the Alior Bank S.A. Group (in PLN billion)



The 30.7% increase in amounts due from customers resulted primarily from an increase in the volume of loans and advances granted in the retail segment, which increased by 32.3% (i.e. by PLN 4.3 billion). It should be noted that organic growth in this area was materially supported by the acquisition of retail loans of Meritum Bank. An increase in amounts due from business customers was another significant factor which contributed to an increase in the portfolio of receivables. At the same time, the volume of loans granted to the business segment increased by 28.7% (i.e. by PLN 3 billion) up to PLN 13.3 billion.

Amounts due from customers (in PLN billion)

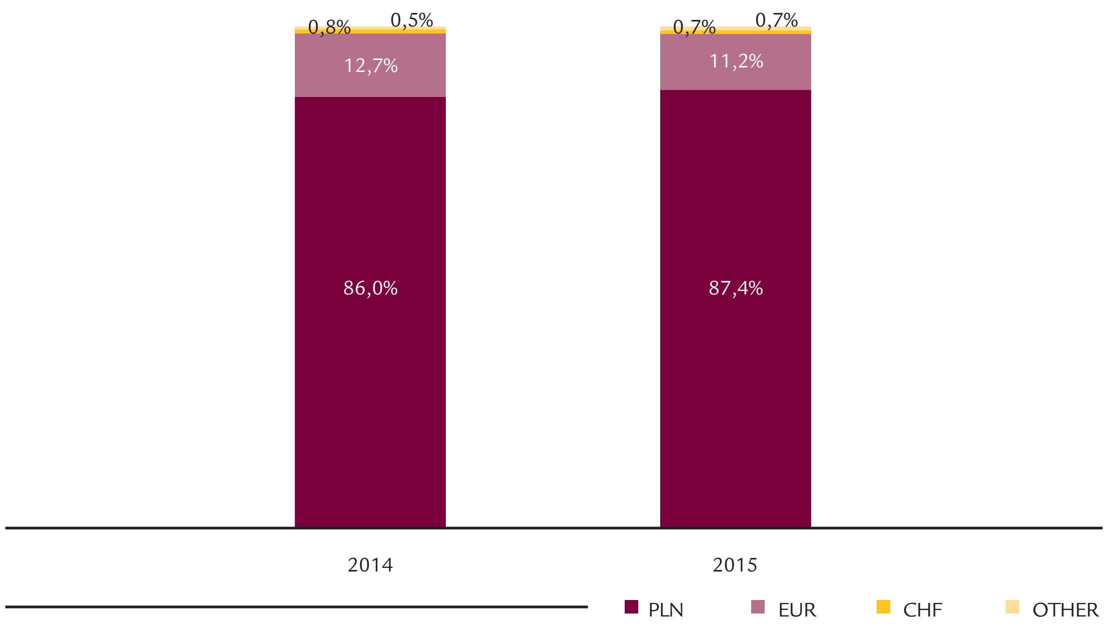


The loan portfolio in the retail segment comprised mainly consumer and working capital loans, whose volume exceeded PLN 8.8 billion (a y/y increase of 38.9%). They represented more than 50.4% of all loans and advances granted to retail customers and, at the same time, 28.7% of the total portfolio of amounts due from customers. Housing loans and mortgage loans, whose combined volume as at the end of 2015 amounted to PLN 7.6 billion (combined increase: 29.7% y/y) constituted the second largest component of the loan portfolio in the retail segment (43.3%). At the same time, the value of Consumer Finance loans granted as at the end of 2015 amounted to PLN 749 million and it was 6.3% higher than as at the end of 2014.

Working capital loans, which amounted to PLN 7.3 billion as at the end of 2015 (an increase of 32.2% y/y), were the most significant component of the business segment's loan portfolio and represented nearly 55% of its value.

Investment loans, which represented 41.2% of the portfolio, were another significant component of business segment loans. Their value was 32.6% higher as at the end of 2015 compared with the end of 2014 and it amounted to nearly PLN 5.5 billion.

Struktura walutowa należności od klientów



As at the end of 2015, the share of receivables in PLN increased by 1.4 pp compared with the end of 2014. In consequence, they represented 87.4% of total amounts due from customers as at the end of 2015. Amounts due from customers in EUR as at the end of 2015 represented 11.2% of total amounts due from customers, and their share decreased by 1.5 pp compared with the end of 2014.

The total value of loans in Swiss francs as at the end of 2015 amounted to PLN 206.2 million and such loans represented only 0.7% of the total portfolio of amounts due from customers of Alior Bank.

Geographical structure of amounts due from customers (as at 31.12.2015)

Voivodeship	% of receivables
Mazowieckie	25%
Śląskie	11%
Dolnośląskie	11%
Wielkopolskie	10%
Małopolskie	8%
Pomorskie	7%
Łódzkie	6%
Podkarpackie	3%
Kujawsko-Pomorskie	3%
Lubelskie	3%
Zachodniopomorskie	3%
Warmińsko-Mazurskie	3%
Lubuskie	2%
Podlaskie	2%
Opolskie	2%
Świętokrzyskie	1%
TOTAL	100%

Loans granted to customers from the Mazowieckie Voivodeship represented more than a quarter of all loans granted by the Bank. Amounts from customers from the Śląskie and Dolnośląskie Voivodeships represented more than 22% of loans.

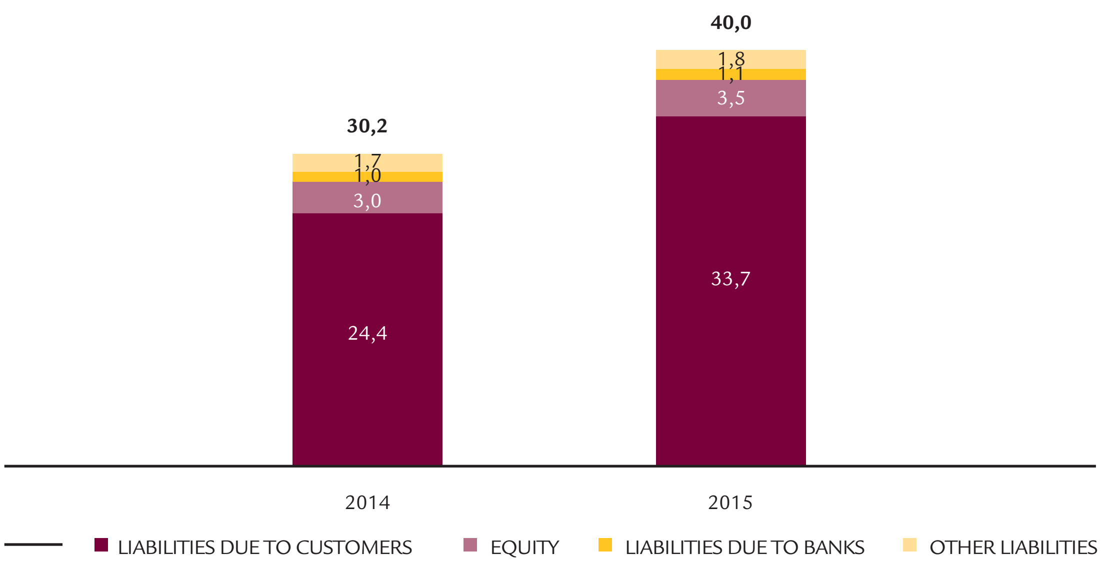
Amounts due from customers from the other voivodeships represent approx. 53% of the total loan portfolio.

The Group's operations are financed from the funds of non-financial sector customers deposited with the Bank. As at the end of 2015, they represented 84.2% of total assets.

The balance of equity as at the end of 2015 slightly exceeded PLN 3.5 billion and it was PLN 0.5 billion, i.e. 16.6%, higher than as at the end of 2014. This increase was mainly due to the issue of H-series shares (for the purposes of partial financing of the purchase of Meritum Bank) and to include in calculation at the end of 2015 to the profit generated in the next quarters of 2015.

The net profit of the Bank generated in 2014 is allocated to increase the supplementary capital.

Equity and liabilities of the Alior Bank Group (in PLN billion)

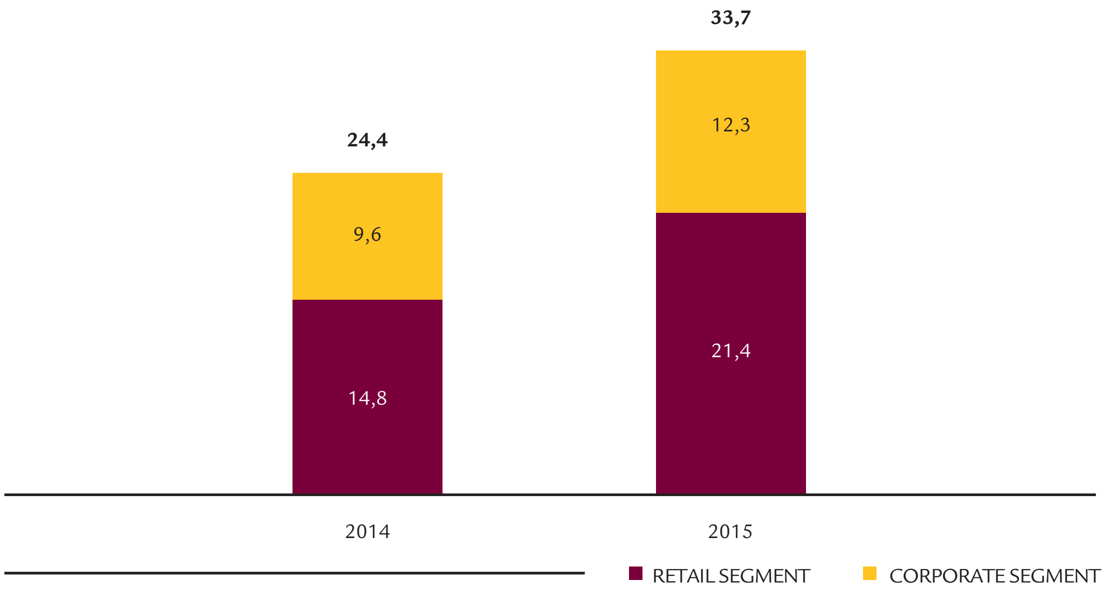


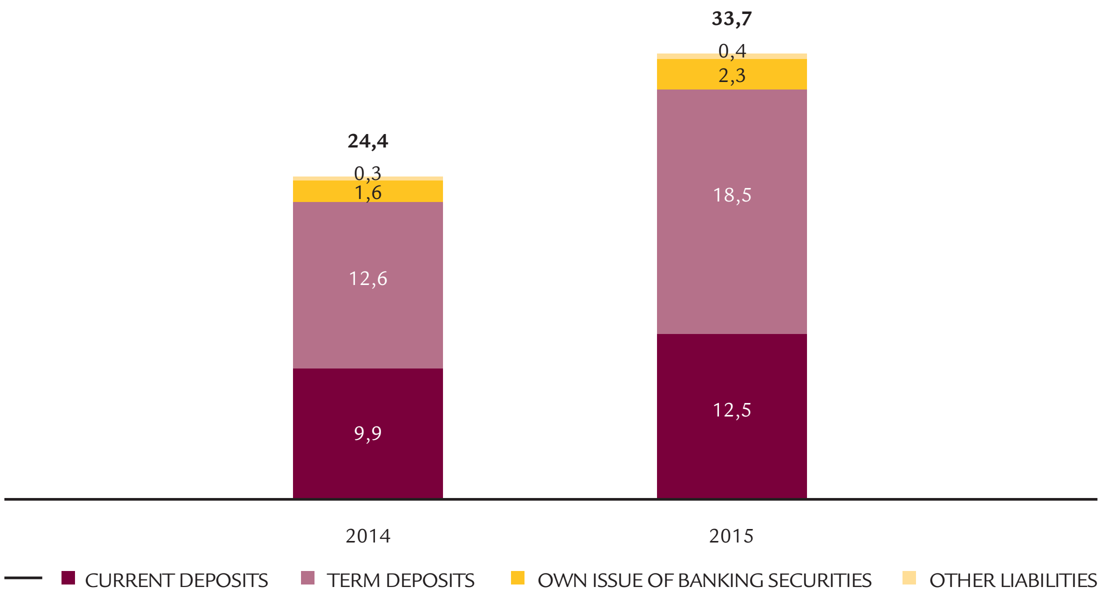
Amounts due to the retail segment were the main item of amounts due to customers by type. As at the end of 2015, they represented 63.6% of the portfolio of customer deposits. Their share increased by 2.8 pp compared with the end of 2014. The structure of deposits by type in the analysed period was affected both by the acquisition of Meritum Bank and by a significant organic growth in customer deposits in the last 12 months.

The portfolio of amounts due to customers comprised mostly term deposits. They represented 55% of the total amounts due to customers as at the end of 2015 (a 3.4 pp increase compared with the end of 2014). The second most significant component of amounts due to customers (37.1% of total amounts due to customers as at the end of 2015) was current deposits. Their share in total amounts due to customers as at the end of 2014 decreased by 3.3 pp compared to the end of 2014.

The remaining 7.9% of the balance of amounts due to customers as at the end of 2015 comprised proceeds from issue of bank securities and other liabilities.

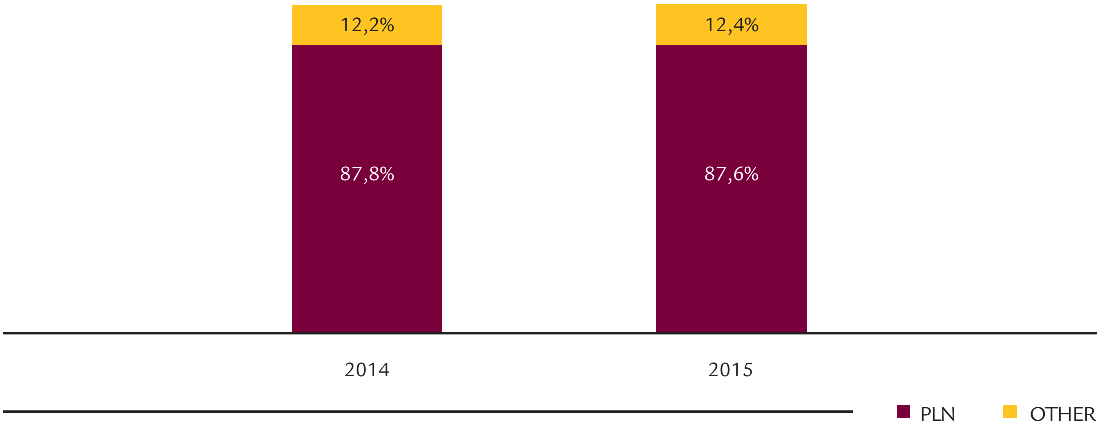
Amounts due to customers by type (in PLN billion)





Total amounts due to the ten biggest deposit holders constitute 3.2% of all customer deposits, which reflects the strong diversification of the Bank's deposit base.

Amounts due to customers by currency



As at the end of 2015, the share of PLN deposits in the total portfolio of amounts due to customers was maintained at a stable level in relation to the previous year of nearly 88%. The remaining slightly more than 12% of amounts due to customers comprised deposits in foreign currencies. As at the end of 2015, the most popular foreign currencies in which customers placed their deposits were EUR and USD.

Geographical structure of amounts due to customers (as at 31.12.2015)

Voivodeship	% of liabilities
Mazowieckie	27%
Małopolskie	14%
Śląskie	9%
Dolnośląskie	8%
Wielkopolskie	7%
Pomorskie	6%
Podkarpackie	5%
Łódzkie	4%
Lubelskie	4%
Podlaskie	3%
Kujawsko-Pomorskie	3%
Zachodniopomorskie	2%
Świętokrzyskie	2%
Lubuskie	1%
Warmińsko-Mazurskie	1%
Opolskie	1%
RAZEM	100%

Funds deposited with the Bank mostly come from customers from the Mazowieckie (27%), Małopolskie (14%) and Śląskie (9%) voivodeships. Customers from the other voivodeships deposited funds with the Bank representing 50% of the total deposit base.

Financial forecasts

The Alior Bank S.A. Group did not publish any forecasts of its results.

No. 6

Roman numbers

ROMAN NUMBERS ARE DERIVED FROM NOTCHES MADE ON STICKS OR PIECES OF WOODS. AN ANCIENT ACCOUNTANT, WHILE COUNTING FOR EXAMPLE AMPHORAE WITH WINE, CARVED A SIMPLE NOTCH FOR EACH AMPHORA: I I I I, BUT, INSTEAD OF THE FIFTH NOTCH HE USED V OR Λ SYMBOL AND TWOCROSSED NOTCHES (X) IN PLACE OF EVERY TENTH ONE. THUS, 22 AMPHORAE WERE PROBABLY MARKED AS: IIIIΛ IIIIXIIIIΛIIIIXII. WITH TIME, I, V, X, ALONG WITH L, C AND D, BECAME THE BASIS OF THE ROMAN COUNTING SYSTEM.

VI

CHAPTER VI

Operations of Alior Bank S.A.

VI. Operations of Alior Bank S.A.

The Issuer is a universal lending and deposit-taking bank which renders services to individuals, legal persons and other entities which are Polish and foreign persons. The Bank's core activities include maintaining bank accounts, granting loans and advances, issuing banking securities and purchasing and selling foreign currency. The Bank also conducts brokerage activities, consulting and financial agency services, arrangement of corporate bond issues and renders other financial services.

The Bank's operations are conducted in various divisions which offer specific products and services addressed to specific market segments. The Bank currently conducts operations in the following industry segments:

- *Individual customers* (retail segment) addressed to the mass and affluent segment and private banking customers to whom the Bank offers a comprehensive range of banking products and services and brokerage products offered by the Brokerage House of Alior Bank S.A., in particular loan products, deposit products and investment funds, personal accounts, bancassurance products, transaction services and foreign currency products;
- *Corporate customers* (corporate segment) addressed to small and medium enterprises and large corporate customers to whom the Bank offers a comprehensive range of banking products and services, in particular loan products, deposit products, current and auxiliary accounts, transaction services and treasury products.
- *Treasury activities* – comprise transactions on interbank markets and involvement in debt securities. This segment reflects the results of managing the global position (liquidity position, interest rate position and currency position arising from banking operations).

The basic products for individual customers cover:

- loan products: cash loans, credit cards, overdraft facilities, housing loans;
- deposit products: term deposits, savings accounts;
- brokerage products and investment funds;
- personal accounts;
- transaction services: cash deposits and withdrawals, transfers;
- FX transactions.

The basic products for corporate customers cover:

- loan products: credit lines, working capital loans, investment loans, credit cards;
- trade financing products: guarantees, factoring, assuming the creditor's rights;
- deposit products: term deposits;
- current and auxiliary accounts;
- transaction services: cash deposits and withdrawals, transfers;
- treasury products: FX transactions (also at set date), derivatives;
- corporate bond issues.

Revenues of the corporate segment also include revenues from the car loans portfolio.

Reconciling items include items which are not allocated to the individual operating segments and eliminations of intragroup transactions, i.e.:

- internal net interest income calculated on net impairment losses;
- reconciliation of the presentation of the remuneration costs directly related to the sale of financial instruments (incremental costs) for management reporting purposes by deducting the amount relating to incremental costs from the commission income presented in corporate segments;
- commission costs not allocated to business units (including cash management fees, ATM sharing commission, domestic and foreign transfers);
- other operating income and expenses not related directly to operating segments.

The table below presents the basic financial data of the Group by operating segments as at and for the 12 months ended 31 December 2015.

(tys. PLN)	Individual customers	Corporate customers	Treasury activities	Total business segments	Reconciling items	Total Bank
Net interest income	1 032 551	388 904	115 469	1 536 924	-35 911	1 501 013
Net fee and commission income	101 206	244 092	346	345 644	-13 976	331 668
Dividend income	0	0	0	0	74	74
Trading result	-1 109	52 001	224 642	275 534	-6 855	268 679
Net gain realized on other financial instruments	92 043	119 883	-199 434	12 492	431	12 923
Net other operating income	171 133	5 854	-497	176 490	-124 834	51 656
Net income before net impairment losses	1 395 824	810 734	140 526	2 347 084	-181 071	2 166 013
Net impairment losses	-478 134	-169 018	0	-647 152	-24 961	-672 113
Net income after net impairment losses	917 690	641 716	140 526	1 699 932	-206 032	1 493 900
General administrative expenses	-815 681	-289 341	-2 870	-1 107 892	0	-1 107 892
Profit/loss before tax	102 009	352 375	137 656	592 040	-206 032	386 008
Income tax expense	0	0	0	0	-77 033	-77 033
Net profit/loss for the year	102 009	352 375	137 656	592 040	-283 065	308 975
Assets	24 089 370	15 615 333	22 854	39 727 557	275 453	40 003 010
Liabilities	23 473 209	12 986 662	7 264	36 467 135	21 776	36 488 911

Source: Interim consolidated financial statements of the Group for the three quarters of 2015

Retail segment

In 2015, the operations of the individual customers segment generated net income before net impairment losses of PLN 1 395.8 million. The result was PLN 252.3 million, i.e. 22.1% higher than that achieved in the prior year.

As at the end of December 2015, Alior Bank served 2,863.1 thousand individual customers. Compared with the end of 2014, the number of individual customers increased by PLN 409.2 thousand, i.e. by 16.7%.

The above increase resulted both from Alior Bank's organic growth and from the business combination with Meritum Bank ICB S.A.

Apart from serving retail customers, the individual customers segment also includes the operations related to Consumer Finance, T-Mobile Usługi Bankowe, the operation of the Brokerage House and the Private Banking program.

Products and services

Current accounts

Alior Bank maintains a high number of current and savings accounts. The number of accounts increased by 78 thousand compared with the prior year. In 2015, 196 thousand accounts were opened at Alior Bank and 183 thousand at T-Mobile Usługi Bankowe, which confirms the attractiveness of both these brands. In the third quarter of 2015, the Bank introduced the Internet Account to the individual customers offer. The

Internet Account is maintained free of charge, without a requirement of salary, pension or disability pension being transferred to this account. The following other services on the Internet Account are free of charge: withdrawals from cash dispensers (Euronet, Planet Cash and abroad), Internet transfers, European transfers and issuing a card to the account. The sales of the Internet Account in the last two quarters represented more than 27% of the monthly sales of PLN accounts. Sales of the Internet Account were supported in the third quarter by extensive marketing activities conducted in the Internet and bank outlets.

In 2015, the acquisition of accounts from the current offer, i.e. Konto Wyższej Jakości and Konto Rozsądne, represented 33% of the total monthly sales of accounts. The above-mentioned accounts are products dedicated mainly to active customers of the Bank who treat Alior Bank as their main bank.

Good results are also achieved in sales of the Karta Kibica football fan card with a dedicated account. In the first three quarters of 2015, sales of this account represented 12% of the total account sales. The simple application process and a number of benefits built around the Polish football team are appreciated by a growing number of football fans.

Alior Bank maintains a policy of encouraging its customers to actively use the products. The objective is realized by customer relationship management (CRM) activities which comprise strengthening relations with customers through their activization and wider productization.

Cash loan

The key product of the Bank in the offer of unsecured loan products for individual customers is a cash loan, which can be designated either for any purpose or for consolidation of financial liabilities (consolidation loan).

In 2015, the Bank focused its efforts regarding the cash loans in two areas. In the first, the Bank intensified its promotional activities aimed at gaining new customers of the loan through marketing campaigns, including: Pożyczka 5% z Gwarancją Najniższej Raty (5% Loan with Lowest Instalment Guarantee) or Spłacimy za Ciebie 3% (We Will Repay 3% For You) dedicated to customers who wish to transfer their liabilities from other financial institutions to the Bank. At the same time, the Bank introduced dedicated offers for specific segments, such as an offer for the state budget sector employees or TOP MBA Loan prepared in cooperation with Powszechny Zakład Ubezpieczeń SA and dedicated to students applying for a Master of Business Administration (MBA) diploma. This solution enables financing university studies in the most prestigious universities in the world.

The second area consisted of CRM initiatives aimed at strengthening customer relationships through: activization of customers, cross-selling and increasing the loan exposure. One of the key areas of the cross-selling activities in 2015 included converting the portfolio of cash loans affected by interest rate reductions into products ensuring a proper level of interest margins. The CRM activities also focused on improving the effectiveness of cross-selling to instalment loan customers and on increasing the exposure of customers from the most profitable segments.

Additionally, the Bank strengthened the retention processes by increasing the loan portfolio cover of these processes and diversifying these activities into both proactive and reactive. This was done in order to tighten up the retention processes while maintaining the optimum level of portfolio profitability.

Mortgage products

The Bank focuses on sales of mortgage loans through specialist units – Mortgage Centres, which are dedicated to serving mortgage loan agents.

The Mortgage Centres operate in the following cities: Warsaw, Kraków, Wrocław, Poznań, Łódź, Gdańsk, Szczecin, Katowice, Lublin and Olsztyn. A new service process was developed and implemented for these units and the supporting IT tools were automated. The sales of mortgage loans through Mortgage Centres in 2015 represented 67% of Alior Bank's sales. The remaining sales are generated at the Bank's Branches where lending process improvements are also successively implemented.

In 2015, Alior Bank actively participated in selling loans under the government programme MdM (Apartments for the Young). Sales of loans under the government programme in 2015 constituted 19% of sales of the aggregate mortgage loans. In 2015, a modified and simplified process for MdM loans was implemented.

Additionally, Alior Bank introduced the MdM Plus offer which enables the financing of all other purposes not provided for under the government program, such as: performing finishing works or purchasing a garage.

Credit cards and overdraft facilities

Alior Bank has four types of cards in its offer addressed to various target groups. The Gold Card is addressed to the mass individual customer segment, the World Card is dedicated to the mass affluent segment, whereas World Elite is dedicated to customers in the private banking segment. As part of its cooperation with Tesco, the Bank issues the MasterCard ClubCard credit card with the possibility of splitting the transaction into instalments. The card is dedicated to Tesco Finanse customers.

As at the end of 2015, the Bank had more than 113 thousand credit card accounts and 75 thousand bank overdrafts.

In 2015, the Bank continued sales of renewable products as part of the combined lending process under which the customer is granted two products at the same time based on the same information and documents: (i) a cash loan and an overdraft facility; or (ii) a cash loan and a credit card.

Deposit products

The Bank's deposit offer is mainly based on a savings account and different variants of a deposit.

In 2015, the Bank introduced promotional 120- and 210-day deposits to encourage customers to deposit new funds at the Bank. They represented on average 41% of all the funds obtained. The Bank regularly reminds its customers of the deposit offer through actions conducted mainly in the Internet.

Moreover, the promotional offer of the savings account was continued, thanks to which an unchanged volume was maintained on the savings account.

Moreover, an offer of a savings account with guaranteed interest for 12 months was introduced into the term products offer for existing customers.

Investment products

With respect to investment products for individual customers, 23 product subscriptions were carried out in 2015. All these products have a 100% principal guarantee, excluding one issue limiting the customer's risk to 98% and two issues limiting the risk to 95%. The products are mainly dedicated to individual customers. A minimum investment amount for individual customers is three thousand PLN. The amount of interest depends on the behaviour of indices, shares, investment funds, commodities and currencies on which they are based. Issues based on a basket of companies were the most popular product, where return is established as a sum of the actual rates of return with the reservation that the return from one half of the companies from the basket is limited to maximum rates of return of 7–15%. The baskets of companies for the individual issues were based on companies from the following sectors: pharmaceutical, financial, new technologies, or they were selected depending on a region: German, European, US.

In 2015, 20 structured products expired. The most profitable product, based on the basket of companies from the sector of smartphone producers, brought 33.06% return to the investors.

Under the first programme of issuing bank securities in 2015. Alior Bank issued 44 series of securities with a total nominal value of over PLN 1.1 billion. Apart from products with principal guarantee based on the market index, they included two-currency certificates of deposits from which the customer could obtain beneficial return and exchange a currency at a predetermined rate. The securities were offered in a public offering to corporate customers, Private Banking customers and to individual customers.

As a result of the observed drop of interest in long-term regular investment insurance programmes, the Bank withdrew this type of product from its offer. Investment insurance with insured equity funds without principal guarantee with one-off contributions is only available in the Private Banking network.

Retail segment areas

Moreover, as part of the retail segment the Bank offers products in the following areas:

Consumer Finance

The Bank's offer in the area of retail loans (Consumer Finance) is present in each of the three sales channels: stationary, direct and online. In 2015, sales in the stationary channel and in the Internet were the fastest growing; in the direct channel sales remained on a stable level.

Relations with the kay partners: Euro RTV AGD, PayU Allegro, Agata Meble, Philipiak, Vorwerk and LSP are developing very well. At the same time, the very strong position on the Agency market is being maintained. This is a market with high margins.

Thanks to the above activities, in 2015 the Bank successively developed its customer base which provided perspectives for further development regarding cooperation and sales of other products.

Intensifying the relations with the above-mentioned customers ensures growing levels of sales of the cash loan and of Alior Bank's other products.

In the coming year 2016, the Bank plans to considerably develop the Consultants network and gain new key partners, which should considerably strengthen Alior Bank's market position.

Private Banking

The Private Banking program is addressed to the most affluent individual customers who are ready to entrust the Bank with assets exceeding PLN 400 thousand or those who intend to avail themselves of finance of at least PLN 1 million. They are served by six specialist Private Banking branches: in Warsaw, Katowice, Poznań, Kraków, Gdańsk and Wrocław.

As at 31 December 2015, Private Banking branches employed 60 persons who developed financial solutions tailored to the needs of the individual customers based on a wide range of investment and lending products. The handling of non-financial assets of Private Banking customers under the name PB Wealth Care is executed from the operational side by Alior Services Sp. z o.o. The task of Alior Services is to establish contacts with trading partners providing services such as legal and tax advice or alternative investments.

Brokerage activities

As at 31 December 2015, the Brokerage Office of Alior Bank S.A. maintained more than 79 thousand brokerage accounts (up by 1.75% compared with 31 December 2014). Customers' assets accumulated on brokerage accounts amounted to PLN 6.4 billion.

Alior Bank cooperates with fifteen fund management companies of open investment funds (OIF) and seventeen of closed investment funds (CIF). As at 31 December 2015, the open investment fund offer comprised 456 strategies. Assets accumulated in OIF products via Alior Bank were worth nearly PLN 744 million as at the end of December 2015, which represented a decrease of 12% compared with the balance at the end of the third quarter of 2015. Assets accumulated in CIF products via Alior Bank were worth approximately PLN 1,178 million as at the end of December 2015, which represented an increase of over 28% compared with the balance at the end of the third quarter of 2015. The total assets accumulated in investment funds via Alior Bank amounted to around PLN 1,922 million as at the end of December 2015, representing an increase of approx. 9% over the last 3 months. Moreover, as part of the asset management services offered in cooperation with Money Makers TFI S.A., the assets accumulated as part of this service via Alior Bank amounted to more than PLN 32 million as at the end of December 2015.

In October 2014, the Brokerage Office of Alior Bank S.A. introduced to its offer an innovative portfolio investment advisory service under which it recommends to the customers portfolios of investment funds, stock exchange instruments and mixed portfolios based on an assessment of an individual customer's situation. In twelve months, the Brokerage Office of Alior Bank S.A. concluded 6,935 contracts with customers for the provision of the service, including 5,658 contracts concluded in 2015.

As at 31 December 2015, the Brokerage Office of Alior Bank S.A. provided market maker services to 52 issuers and conducted market making activities in respect of 123 financial instruments.

Cooperation with third parties in gaining new individual customers

T-Mobile Banking Services

As part of the cooperation with T-Mobile Polska S.A., customers have an opportunity of opening personal accounts with a debit card in more than 600 T-Mobile sales outlets (including 155 store-in-store outlets providing full banking services).

Currently, each customer can also obtain a cash loan for any purpose of up to PLN 200 thousand, repayable even in 120 monthly instalments. Loan applications can be submitted both in the store-in-store outlets and via remote channels. Loan agreements can be on a solely remote basis, without the need to visit a branch, and customers may receive funds to their bank account even on the same day. From 11 June 2015, the T-Mobile Banking Services offer was extended for products dedicated to businesses. Individuals conducting business activities may avail themselves of a current account and auxiliary accounts to which a debit card may be issued covered by free of charge assistance assurance. T-Mobile customers may also avail themselves of an overdraft up to PLN 20 thousand. The offer for business customers is available in store-in-store outlets.

In the third quarter of 2015, as part of developing the relationship with T-Mobile Polska S.A. an offer was prepared for the financing of telecommunications equipment in the operator's outlets. Customers obtain decisions on granting the financing within several minutes (without leaving the consultant's desk). Current customers of T-Mobile Polska S.A. obtain the financing without unnecessary formalities, based on their history of cooperation with the operator. New customers can be granted the offered product based on a statement of income. Customers do not bear any costs of the financing, and they can additionally avail themselves of a more attractive offer of T-Mobile Polska S.A. Through this offer, the Group is extending its base of customers with potential for a wider relationship, especially in the area of the standard product offer available at T-Mobile Banking Services.

In November of this year, the offer relating to personal accounts was changed. The basic account was enriched with a 5% cash-back, payable to the customers for non-cash transactions concluded with a debit card. The maximum cash-back amount payable to an account is PLN 600 a year. The personal account offer was supported by an intensive advertising campaign.

Tesco Project

As part of the Bank's cooperation with Tesco, loan products are offered in the shops belonging to Tesco under the brand Tesco Finanse. As at the Prospectus Date, works are under way to develop the sales network by adding new channels and implementing an extended offer of financial products and services dedicated to customers visiting Tesco shops.

Corporate segment

In 2015, the activities of the business customers segment generated income before impairment losses of PLN 810.7 million. The result was PLN 99.5 million, i.e. 14% higher than that achieved in a similar period of the prior year.

Alior Bank has a comprehensive offer for business customers addressed both to the smallest customers, including those starting their business (Alior Bank is a partner of the European Guarantee Fund within the scope of financing offer for start-ups) and to large business entities which use technologically advanced deposit and transaction solutions and EU funds. Bankers and managers of business customers located in a wide network of branches and partnership outlets are mindful of the optimum matching of products to the actual needs of the firms.

Alior monitors the exposure level of the individual corporate entities within the scope of risk adequacy, concentration and security.

Accounts, settlements and deposits

The corporate accounts offer is matched to the business expectations of individual customer segments. The Bank's offer for micro businesses includes Rachunek Partner and Rachunek Wspólnota accounts. The regular services offer is additionally enriched by packages such as an account and a payment terminal or an account and the Internet site creation service. The Bank offers accounting products to customers maintaining full accounting records. The Rachunek Biznes Optymalny account is a product ensuring the possibility of full optimization of the scope and terms of services. The standard products are Rachunek Biznes Komfort and Biznes Profil.

Business customers have access to many cash management products and services which facilitate the execution of their daily transactions. Cyclical marketing campaigns prepared based on individual sector preferences are aimed at effectively informing the customers about products tailored to the nature of their operations, new services and special offers. The Bank mainly promotes those services which directly affect the quality of transaction services, such as: Masowe Przetwarzanie Transakcji (Mass Transaction Processing) which enables the quick recording of amounts due from business partners and Rachunek Płacowy (Payroll Account) which enhances the payroll function, while maintaining data confidentiality.

Alior Bank has various products in its offer matched to the Customer's needs. mPOS is a solution addressed to small- and medium-sized enterprises, which so far – due to high transaction processing costs and unattractive periodic fees – did not accept credit card payments. mPOS is a modern device, small in size, which through connection with a smartphone or tablet with an installed mPEP payment application becomes a fully-fledged card terminal enabling the conclusion of transactions with the use of a magnetic belt or microprocessor (chip) as well as making PayPass and PayWave payments.

Loans to corporate customers

The credit offer of Alior Bank, designated for ongoing and investment funding, is addressed both to microfirms, including entities commencing business activities or individual farmers, and to small, medium and large enterprises.

The Bank's operations in the microfirms segment is based on a comprehensive loan offer addressed to selected market niches. The leading products in the segment are a renewable loan and Biznes Pożyczka, characterized by a simplified sales process and dedicated pricing terms for customers from privileged sectors performing public trust professions and customers characterized by lower credit risk. The Bank conducts sales of loans in the micro segment through own branches, franchise outlets and financial intermediators cooperating with the Bank as part of agency agreements.

Additionally, in September 2015, the Bank created the Virtual Banker Team within the head office structures, i.e. a separate sales channel dedicated to serving customers from the micro segment, which enables sales of loans over the phone. First of all, the team works on the basis of the current Bank customers, offering them additional financing. Another step will be to introduce an offer that would enable gaining new customers from the market. Creating a new remote sales channel meets the customers' growing expectations concerning flexibility of services.

SMEs and large corporations have a more specialized product offer to choose from, enabling more flexibility in structuring optimum financing. At the same time, in order to gain new customers the sales structures may use a dedicated product for transferring financing from another bank on preferential terms.

Alior Bank actively develops its financing offer for entities from the agriculture and food sector, in line with the diversified legal forms and types of business activities of the customers. The Bank offers financing of ongoing operations in the form of a revolving loan within a loan account and investment financing for individual farmers, including those not covered by the provisions of the Accounting Act. Business entities maintaining full or simplified accounts and groups of agricultural producers have both revolving financing, including the purchasing loan and investment loans, at their disposal.

The enterprise support programme in the SME segment of Bank Gospodarstwa Krajowego (BGK) is a key product that affects the level of the lending activity in the corporate segment. De minimis guarantee increases the availability of financing to firms and enables, among other things, granting loans to customers who do not have tangible security. Alior Bank actively offered sales of BGK de minimis guarantees, which placed it in the leading position in the sale of loans secured with the de minimis guarantee – 4th among the banks participating in the programme in the fourth quarter of 2015.

Bearing in mind the development of its corporate customers, Alior Bank is continuing a wide campaign to support entrepreneurs' participation in the use of EU funds from EU programmes for the years 2014–2020. The information campaign is currently in progress which informs customers and sales networks of the current enrolments under the specialist programmes.

Products and services for corporations

The Bank's offer for corporations comprises the same scope of products and services as for other corporate customers, but the Bank treats each such customer individually and prepares offers dedicated to specific entities. The Regional Business Centres and the Department of Large Firms cooperate closely with experts from the Debt Issue Department, Structured Loans Department and Trade Financing Department.

Alior Bank's corporate customers may avail themselves of the basic products related to trade financing, such as: guarantees, letters of credit, incomplete factoring and assuming the creditors' rights. Our advantage is that we adapt our offer to the needs of each corporate customer and develop tailored solutions. The Bank is successively enlarging its product offer in the area of trade financing. At present, more and more of our income comes from handling housing trust accounts. The customer to whom the offer is addressed is a developer but the actual beneficiaries of the solution are the buyers of apartments. The housing trust accounts are designated for protecting the funds which apartment buyers pay in towards the purchase of an apartment from a developer. The developer does not have direct access to the funds accumulated on the account, and transfer of funds to the developer is each time preceded by verification of the level of completion of the investment. Apart from the above-mentioned products, the Bank offers structured loans. Structured loans are used, among other things, to finance the import and export of goods and raw materials, and the purchase or sale of goods and raw materials on the local market. The offer is beneficial mainly to entities with little experience in international trade. The structure developed by the Bank increases transaction security and enables optimized use of the banking products. The Bank's advisory services consist of pointing out unfavourable clauses in the contract, indicating solutions which would secure the Customer's interests and determining the amount of financing needed to execute the contract.

Treasury activities

In 2015, the activities of the treasury segment generated income before impairment losses of PLN 140.5 million. The result was PLN 33.4 million, i.e. 19.2% lower than that achieved in a similar period of the prior year.

In 2015, the Bank engaged in treasury activities in the following areas:

- foreign exchange transactions, from immediate currency exchange to combined option structures adequate to the customer's needs and knowledge about these instruments;
- interest rate hedging transactions ensuring stabilization of the costs of financing to customers;
- commodity price fluctuation hedging transactions;
- liquidity management – by offering a wide range of products which enable depositing cash surpluses on attractive terms;
- conducting educational activities to increase customer awareness of the products offered and their related risks;
- securing the Bank's liquidity risk within the set limits – by concluding transactions on the interbank market, including currency swaps, security purchase/sale transactions and REPO transactions;
- currency and interest rate risk management by concluding transactions on the interbank market, including currency spots/forwards, interest rate swaps and options and commodity derivatives;
- hedge accounting – securing interest rate risk resulting from fluctuations in cash flows from assets with a variable interest rate, using PLN IRS transactions.

Transaction platforms

Moreover, the Bank has transaction platforms the income from which is booked as income from corporate or retail activities respectively.

Alior Bank is the first bank in Central Europe to implement its own algo trading Quasar system on which three currency exchange platforms are based – Autodealing, FX Trader and Currency Exchange Bureau. The location of the Quasar system servers in London, where a vast majority of trading in the Polish currency is executed enables Alior Bank customers access to the unique liquidity generated by the largest banks in the world and exceptionally short transaction execution time.

Autodealing is a contract available both to corporate and individual customers directly under Internet banking. The platform enables concluding spot and forward currency exchange transactions on beneficial terms and enables opening high-interest deposits for any selected number of days, up to 1 year. The following currencies are available under the Autodealing service: PLN, EUR, USD, GBP and CHF.

FX Trader is a platform available from the Internet banking level designated for the most demanding corporate customers. It enables concluding spot and forward transactions and placing orders with a price limit 24 hours a day, 5 days a week for close to 70 currency pairs. Three additional types of orders with a price limit are available on the platform which enable automatic conclusion of a transaction at the exchange rate selected by the customer. The platform is characterized by high liquidity which enables the customers to exchange up to PLN 40 million in one transaction. Moreover, streaming of the current quotations with the possibility of seeing the spread and forward points enables the customers to follow closely the current situation on the currency market.

Currency Exchange Bureau is the first bank currency exchange in the Internet on the Polish market. The platform is designated for both individual customers and firms and is available 24 hours a day, 7 days a week after logging in on the website www.kantor.aliorbank.pl. Alior Bank's Currency Exchange Office enables safe currency exchange at attractive rates and free of charge transfers in Poland and abroad of the funds purchased on the platform. The Currency Exchange offers four types of automatic currency orders which enable concluding transactions at the most favourable exchange rate or cyclically on a specific day of each month. Moreover, individual customers may order free of charge debit cards for accounts denominated in EUR, USD and GBP, and withdraw and pay in funds free of charge in Alior Bank's branches (PLN, EUR, USD, GBP). The customers can open accounts free of charge in 14 currencies; new accounts are opened remotely based on an instruction confirmed only by an SMS code. The entire operation only takes a few seconds and immediately on opening an account the customer obtains access to preferential terms of exchange for the new currency.

Significant new products or activities

On 7 August 2015, Alior Bank signed a contract with a Romanian operator Telekom Romania Mobile Communications from the Deutsche Telekom Group. In this way, the Bank extended its strategic alliance with the global telecommunications partner for another market in the Central Europe.

The objective of the initiative executed jointly by Alior Bank and Telekom Romania Mobile Communications is to create a branch of the Bank in Romania that would be operating within a model similar to the cooperation between Alior Bank and T-Mobile Polska S.A. The project is of strategic importance to Alior Bank as it is the first step towards the Bank's expansion to foreign markets.

Telekom Romania Mobile Communications belongs to the Telekom Romania Group, the largest integrated telecom operator on the Romanian market. The Group offers comprehensive modern services of fixed-line and mobile telephony, Internet and television and solutions to businesses. Telekom Romania Mobile Communications operates under the brand T-Mobile and currently has 6 million customers.

Alior Bank's cooperation with Telekom Romania Mobile Communications is the first alliance on the local market so broadly combining the world of finance and telecom services. Already in the first quarter of the next year, individual customers will be able to avail themselves of the banking services and as a next step, the offer for businesses will become available. As part of the arrangement, customers of the Romanian operator will obtain access to a wide assortment of modern deposit and loan products, similar to those offered in Poland. In order to execute the project, Alior Bank will form its structures in Bucharest which will be responsible for developing and maintaining the offer on the Romanian market.

Romania is the largest market of South-Eastern Europe and the second largest economy among countries which obtained membership to the European Union in 2004 or later (in terms of the GDP value calculated according to the purchasing power parity). It is also a market with high potential for the development of banking services, as more than one half of Romania's inhabitants do not yet have a bank account, while the number of smartphone users is dynamically growing (currently 28%, the number is expected to double by 2017).

As of 14 January 2016, the National Bank of Romania (the Romanian banking regulator) registered Alior Bank S.A. Varsovia – Sucursala Bucuresti as a branch of a foreign lending institution as defined in Directive 2013/36/EU, under the number RB-PJS-40-071/14.01.2016. Thus one of the conditions provided in the agency agreement with Telekom Romania Mobile Communications has been fulfilled.

In the fourth quarter of 2015, Alior Bank, through its subsidiary Alior Leasing Sp. z o.o., extended the product offer by adding operating leases, finance leases and lease loans. Under the offer, customers may finance a wide range of fixed assets, including agricultural equipment, vehicles and both standard and complicated machines and equipment.

Capital investments

The table below shows the capital investment of Alior Bank. All securities were acquired with the Bank's own funds:

1. Shares
   - Securities held for trading representing equity rights, admitted to trading on the WSE;
   - Securities held for trading representing equity rights, not admitted to public trading.
2. Bonds: corporate bonds issued by domestic and foreign issuers, acquired in connection with the Bank's function of market marker.
3. Derivative instruments: forward contracts for PKOBP shares and the WIG20 index, quoted on the WSE, purchased/sold in connection with the Bank's market maker function.
4. Investment certificates: certificates of the closed investment fund of "Private equity" type.

Capital investments

	as at 31.12.2015		as at 31.12.2014	
	number	Market / nominal value in PLN	number	Market/ Nominal value in PLN
Shares	**853 619**	**1 334 538**	**1 282 019**	**2 729 201**
listed	852 619	1 334 538	1 271 019	2 723 801
Non-listed	1 000	0	11 000	5 400
Bonds	**2 868**	**286 328**	**2 607**	**945 993**
Derivatives	**182**	**513 649**	**265**	**639 834**
Investment certificates	**15 908**	**1 610 313**	**0**	**0**

No. 7

Maya numerals

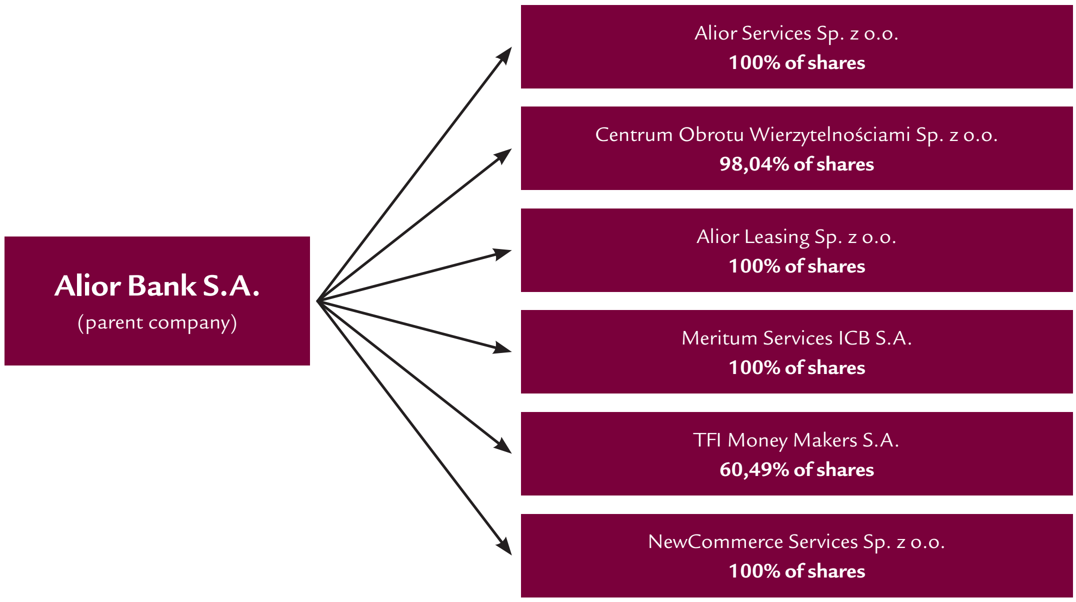
THE MAYA CIVILIZATION CREATED ITS OWN, ORIGINAL SCRIPT AND NUMBERS. THEIR NUMERAL SYSTEM WAS DUODECIMAL. NUMBERS FROM 1 TO 19 WERE REPRESENTED BY DOTS AND LINES. THE DOT, DEPENDING ON ITS POSITION, COULD MEAN 1, 20 OR 20^2, I.E. 400. A SEED WAS THE MAYAN ZERO, INVENTED INDEPENDENTLY OF THE ZERO BORN IN INDIA.

CHAPTER VII

Business overview of the Alior Bank S.A. Group companies

VII. Business overview of the Alior Bank S.A. Group companies

The Alior Bank S.A. Group as at 31 December 2015



As at 31 December 2015, the Alior Bank S.A. Group is composed of the following companies: Alior Bank S.A. as the parent company and the subsidiaries in which the Bank holds majority interests. In the reporting period, changes were introduced in the structure of the Alior Bank S.A. Group.

On 12 October 2015, the Extraordinary General Meeting of Money Makers TFI S.A. passed resolution no. 3/2015 on increasing the Company's share capital and issuing 800,000 G-series shares with a par value of PLN 0.16 each. Pursuant to the share purchase agreement dated 23 October 2015, the Bank took up 687,370 G-series shares with a par value of PLN 0.16 each. The increase was registered by the court on 23 November 2015. Thus, the Bank's percentage shareholding has changed.

Moreover, after the balance sheet date, i.e. on 27 January 2016, a share purchase agreement was concluded based on which the Bank acquired 40 shares in Centrum Obrotu Wierzytelnościami Sp. z o.o. from Alior Services Sp. z o.o. Thus, at the date of publishing the report, Alior Bank S.A. holds 100% of shares in Centrum Obrotu Wierzytelnościami Sp. z o.o.

The consolidated financial statements comprise the financial statements of the Bank and the financial statements of the entities listed below. The Bank assessed control in the context of the regulations of IFRS 10 and defined its status as the parent company of the following entities. All subsidiaries are consolidated under the acquisition accounting method.

1. Alior Services Sp. z o.o. (previously Alior Raty sp. z o.o. – the change in the company's name registered on 23 May 2014 by the District Court for Kraków-Śródmieście in Kraków, 11th Business Department of the National Court Register) is a company formed on 3 February 2012. As of 31 October 2013, the Company discontinued its operations within the scope of providing financial intermediation services. In January 2014, the Management Board of Alior Bank S.A made a decision that the Company should continue its operations in different business areas than previously.

- The company's objectives:
    a. taking advantage of the opportunities to sell non-financial products and services;
    b. extending the offer for Private Banking customers and making it more attractive in order to enhance the Company's competitive position.
- The Company's operations:
    a. seeking out and gaining external partners for cooperation in offering non-banking services;
    b. arranging business relationships for clients and external partners.
- The planned revenues of the Company comprise commission for intermediation in non-banking services.

  The Company also continues operations within the scope of meeting the obligations towards customers under the contract with TU Ergo Hestia.

2. Centrum Obrotu Wierzytelnościami Sp. z o.o. is a company whose core business activities include trading in receivables purchased from the Bank. The Company was established to optimize the process of selling the Bank's receivables.
3. Alior Leasing Sp. z o.o. is a company whose core business activities comprise financing of fixed assets through operating and financial leases and lease loans.
4. Meritum Services ICB S.A. is a company whose core business activities comprise service activities within the scope of IT and computer technologies and other IT-related activities. In 2015, the Company's operations were extended to include insurance agent and broker operations, operations related to risk assessment and estimation of losses and other operations supporting insurance and pension funds.
5. NewCommerce Services Sp. z o.o. is a company which will execute tasks related to selling non-banking products, including provision of a new generation shopping platform, in cooperation with its trading partners. The start of the Company's business activities is planned for Q4 2016 and is strictly related to introducing changes and development associated with launching a new edition of the distribution channel for the planned non-banking services constituting the Company's business.
6. Money Makers TFI S.A. is a company formed in 2010 whose activities originally focused on asset management related services. The Bank cooperates with the subsidiary Money Makers in three areas: asset management (managing individual customer portfolios / private banking), insurance offers for equity funds, and Alior SFIO subfund management. As part of its development plans, at the start of July the Company was transformed from a brokerage house into an investment fund management company. On 23 June 2015, the Polish Financial Supervision Authority unanimously granted a permit to Money Makers S.A. for conducting activities comprising establishing and managing investment funds or foreign funds, including intermediating in the sale and purchase of units, representing the funds vis-a-vis third parties and managing collective securities portfolios as well as managing portfolios comprising financial instruments. At the same time, at the request of the Company itself, the PFSA revoked the decision to grant a permit for Money Makers S.A. to conduct brokerage activities. After the transformation, Money Makers began operations in July as an Investment Fund Management Company.

No. 8

Algebra, algorithm...

ALGEBRA, ALGORITHM, CIPHER, ZERO – JUST A FEW OF THE WORDS WE ADOPTED FROM MEDIEVAL ARAB OR PERSIAN MATHEMATICIANS. WHEN EUROPE HAD ITS DARK AGES, THE MIDDLE EAST ENTERED ITS GOLDEN AGE, WITH BLOOMING MATHEMATICS AND ASTRONOMY. IT'S HARD TO COUNT THE STARS THAT BEAR ARABIC NAMES: ALGOL, ALDEBARAN, BETELGEUSE OR VEGA ARE THE BRIGHTEST EXAMPLES. THE ASTROLABE AND SEXTANT, MODERNISED BY ARAB ASTRONOMERS, ALLOWED FOR TRAVELS THAT WERE INCREASINGLY FURTHER, SAFER AND RICHER IN TERMS OF DISCOVERIES.

VIII

CHAPTER VIII

Events and contracts significant to the business operations of the Alior Bank S.A. Group

VIII. Events and contracts significant to the business operations of the Alior Bank S.A. Group

Information on the planned change of the strategic investor

- On 30 May 2015, the Bank's Management Board received notification of a memorandum of agreement having been concluded for the sale of 18 318 473 shares of the Bank, constituting 25.26% of the Bank's share capital, between Alior Lux S.a.r.l. & Co. S.C.A. with its registered office in Luxembourg and Alior Polska Sp. z o.o. with its registered office in Warsaw, and Powszechny Zakład Ubezpieczeń Spółka akcyjna with its registered office in Warsaw.

  The purchase of shares by PZU will be transacted in three tranches, after fulfilling the conditions specified in the Agreement:

  1. 1under the first tranche, PZU will acquire 6 744 900 of the Bank's shares belonging to Alior Lux and 500 000 shares belonging to Alior Polska;;
  2. under the second tranche, PZU will acquire 7 244 900 of the Bank's shares belonging to Alior Lux;
  3. under the third tranche, PZU will acquire 3 828 673 of the Bank's shares belonging to Alior Lux.

  The execution of each subsequent tranche will take place after 70 days of executing the previous one. The Agreement was concluded on the condition of obtaining the required permits for concluding the transaction from the Polish Financial Supervision Authority, the President of the Office of Competition and Consumer Protection and the Antimonopoly Committee of Ukraine. In the event of failing to obtain the said permits by 31 March 2016, the Agreement will expire.

  The Bank's Management Board was satisfied with the information that an agreement was concluded for PZU, the largest Polish insurance company, to purchase the shares held by Carlo Tassara. The Management Board is of the opinion that gaining PZU as a strategic investor will create a sound basis for the long-term development of Alior Bank and strengthen its market position.

- On 5 August 2015, the President of the Office of Competition and Consumer Protection issued a concentration clearance in respect of the transaction between Powszechny Zakład Ubezpieczeń Spółka Akcyjna and the Bank.

- On 2 September 2015, the Management Board of PZU S.A. was informed that the Antimonopoly Committee of Ukraine ("AMCU") granted approval for PZU S.A. to acquire the Bank's shares, which would entitle PZU S.A. to execute more than 25% of votes in the supreme body of the Bank.

- On 6 October 2015, the Management Board of PZU S.A. was informed that the Polish Financial Supervision Authority found no basis for voicing any objections against the planned acquisition by PZU S.A. of Alior Bank S.A. shares in an amount which ensured exceeding 20% of the number of votes at the Bank's General Meeting.

This constitutes a fulfilment of the next suspending conditions of the agreement concluded on 30 May 2015 between PZU S.A. and the Bank's shareholders, i.e. Alior Lux S.à r.l. & Co. S.C.A. and Alior Polska sp. z o.o., based on which, after meeting the conditions specified therein, PZU S.A. will acquire an aggregate of 18,318,473 of the Bank's shares, constituting 25.26% of the Bank's share capital and of the total number of votes at the Bank's General Meeting.

On 12 October 2015, the Management Board received a notification pursuant to Art. 69 of the Act on Public Offering related to PZU acquiring the first batch of the Bank's shares. According to the notification received, as a result of the transaction concluded on 9 October 2015 (accounted for on 12 October 2015), PZU together with its subsidiary PZU Życie SA held 7,272,247 of the Bank's shares constituting 10.002% of votes at the General Meeting.

On 18 and 21 December 2015, the Management Board received notifications pursuant to Art. 69 of the Act on Public Offering concerning a change in the share of the total number of votes at the General Meeting held by PZU and Alior Lux. According to the notifications received, as a result of the transaction concluded on 17 December 2015 (accounted for on 18 December 2015), PZU together with its subsidiary PZU Życie SA hold 14,517,147 of the Bank's shares constituting 19.97% of votes at the General Meeting. Following the above-mentioned transaction, Alior Lux holds 3,828,673 of the Bank's shares constituting 5.27% of votes at the General Meeting.

Significant events relating to the merger with Meritum Bank ICB S.A.

- On 10 February 2015, the Polish Financial Supervision Authority decided that there were no grounds for objection to the planned acquisition of the Meritum Bank ICB S.A. shares by the Bank in a number giving the Bank an interest of more than 50% of the share capital and the total number of shares at the General Meeting of Meritum. Moreover, on 11 February 2015, the PFSA approved the amendment to the Bank's Articles of Association based on resolution no. 3/2014 of the Extraordinary General Shareholders' Meeting of 2 December 2014 on: conditionally increasing the Bank's share capital by issuing H series ordinary bearer shares, at the same time depriving the current shareholders of all pre-emptive rights, issuing D series subscription warrants, at the same time depriving the current shareholders of all pre-emptive rights, and changing the Bank's Articles of Association based on the resolution of the Extraordinary General Meeting of the Bank passed on 2 December 2014.
- On 16 February 2015, the District Court for the Capital City of Warsaw, 13th Business Department of the National Court Register, in Warsaw, registered: (i) a conditional increase in the Bank's share capital by an amount not exceeding PLN 23,554,980 by issuing up to 2,355,498 H-series ordinary bearer shares of PLN 10 par value each, with a total par value not exceeding PLN 23,554,980, and (ii) amendments to the Bank's Articles of Association. The said shares were registered with the National Securities Deposit and introduced to trading on 25 February 2015.
- On 19 February 2015, Alior Bank signed the final agreement with Innova Financial Holdings S.à r.l, WCP Coöperatief U.A. and the European Bank for Reconstruction and Development concerning the acquisition of Meritum shares, on the basis of which Alior Bank acquired 12,382,746 Meritum shares of PLN 30 par value each, representing 97.9% of the share capital of Meritum and 95.0% of the total number of votes at the General Shareholders' Meeting of Meritum for a total price of PLN 352,541,731.72. In connection with signing the share purchase agreement for the shares of Meritum Bank, Alior signed with the Investors: Innova Financial Holdings S.à r.l and WCP Coöperatief U.A., agreements for taking up D-series subscription warrants of the Bank. In the said agreements, the Bank offered its D-Series Subscription Warrants to the Investors, and each of the Investors accepted the Bank's offer and took up the D-Series Subscription Warrants free of charge. D-Series Subscription Warrants of the Bank entitled their holders to acquire H-Series Shares issued as part of the conditional increase in the Bank's share capital approved by resolution of the Bank's Extraordinary General Shareholders' Meeting no. 3/2014 of 2 December 2014. As part of the execution of rights arising from the D-Series Subscription Warrants, on 19 February 2015 the Investors made statements on the acquisition of H-series ordinary bearer shares of the Bank and paid for the said shares in cash (the issue price for one H-series share paid up in this way was PLN 73.30) totalling PLN 172,658,003.40.
- On 19 February 2015, the Bank announced its intention to merge with its subsidiary - Meritum, in which the Bank held shares representing 97.9% of the share capital and 95.0% of the total number of votes. The business combination will be executed pursuant to Art. 492 § 1.1 of the Commercial Companies Code by transferring the total assets of Meritum (the acquired company) to the Bank (the acquiring company) (business combination by acquisition).

- On 4 March 2015, the Bank's Management Board, in its current report no. 17/2015 (supplemented with report no. 36/2015 of 16 April 2015) informed about ending the subscription for H-series shares. Statements on acquiring H-series shares as a result of exercising the rights under D-series warrants were made on 19 February 2015. The number of securities subject to subscription was 2,355,498. The issue price for each H-series share amounted to PLN 73.30. The value of the subscription was PLN 172,658,003.40. The cost of preparing and executing the offer for H-series shares amounted to PLN 197,733.95, including the estimated costs of advisory services of PLN 30,929.00. The expenses incurred amounted to approx. 0.11% of the subscription value. The average cost of subscription per one security offered for subscription amounted to approx. PLN 0.08.
- On 24 March 2015, the Bank's Management Board informed about commencing the preparation for the business combination with Meritum Bank ICB S.A. In connection with the planned business combination, Alior Bank initiated the process of employment restructuring and changes in the current distribution model. The new model takes into account both the achievement of cost synergies associated with the fact that the branch networks of both banks overlap and the changing needs of the bank's customers resulting from dynamic growth of the popularity of internet and mobile banking. In consequence, employment is being reduced in the form of redundancies taking place from the beginning of April to the end of December 2015 (1000 full-time positions at both banks). It is the Bank's Management Board's intention to provide additional severance pay to dismissed employees in accordance with their length of service. As part of the new distribution model, Alior Bank will select several big flagship branches in which it will offer the highest quality service and private banking products to individual and business customers (to date, such products were mainly available to wealthy customers). These decisions will contribute to a significant improvement in the Bank's efficiency and will be an important part of the activities aimed at making the best possible use of the potential of both Alior Bank and Meritum Bank.
- On 22 April 2015, the Bank's Management Board informed that the plan for the business combination of the Bank and Meritum Bank ICB S.A. prepared in accordance with Art. 498 and 499 of the Commercial Companies Code of 15 September 2000 (consolidated text: Journal of Laws of 2013, item 1030, "CCC") had been agreed and signed. The planned business combination was announced by the Bank's Management Board twice in the current reports dated 22 April 2015 and 7 May 2015.

  In accordance with the provisions of the Business Combination Plan, the business combination will be carried out pursuant to Art. 492 § 1.1 of the CCC by transferring the total assets, equity & liabilities of Meritum (the acquired company) to the Bank (the acquiring company).

  As a result of the Business Combination the Bank will assume all rights and obligations of Meritum, and Meritum will be wound up without liquidation proceedings as of the date of registration of the Business Combination in the register in which the Bank is registered. After the Business Combination, the Bank will operate under the name of "Alior Bank Spółka Akcyjna".

  Since the Bank (the acquiring company) is the sole shareholder of Meritum (the acquired company):

  > in accordance with Art. 515 § 1 of the CCC, the Business Combination will be carried out without increasing the Bank's share capital;

  > in accordance with Art. 516 § 6 of the CCC in conjunction with Art. 516 § 5 of the CCC, the Management Boards of the Bank and Meritum will not prepare written reports referred to in Art. 501 of the CCC; and

  > in accordance with Art. 516 § 6 of the CCC in conjunction with Art. 516 § 5 of the CCC, the Business Combination Plan does not have to be audited by a registered auditor as referred to in Art. 502 of the CCC.

  The Business Combination will be carried out on the condition that:

  > the consents and approvals relating to the Business Combination are obtained as required by law, including the approval of the Business Combination by the Polish Financial Supervision Authority;

  > the General Shareholders' Meetings of the Bank and Meritum pass a resolution on the Business Combination, in particular concerning: (i) approval of the Business Combination Plan.

- On 19 May 2015, the Bank and Meritum signed a credit facility agreement for PLN 4,000,000,000, as a result of which the Bank's total exposure to Meritum with respect to the said facility and the security deposit securing the warranty granted to Meritum increased to PLN 497,400,000. As part of the facility granted, the Bank undertook to provide Meritum with an unsecured credit facility for the financing of banking operations. The facility could be utilized in tranches within 12 months from the date of the agreement, and the maximum period for repayment of each tranche, determined by Meritum from time to time, would be 12 months from the date of drawing. The transaction price was set at the market level. The other terms and conditions of the agreement did not differ from the usual terms and conditions of similar agreements. On the day of registration of the business combination, the Bank took over all rights and obligations of Meritum resulting from the said agreement and, therefore, the agreement expired without any further financial consequences.
- On 25 May 2015, the Bank's Annual General Shareholders' Meeting passed a resolution approving the business combination of the Bank with Meritum Bank ICB S.A. under Art. 492 § 1.1 of the Commercial Companies Code, i.e. by transferring all assets, equity and liabilities of Meritum Bank (the acquired company) to Alior Bank (the acquiring company) on the terms and conditions defined in the Business Combination Plan agreed by the Management Boards of Alior Bank and Meritum Bank on 22 April 2015.
- On 23 June 2015, the Polish Financial Supervision Authority granted its consent pursuant to Art. 124.1 of the Banking Law of 29 August 1997 (consolidated text: Journal of Laws of 2015, item 128) for the business combination of the Bank (as the acquiring bank) with Meritum Bank ICB S.A. (as the acquired bank) in the form of the transfer of all assets, equity and liabilities of Meritum to Alior Bank. In accordance with § 2 of Resolution no. 26/2015 of the Annual General Shareholders' Meeting of Alior Bank of 25 May 2015, obtaining the above-mentioned consent was a condition for carrying out the business combination of Alior Bank with Meritum.
- On 30 June 2015, the District Court in Warsaw, the 13th Business Department of the National Court Register, registered the business combination. The business combination was put into effect in accordance with Art. 492 § 1.1 of the Commercial Companies Code of 15 September 2000 by transferring all assets, equity and liabilities of Meritum (the acquired company) to Alior Bank (the acquiring company). In addition, as a result of the Business Combination Alior Bank assumed the rights and obligations of Meritum as the issuer of: (i) B-series Meritum bearer bonds (code: ISIN PLMRTMB00026, name: MRT0421), which were introduced to trading in the Alternative Trading System operated by the Warsaw Stock Exchange; and (ii) C-series Meritum bearer bonds (code: ISIN PLMRTMB00034, name: MRT1022), which were introduced to trading in the Alternative Trading System operated by BondSpot S.A.

Other significant events

- On 8 January 2015, the Polish Financial Supervision Authority officially recognized Carlo Tassara S.p.A. as the parent company of Alior Bank within the meaning of Art. 4.1.8b) of the Banking Law.
- On 9 January 2015, the European Bank for Reconstruction and Development reduced its capital exposure to the Bank's shares. In accordance with the published report, the EBRD is very satisfied with the achievements of Alior Bank over the past two years, in particular with its growth, innovation and strong position on the bank market. As a shareholder, the EBRD remains satisfied that the Bank's perspectives and opportunities will allow it to improve its profitability and market position. Despite the reduction in its exposure, the EBRD will continue supporting the Bank's strategy and initiatives.
- On 16 January 2015, the Management Board of Alior Bank S.A. received a notification from Genesis Asset Managers, LPP. In accordance with the notification, on 9 January the customers of Genesis took up 100,000 of the Bank's shares, which constituted a 0.14% increase in the number of shares to 5,113,021 shares representing 7.30% of the Bank's share capital and carrying 3,502,490 votes at the General Shareholders' Meeting (5.03% of the total number of votes).

- On 16 January 2015, the Open Pension Fund Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK informed the Management Board of Alior Bank S.A. that as a result of the transactions for the purchase of Alior Bank S.A.'s shares concluded on 9 January 2015, it increased its interest in the total number of votes in the Company to more than 5%. After concluding and settling the above-mentioned transactions, as at 13 January 2015, Aviva OFE held 3,806,451 shares of the Company, representing 5.44% of the share capital (issued shares) of Alior Bank S.A. and carrying 3,806,451 votes at the General Shareholders' meeting of the Bank (5.44% of the total number of votes).
- On 12 February 2015, the court issued a decision on decreasing the share capital of Centrum Obrotu Wierzytelnościami Alior Services Spółka z ograniczoną odpowiedzialnością S.K.A. and redeeming its shares, as a result of which the Bank again became its sole shareholder.
- On 18 February 2015, the Bank's Management Board informed that it would exercise its right to the early redemption of all outstanding C-series bonds issued on 14 February 2012 under the code ISIN PLALIOR00011. The number of bonds which are subject to early redemption is 148,400, and their total par value is the equivalent of PLN 148,400,000. The call for early redemption and the record date in respect of the Bonds were scheduled for 25 February 2015, and the early redemption date was scheduled for 11 March 2015. Trading in C-series bearer bonds was suspended as of 20 February 2015.
- On 25 February 2015, the Bank's Management Board made a call for the early redemption of C-series Bonds. The number of Bonds which were subject to early redemption was 148,400. The total par value of the Bonds which were subject to early redemption was PLN 148,400,000. The date of the call for early redemption and the record date for the Bonds was 25 February 2015. The early redemption took place on 11 March 2015.
- On 17 March 2015, the Bank redeemed all (i.e. 4,500) B-series bonds with a total par value of EUR 4,500,000 before their maturity. The early redemption of bonds was executed by a cash payment of the par value of each bond, i.e. EUR 1,000, plus the interest accrued up to the date of early redemption. The purpose of the early redemption of bonds was to decrease interest expenses, and the Terms and Conditions of Issue provided the legal basis. As a consequence of the repurchase of all (i.e. 4,500) bonds, on 17 March 2015 the Bank redeemed those bonds.
- On 31 March 2015, 192,950 G-series subordinated, unsecured, dematerialized coupon bearer bonds with a par value of PLN 1,000 each and total par value of PLN 192,950,000 were issued. The issue price of each G-series bond corresponds to its par value. The bonds were issued as part of the Bank's PLN Bond Issue Scheme, which was announced by the Bank in its current report no. 16/2013 of 19 March 2013. The issue was executed pursuant to Art. 9.3 of the Bonds Act of 29 June 1995. The interest rate on the bonds was set at WIBOR 6M plus a fixed margin of 3.50% and the interest will be payable semi-annually. The bonds will be redeemed at their par value on 31 March 2021. Based on the resolution no. 76/15 of the Management Board of BondSpot S.A. and the resolution no. 433/2015 of the Management Board of the Warsaw Stock Exchange dated 7 May 2015, the bonds were introduced to the Alternative Trading System on the Catalyst operated in accordance with the Act on Trading in Financial Instruments by BondSpot S.A. and the Warsaw Stock Exchange. The first day of the bonds' quotation was 21 May 2015. The bonds are quoted under an abbreviated name "ALR0321". In accordance with the Bank's consolidated financial statements for the period from 1 January 2014 to 31 December 2014, the value of liabilities incurred as at 31 December 2014 amounted to PLN 27,152,492 thousand. Perspectives relating to liabilities until the final redemption of the Bonds: the Issuer's total liabilities until the Redemption Date will not exceed PLN 49,000,000 thousand.

- On 2 April 2015, the Bank's Management Board received notifications pursuant to Art. 69 of the Public Offering Act of 29 July 2005 on changes in the share in the total number of votes at the General Shareholders' Meeting of Alior Bank Genesis Asset Managers, LLP ("Genesis"). On 5 February 2015, the customers of Genesis sold 12,942 shares of the Bank at the Warsaw Stock Exchange. After the said transaction, the shares held by Genesis (5,093,922 shares of the Bank) represent 7.02% of the Bank's share capital and carry 3,483,391 votes, which represent 4.80% of the total number of votes at the Bank's General Shareholders' Meeting.
- On 21 April 2015, the District Court in Warsaw, the 13th Business Department of the National Court Register, registered the company Alior Leasing Spółka z ograniczoną odpowiedzialnością, whose sole shareholder is the Bank.
- On 20 May 2015, the Bank's Management Board received notifications pursuant to Art. 69 of the Public Offering Act of 29 July 2005 on changes in the share in the total number of votes at the General Shareholders' Meeting of Alior Bank from Wellington Management, LLP ("Wellington Management"). In accordance with the notification, on 19 May 2015, Wellington Management purchased 64,354 shares of the Bank on behalf of the customers whose portfolios it manages. After the said transaction, the shares held by Wellington Management Group entities (3,662,784 shares of the Bank) represented 5.05% of the Bank's share capital and carried 3,662,784 votes, which represented 5.05% of the total number of votes at the Bank's General Shareholders' Meeting.
- On 28 May 2015, the Bank's Management Board received another notification of changes in the share in the total number of votes at the General Meeting from Wellington Management. In accordance with the notification, on 27 May 2015, Wellington Management sold 80,000 shares of the Bank on the Warsaw Stock Exchange on behalf of its customers whose portfolio it is managing. After the said transaction, the shares held by Wellington Management Group entities (3,582,784 shares of the Bank) represented 4.94% of the Bank's share capital and carried 3,582,784 votes, which represented 4.94% of the total number of votes at the Bank's General Meeting.
- On 30 June 2015, the Bank's Management Board informed about issuing the following bonds on 30 June 2015:
  - > 192,800 H-series unsecured, dematerialized coupon bearer bonds with a par value of PLN 1,000 each and total par value of PLN 192,800,000. The issue price of each H-series Bond corresponds to its par value.
  - > 57,200 H1-series unsecured, dematerialized coupon bearer bonds with a par value of PLN 1,000 each and total par value of PLN 57,200,000. The issue price of each H1-series Bond corresponds to its par value;

  The bonds were issued as part of the PLN Bond Issue Scheme of Alior Bank S.A., which was announced by the Bank in its current report no. 16/2013 of 19 March 2013. The issue was executed pursuant to Art. 9.3 of the Bonds Act of 29 June 1995. The interest rate on the bonds was set at WIBOR 6M plus a fixed margin of 1.20% and the interest will be payable semi-annually. The Bonds will be redeemed at their par value on 30 June 2017. By resolution of the Management Board of the National Securities Deposit (Krajowy Depozyt Papierów Wartościowych S.A.) of 7 July 2015, 57,200 H1-series bonds were assimilated out of 192,800 H-series bonds. The assimilated bonds were marked with the PLALIOR00110 code. Therefore, as of 10 July 2015, 250,000 bearer bonds of the Bank are marked with the PLALIOR00110 code. Based on resolution no. 166/O/15 of the Management Board of BondSpot S.A., as of 31 August 2015, the bonds were introduced to the Alternative Trading System on the Catalyst operated in accordance with the Act on Trading in Financial Instruments by BondSpot S.A. The first day of the bonds' quotation was 15 September 2015. The bonds are quoted under an abbreviated name "ALR0617". In accordance with the Bank's consolidated financial statements for the period from 1 January 2015 to 31 December 2015, the value of liabilities incurred as at 31 December 2015 amounted to PLN 31,564,134 thousand. The perspectives for the liabilities until the final redemption of the bonds show that the sum of the Issuer's liabilities until the Redemption Date shall not exceed PLN 45,700,000 thousand.

- On 15 July 2015, LuxCo 82 s.a.r.l. with its registered office in Luxembourg sold 1,458,012 shares of the Bank. The block of 1,458,012 shares of the Bank was sold in connection with the full settlement of the first incentive scheme to the Bank's managers. After this transaction, LuxCo no longer has any shares of the Bank. .
- On 7 August 2015, the Bank concluded an agreement with Telekom Romania Mobile Communications S.A. ("Telekom Romania MC") concerning cooperation in the provision of financial intermediation services by Telekom Romania MC.

Preamble

The cooperation agreement with Telekom Romania MC relates to preparing a comprehensive offer of banking products and services and ensuring multi-channel access to these products and services based on the Telekom Romania brand (the Deutsche Telekom Group). The objectives of cooperation are as follows:

1) attracting a significant part of over 6 million customers of Telekom Romania MC and customers within the Group to banking services;
2) providing state-of-the-art online and mobile technology solutions and transactional banking solutions to such customers;
3) offering products and services which combine unique benefits resulting from cooperation between a bank and a telecom to customers.

Cooperation will include offering the majority of banking products to customers through all the possible channels, taking advantage, particularly, of the technological synergies and advantages resulting from the operating models of a bank and a telecom. This will be a continuation of the operating model of the Bank and T-Mobile which resulted in launching a T-Mobile Banking Service offer on the Polish market in May 2014.

Telekom Romania MC, acting as an intermediary of the Bank, will offer selected products of the joint venture in its sales outlets, also providing the brand and marketing. An ability to offer services to one of the largest groups of customers in Romania will materially contribute to ensuring a significant pace of customer acquisition and to increasing the Bank's profitability.

The subject matter of the Agreement covers, in particular, entrusting to Telekom Romania MC intermediation services, in the name and on behalf of the Bank, in providing financial services, including: concluding and amending bank account agreements, concluding and amending agreements for an overdraft facility, concluding and amending deposit agreements, concluding and amending loan and cash advance agreements, concluding and amending payment card agreements, concluding and amending other agreements to be arranged in the future between the Parties, consumers, sole traders, legal persons and organisational units without legal personality operating in the segments of micro-entrepreneurs, small enterprises and large companies. The said activities will be conducted in the legal form of a Bank's Branch in Romania.

Financial terms

Remuneration of Telekom Romania MC for the provision of financial intermediation services shall comprise three components: 1) a one-off fee for each new customer who meets the criteria specified in the Agreement; 2) a monthly fee depending on the number of customers who meet the criteria specified in the Agreement; 3) a percentage share in the pre-tax profit of the Bank's Branch (at a level depending on the profitability of the customer base acquired by Telekom Romania).

Purchase Option

In the period until 30 June 2038, an entity indicated by Telekom Romania MC ("the Acquirer") and Telekom Romania MC will have an option to purchase a business unit of the Bank which includes the Bank's Branch ("ZPC"), pursuant to and in accordance with the terms and conditions specified in the Agreement, including, in particular, subject to obtaining a relevant permit of the PFSA and National Bank of Romania.

The disposal may take place at a price representing the product of the number of customers (who meet the criteria specified in the Agreement) and the amount which depends on the fulfilment by the Bank of the relevant obligations specified in the Agreement. In accordance with the Agreement, the price will be revalued starting from 2022.

The Purchase Option may be executed by Telekom Romania MC after 5 years of the Agreement coming into force or earlier, in cases specified in the Agreement and relating to the infringement by the Bank of the obligation specified in the Agreement or to the instances, as set out in the Agreement, of termination or expiry of the Agreement, the failure to meet the financial targets connected with the Agreement or in the case of assumption of control over the Bank by a competitor or a subsidiary of a competitor of Telekom Romania MC.

Termination of the Agreement

The Agreement shall become effective on the date of its signing and subject to obtaining approvals of the competent Company's bodies. The Agreement is concluded subject to the following conditions subsequent:

1) the failure to establish a Bank's Branch in Romania within 8 months of the effective date of the Agreement (unless the Parties agree to extend this period), including the failure to obtain the necessary permits;
2) the failure of the Parties to agree and sign an Agreement concerning trademarks within 8 months of the effective date of the Agreement (unless the Parties agree to extend this period);
3) the failure to obtain the consent of the subsidiaries of Telekom Romania MC for the sale of banking products in accordance with the provisions of the Agreement within 8 months of the effective date of the Agreement (unless the Parties agree to extend this period);
4) the failure to obtain the official position of the National Bank of Romania confirming that Telekom Romania MC is able to provide financial intermediation services without the need to obtain the additional consent of the National Bank of Romania.

The Agreement was signed for a period of 5 years after the effective date of the Agreement), with an option to extend it automatically for another period(s) of 5 years. Telekom Romania MC shall have an option not to extend the validity of the Agreement provided that Telekom Romania MC submits, 6 months in advance of the expiry of the period of validity of the Agreement, a declaration that it would not use the option to extend it for another period.

- Due to the fact that on 1 July 2015, the Act on Bonds of 15 January 2015 ("the Bonds Act") came into force, on 10 August 2015, the Supervisory Board of Alior Bank S.A. granted consent for the Management Board to establish a scheme for issuing own bonds by Alior Bank S.A. ("the Issuance Scheme") denominated in PLN and to incur financial liabilities through multiple issues of unsecured bearer bonds, including subordinated bonds, with the following key parameters:
  - the total value of the Issuance Scheme shall not exceed PLN 2,000,000,000 (two billion zloties);
  - the Bonds shall be issued in series, in the period from the resolution becoming effective until 1 August 2020;
  - the maximum maturity of the Bonds issued under the Issuance Scheme shall be 10 years;
  - the Bonds issued under the Issuance Scheme shall not be secured;
  - the Bonds shall be issued pursuant to the procedure set out in Article 33.1 or Article 33.2 of the Bonds Act;
  - the Bonds shall not have a documentary form;

The terms and conditions of issuance of each series of the Bonds may include a provision on the introduction of bonds to trading on the CATALYST market operated as an alternative trading system on the Warsaw Stock Exchange or by BondSpot S.A.

At the same time, the Supervisory Board of Alior Bank S.A. authorized the Management Board of Alior Bank S.A. to specify detailed conditions of specific series of bonds issued under the Issuance Scheme, to allot bonds to investors and to undertake any other actions aimed at executing the Issuance Scheme. As at the date of the report no issuance under the scheme had taken place.

Due to the fact that the Bonds Act came into force on 1 July 2015, the Management Board of the Bank decided to discontinue issuing bonds under the previously applicable bond issuance scheme approved by resolution of the Supervisory Board no. 28/2013 of 18 March 2013, referred to in the Bank's current report no. 16/2013 of 19 March 2013.

- On 21 October 2015, another annex was signed to the agreement of 12 July 2010 concluded with one of the Bank's customers, which had been described in current report no. 37/2013 of 31 July 2013 as the agreement of the highest value. In accordance with the signed annex, the limit for guarantee-related products was increased to PLN 300,000,000. As a result of the signed annex, the Bank's total exposure to the customer's group resulting from agreements increased to PLN 349,170,300. Every guarantee issued which exceeds the limit of PLN 196 million will be secured with a deposit of no less than 25% of the amount of the guarantee issued, irrespective of its tenor. Guarantees valid for more than 36 months must be secured by a deposit of no less than 50% of the amount of the guarantee issued, irrespective of the utilization of the line. Every guarantee issued above the limit of PLN 250 million will be secured with a deposit of 100% of the amount of the guarantee issued. The remaining terms and conditions of the agreement were not changed and do not deviate from those commonly applied to such agreements.
- On 26 November 2015, the Bank's Management Board was informed that the Bank Guarantee Fund passed Resolution no. 87/DGD/2015 dated 26 November 2015 based on which the Bank was obliged to make a mandatory contribution designated for paying out guaranteed funds in respect of deposits accumulated at Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin in an amount of PLN 56,975,884.30.
- On 4 December 2015, the Bank's Management Board informed of the issuance of:
  - 150,000 I-series subordinated, unsecured, dematerialized coupon bearer bonds with a par value of PLN 1,000 each and a total par value of PLN 150,000,000. The issue price of each I-series bond corresponds to its par value.
  - 33,350 I1-series subordinated, unsecured, dematerialized coupon bearer bonds with a par value of PLN 1,000 each and total par value of PLN 33,500,000. The issue price of each I1-series bond corresponds to its par value.

  The bonds were issued as part of the PLN Bond Issue Scheme of Alior Bank S.A., which was announced by the Bank in its current report no. 68/2015 of 10 August 2015. The issue was executed pursuant to Art. 33.2 of the Bonds Act of 15 January 2015. The interest rate on the bonds was set at 6M WIBOR plus a fixed margin of 3.35% and the interest will be payable semi-annually. The bonds will be redeemed at their par value on 6 December 2021.

  By resolution of the Management Board of the National Securities Deposit (Krajowy Depozyt Papierów Wartościowych S.A.) of 18 December 2015, 33,350 I1-series bonds were assimilated out of 150,000 I-series bonds. The assimilated bonds were marked with the PLALIOR00136 code. Therefore, as of 18 December 2015, 183,350 bearer bonds of the Bank are marked with the PLALIOR00136 code.

  Based on resolution no. 76/15 of the Management Board of BondSpot S.A. and resolution no. 433/2015 of the Management Board of the Warsaw Stock Exchange dated 19 January 2016, the bonds were introduced to the Alternative Trading System on the Catalyst operated in accordance with the Act on Trading in Financial Instruments by BondSpot S.A. and the Warsaw Stock Exchange. The first day of the bonds' quotation was 28 January 2016. The bonds are quoted under an abbreviated name "ALR1221".

The value of the liabilities drawn determined as at the last day of the quarter preceding by not more than 4 months the date of making the purchase proposal, i.e. 30 September 2015, was PLN 33,833,924,000. The value of overdue liabilities determined as at the last day of the quarter preceding by not more than 4 months the date of making the purchase proposal, i.e. 30 September 2015, was PLN 573,441.71. Perspectives relating to the Issuer's liabilities until the final redemption of the Bonds are as follows: the sum of the Issuer's liabilities until the redemption date will not exceed PLN 54,600,000,000.

On 29 December 2015, the Bank's Management Board received a decision from the Polish Financial Supervision Authority dated 28 December 2015 permitting including in the Tier II capital calculation the amount of PLN 183,350,000 constituting a subordinated liability in respect of issuance of I-series and I1-series subordinated bonds on 4 December 2015.

- On 28 December 2015, the Supervisory Board of the Bank granted its consent for the Management Board to set up the Public Bond Issue Scheme related to Alior Bank S.A. Subordinated Bonds denominated in PLN and authorized the Management Board to draw financial liabilities through the Bank issuing unsecured, subordinated bearer bonds with a par value of PLN 1,000 each as part of the Issue Scheme.
  - The total nominal value of the Bonds issued under the Issue Scheme shall not exceed PLN 800,000,000.
  - The Bonds will be issued and offered in series over a period not exceeding 12 months from the date of the Polish Financial Supervision Authority approving the basic prospectus prepared in connection with the Issue Scheme.
  - The maturity period of the Bonds issued under the Issue Scheme shall range from 5 to 10 years from the issuance date of a given Bond series.
  - The benefits from the Bonds will be solely monetary.
  - The Bonds shall be issued pursuant to the procedure set out in Article 33.1 of the Bonds Act.
  - The Bonds shall not have a documentary form and will be registered in the deposit of securities maintained in accordance with the provisions of the Act on Trading based on the agreement with the National Securities Deposit (Krajowy Depozyt Papierów Wartościowych S.A.) or the company referred to in Article 5.10 of the Act on Trading in an event of the National Securities Deposit entrusting to it the tasks referred to in Article 48.1.1 of the Act on Trading.
  - The issuance terms of each Bond series shall incorporate the provisions relating to qualifying them as equity funds pursuant to the provisions of the Regulation of the European Parliament and Council No. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (EU Official Journal L 176 of 27.6.2013, p. 1).
  - The Bank's Management Board will apply for admittance and introduction to trading of the Bonds on the regulated market run by the Warsaw Stock Exchange ("WSE") as part of the Catalyst system or introduction of the Bonds to trading in an alternative trading system run by the WSE or BondSpot S.A. as part of the Catalyst system.

  At the same time, the Supervisory Board of the Bank authorized the Bank's Management Board to specify the final issuance terms of the individual series of Bonds issued under the Issuance Scheme, to allot the Bonds to investors and to undertake any other actions aimed at executing the Issuance Scheme.

  The Bank's Management Board intends to apply to the Polish Financial Supervision Authority for approval of the basic prospectus prepared in connection with the public offerings and applying for admission and introduction of the Bonds issued under the Issuance Scheme to trading on the regulated market run by the WSE as part of the Catalyst system.

  The opening of the Issuance Scheme enables issuance of the individual bond series in order to ensure a safe level of the total capital ratio (TCR) in connection with the Polish Financial Supervision Authority increasing from 1 January 2016 the minimum capital requirements for banks, based on the PFSA's letter dated 22 October 2015. From 1 January 2016, according to the recommendation, banks should maintain the capital ratios on a level of at least 13.25% in the case of TCR and 10.25% for Tier 1.

Significant events after the balance sheet date

- On 26 January 2016, The PFSA made a decision permitting the acquisition of Spółdzielcza Kasa Oszczędnościowo – Kredytowa im. Stefana Kard. Wyszyńskiego in Września (“SKOK Wyszyńskiego”) by the Bank. The asset value of the acquired SKOK Wyszyńskiego is approx. 0.3% of the Bank’s asset value. The acquisition process will be carried out with financial support from the BGF pursuant to Art. 20g of the BGF Act. 27 January 2016 is the date of the Bank taking up management of SKOK Wyszyńskiego assets, and 1 March 2016 is the dated of the Bank acquiring SKOK Wyszyńskiego.
- On 4 February 2016 an issue of 10,000 unsecured, EUR001-series coupon-bearer subordinated bonds, having no form of a document, with a nominal value of EUR 1 000 each, with a total nominal value of EUR 1,000,000, took place. The issuance price of each bond is equal to its par value. The bonds will be issued under art. 33 (2) of the Bonds Act of 15 January 2015. The bonds interest rate was established based on LIBOR 6M for the 6-months Euro deposits increased by a stable margin, and the interest shall be paid in the six-month intervals. The bonds will be redeemed per their par value as at 4 February 2022. According to art. 127 of the Banking Law of 29 August 1997, the Bank will turn to for the consent the Polish Financial Supervision Authority to include the bonds to Tier II instruments, referred to in art. 63 of the CRR regulation. The register of the bonds is maintained by the Bank according to art. 8 of the Bonds Act of 15 January 2015. The register will be kept by the Bank until the redemption or purchase of the all bonds. The bonds will not be a subject of admission and introduction to any organised trading within meaning of the Act on Trading in the Financial Instruments of 29 July 2005. The value of liabilities as of the last day of the quarter preceding by no more than 4 months the offer to purchase, which is as at 30 September 2015 amounts to PLN 33,833,924.000,-. The value of the receivables overdue fixed at the last day of the quarter preceding by no more than 4 months the offer to purchase, which is as at 30 September 2015 amounts to PLN 573,441.71.The outlook of the Issuer’s liabilities until the complete redemption of the bonds is as follows: sum of the Issuer’s liabilities until the redemption day will not exceed the amount of PLN 54,716,000.000.
- On 15 February 2016 the Management Board of the Bank informed on the conclusion of an agreement for a construction loan of PLN 78,273,900 and revolving credit of PLN 5,000,000 with one of the Bank’s customer. As a result of signing the Agreement, the Bank’s total exposure to the Customer and its group entities increased to PLN 352,162,900. The agreement of the highest value was concluded with the entity which is a part of the Customer’s group on 20 November 2013 and has been repeatedly annexed. Construction loan in the amount of PLN 185M, maturing on October 10, 2016 is covered by this agreement, hence the agreement provides also for the conversion possibility of the construction loan into an investment loan in the amount of EUR 21M with a maturity date not later than 31.12.2021 r. The said loan is non- revolving facility and will be used for a financing the hotel facilities and commercial buildings. The receivable related to the granted financing was secured by i.a. mortgage, assignment of rights from insurance policy, power of attorney to bank accounts and shares pledge. The interest rate of the product offered under the agreement does not diverge from general market condtions. The remaining terms and conditions of the contract are in line with terms and conditions commonly used for this type of contracts.

0

No. 9

Zero

"IS NOTHING SOMETHING?" THE GREEK PHILOSOPHERS ASKED. ZERO WAS FIRST USED AS A NUMBER IN INDIA IN 458 A.D. ORIGINALLY MARKED AS A DOT, AND LATER AS A CIRCLE, IT WAS EXPORTED TO CHINA AND THE ARAB WORLD. THE MIDDLE EAST SCHOLARS CALLED IT SIFR, I.E. "EMPTY". IN THE MEDIEVAL ITALY SIFR CHANGED TO ZEFIRO, AND IN THE END IT EVOLVED INTO THE WORD ZERO, AND IN THIS FORM IT WAS TRANSFERRED TO THE MAJORITY OF EUROPEAN LANGUAGES. THROUGH LATIN (CIFRA) AND FRENCH (CHIFFRE) IT ALSO BECAME "CIPHER".

IX

CHAPTER IX

Report on the risk exposure of Alior Bank

IX. Report on the risk exposure of Alior Bank

Risk management is one of the key internal processes in Alior Bank S.A. The ultimate goal of the risk management policy is to ensure early recognition and appropriate management of all material risks in the Bank's operations. The Bank isolated the following types of risks resulting from the operations conducted:

- market risk, also covering the banking book interest risk, liquidity risk, foreign exchange risk and risk of commodity prices;
- credit risk;
- operational risk.

Market risk

Market risk is defined as the likelihood of the Bank incurring potential losses in the event of unfavourable changes in market prices (share prices, currency exchange rates, profitability curves), market factors (volatility in financial instrument valuations, the correlation of price changes between particular instruments), and customer behaviour (early deposit withdrawals, early loan repayments).

The process of managing market and liquidity risks is based on achieving, inter alia, the following goals:

- significantly mitigating the volatility of results and changes in the economic value of the Bank's equity;
- developing a structure of assets and liabilities (banking book) which is optimal in terms of profitability and the potential impact on the economic value;
- providing customers with core treasury products in order to help them manage the risk underlying their operations (i.e. hedging);
- guaranteeing the solvency and full availability of liquid funds at any moment and even under the assumption of the occurrence of negative market scenarios;
- ensuring that the processes applied by the Bank comply with the regulatory requirements regarding market risk management and the level of equity required for that purpose.

The market and liquidity risk management process is carried out within the framework of the Bank's relevant risk management policies covering identification, measurement, monitoring and reporting of risks. It also pertains to control over treasury transactions by determining and verifying the principles on which they are concluded, organized and assessed.

There is a clear segregation of duties, competencies and responsibilities within the individual functions, and the principles are specified in internal regulations. The key role in this respect is played by the Financial Risk Management Department (FRMD) which prepares independent cyclic reports using the risk models and measures adopted by the Bank and submits them to appropriate units, including – periodically – to members of the Management Board, Supervisory Board and ALCO. The duties of the Department include, among other things:

- defining market and liquidity risks management policies;
- analysing and reporting the Bank's risk profile;
- determining the amount of economic capital to cover the market and liquidity risks;
- recommending current activities related to managing the banking book risk;
- creating all regulations which define the process of concluding treasury transactions on the interbank market and with the Bank's customers, including developing model documentation;
- coordinating the process of introducing new Treasury products and assessing the related risk;
- supporting and servicing ALCO operations.

The Treasury Department is responsible for carrying out treasury transactions with the Bank's customers, and the Interbank Transaction Team is exclusively responsible for concluding transactions on the interbank market and for maintaining open trading book risk positions, and concluding treasury transactions on the Bank's account. The transactions may be concluded to manage trading book risk positions within the limits set up, and pursuing the Bank's policy in respect of managing the banking book risk within the limits set up.

The Operations Department is responsible for the independence of ad hoc controls of internal treasury operations, including transaction settlements. The Operations Department operates as an entity fully independent of the Treasury Department. The leak-proof and accurate supervision conducted by the Operations Department is the basis for mitigating the operating risk of the Bank's treasury operations.

Supervision over the above-mentioned entities of the Bank was separated up to the level of Management Board Member which is an additional factor guaranteeing their independent operations. The full organizational structure and segregation of competencies have been defined in detail by the Bank's Management Board in the Head Office Organizational Regulations. The Management Board, the Supervisory Board and the ALCO take an active role in managing market risks.

The Assets and Liabilities Committee (ALCO) controls market risk, including liquidity risk, on a current basis. It takes all the respective decisions, unless these were previously qualified as being within the sole competence of the Management Board or the Supervisory Board.

ALCO's duties include, among other things:

- current control over market risk management, both related to the trading and the banking book, including issuing decisions relating to the risk management of both books;
- accepting the Bank's operational limits on the monetary and capital markets;
- current control over the Bank's liquidity management, both related to the trading and the banking book;
- commissioning actions to acquire sources of financing for the Bank's operations and supervising the financing plan;
- issuing decisions on managing the model portfolios.

The Bank's basic market and liquidity risks management strategy assumptions as stipulated for a given budget year take the form of an Asset and Liability Management Policy developed annually by the FRMD and submitted by the Management Board to the Supervisory Board for acceptance as part of acceptance of the annual budget. It remains binding until a consecutive update.

The Supervisory Board exercises supervision over risk management, including, but not limited to:

- annual determination of the Bank's strategy in respect of market risk management by accepting the Asset and Liability Management Policy;
- acceptance of the Bank's market risk management strategy, including the key risk limits;
- control over compliance of the Bank's policy in respect of risk acceptance with the Bank's strategy and financial plan through a regular review of the Bank's market risk profile based on the reports received;
- recommendation of actions aimed at changing the Bank's risk profile.

Information on the nature and level of risk is submitted to the Supervisory Board by the Management Board, with the exception of the results of internal control of the market risk management system which is submitted by the Director of the Internal Audit Department.

The Bank's Management Board is responsible, among other things, for:

- supervising the market and liquidity risk management process, monitoring and reporting risks;
- determining the appropriate organization and segregation of duties in the process of concluding treasury transactions;
- accepting policies and instructions regulating market and liquidity risk management within the Bank and efficient operation of the identification systems;
- setting detailed limits for mitigating the Bank's risk and ensuring appropriate mechanisms for their monitoring and notifying cases of exceeding limits.

The Bank's market and liquidity risk exposure is officially mitigated by a system of limits which are updated periodically, introduced by resolutions of the Supervisory Board or the Management Board; the limits cover all measures of market risk whose level is monitored and reported by the Bank's organizational entities independent of the given entity's business. There are three types of limits at the Bank which differ in terms of their scope and the way they operate: basic limits, supplementary limits, and stress-test limits. Market risk management focuses on potential changes in the economic results; unquantifiable risks related to treasury operations are also mitigated through the quality requirements in force at the Bank, related to the risk management process (the internal control system, implementation of new products, analysis of legal risk, analysis of operating risk).

For market risk purposes, the Bank estimates Value-at-Risk using an analytic module of the treasury system. The Bank uses a parametric VaR model in accordance with JP Morgan methodology (RiskMetrics). The estimated 99% one-day VaR may be re-scaled to other periods by multiplying variability by a root of a multiple of the one-day period (e.g. 10-day VaR is determined by multiplying one-day VaR by √10).

The following table presents VaR (with a 10-day horizon) for the Bank (for the banking book and trading book separately) as at the end of 2015.

VaR	As at 31.12.2015
Banking book	6 361
Trading book	2 464
Total	**7 492**

Foreign exchange risk

Foreign exchange risk is defined as the risk of potential loss caused by movements in foreign exchange rates. The Bank additionally identifies the impact of foreign exchange movements on its results in the long term, which could occur in the event of converting future foreign currency income and expenses at a potentially less favourable exchange rate. The risk related to future results may be managed under the model currency portfolio.

The basic purpose of foreign exchange risk management is to identify those areas of the Bank's operations which may be exposed to foreign exchange risk, and thus to undertake to mitigate the resulting potential losses to the maximum extent. The Bank's Management Board specifies the foreign exchange risk profile, which must be consistent with the applicable financial plan of the Bank.

Under the foreign exchange risk management process, the Bank is obliged to monitor and report the amounts of all its currency positions and VaR, assessed in accordance with the adopted model, within the set limits. The Bank closes each significant currency position with a counter position on the market, thus eliminating the related foreign exchange risk. Open currency positions are maintained within the limits set by the Supervisory Board. The Bank conducts periodical analyses of potential scenarios which are aimed at providing information on the Bank's exposure to foreign exchange risk in the event of foreign exchange fluctuation shocks.

The Bank may also conduct hedging transactions in respect of future highly probable foreign exchange cash flows (e.g. cost of rent, net interest income denominated in foreign currencies). The purpose of such transactions is to limit the fluctuations of results in the current calendar year to a maximum of 60%.

The key foreign exchange risk management tools at Alior Bank include:

- internal procedures for foreign exchange risk management;
- internal models and measurements of foreign exchange risk;
- foreign exchange risk limits and threshold values;
- limitations on foreign exchange trading transactions;
- stress tests.

The basic tool for the measurement of foreign exchange risk at the Bank is the "Value at Risk" model ("VaR Model"), which enables determining the possible amount of loss stemming from the then current foreign currency positions as a result of fluctuations in foreign exchange rates, measured using an assumed confidence level and time horizons (holding period). The Bank determines VaR using the variance-covariance method and a confidence level of 99%. This amount is determined on a daily basis for particular areas responsible for accepting and managing risk, both on an individual and on an overall basis.

As at the end of December 2015, the maximum loss on the Bank's currency portfolio (managed as part of the trading book) specified in accordance with the VaR Model with a 10-day holding period could amount to PLN 106,408.93, assuming a confidence level of 99%.

	As at 31.12.2015
Holding period [days]	10
VaR [PLN]	106 408.93

VaR statistics on the Bank's currency portfolio for 2015

VaR	As at 31.12.2015
Min	18.81
Average	116.52
Max	1 277.16

The Bank's currency position and the utilization of currency limits as at 31 December 2015

Utilization of limits (in millions in the given currency)		
Currencies	Limit	Utilization
PLN (gross)	18.5	4.5
PLN (net)	9.5	3.2
Group A		
EUR	1.3	0.8
USD	2.0	0.0
CHF	0.9	0.0
GBP	0.9	0.0
Group B		
PLN (net)	2.6	-0.2
AUD	0.4	0.0
CAD	0.4	0.0
CZK	2.6	0.0
DKK	2.0	0.0
NOK	2.0	0.0
RUB	4.0	-2.0
SEK	2.0	0.0
Other	2.0	-0.1
Commodities (PLN gross)	2.0	0.0

The VaR model assumes that the distribution of changes in the values of risk factors is normal, which may in practice lead to underestimating the losses in extreme scenarios ("fat tails"). Therefore, the Bank performs stress tests.

The utilization of the stress-test limit for currency positions calculated as the maximum loss the Bank could incur in the event of the most unfavourable daily foreign exchange rate change of those which occurred within at least the last four years, totalled PLN 135,952 as at 31 December 2015.

Stress-test statistics of the currency position in 2015 is presented below.

Stress-test statistics of the currency position in 2015 (in PLN '000):

Minimum	Average	Maximum
6,88	95,85	953,41

Interest rate risk

Interest rate risk is defined as the risk of a negative impact of the levels of market interest rates on the current financial result or the net present value of the Bank's equity. As part of its policy of mitigating the trading book risk, the Bank pays particular attention to specific aspects of interest rate risk that are associated with the banking book, such as:

- repricing risk (i.e. the mismatch of the interest rate tenors of assets and liabilities);
- basis risk, which is defined as the extent to which non-parallel changes in different reference indices that have similar repricing dates can affect the Bank's income;
- modelling accounts with an unspecified maturity date or with an interest rate set by the Bank (e.g. for sight deposits);
- the impact of non-interest bearing items on the risk (e.g. capital, fixed assets).

One of methods of estimating the Bank's exposure to interest rate risk is the determination of BPV. BPV represents the estimated change in the value of a given transaction or position as a result of one basis point change at a given point of the yield curve. BPV values are measured daily for all currencies and at each point of the curve. The BPV estimates as at 31 December 2015 is presented in the tables below:

BPV as at the end of 2015 by tenor (in PLN '000):

Currency as at 31.12.2015	Up to 6 months	6 months-1 year	1 year-3 years	3-5 years	5-10 years	Total
PLN	-192.3	17.3	369.8	-140.0	30.3	85.2
EUR	-19.1	-16.2	-19.7	-13.8	-6.6	-75.4
USD	6.1	11.3	-6.2	-6.8	-0.4	4.0
CHF	0.4	-0.1	-1.4	0.0	0.0	-1.1
GBP	0.6	1.7	0.1	0.0	0.0	2.5
Other	-0.5	-1.6	0.0	0.0	0.0	-2.1
Total	**-204.8**	**12.5**	**342.6**	**-160.6**	**23.4**	**13.1**

BPV statistics for January – December 2015 (in PLN'000):

Księga	Minimum	Average	Maximum
Banking book	-511.97	-213.39	1.60
Trading book	-35.65	-8.42	38.60
ALCO	-235.41	155.36	543.18
Total	**-378.96**	**-66.44**	**249.33**

At the same time, in order to estimate the total level of the interest rate risk, the Bank applies a VaR Model as discussed above. The economic capital to cover the said type of risk measured in this manner as at the end of 2015 is shown in the table below (99% VaR assuming a holding period of 10 days, in PLN'000).

VaR	As at 31.12.2015
Banking book	6 361
Trading book*	2 464
Total	**7 492**

*VaR in the trading book includes the VaR in respect of foreign exchange risk presented above.

Book	Minimum	Average	Maximum
Banking book	2 389	7 960	13 498
Trading book	611	1 527	2 622
Total	**3 347**	**8 533**	**14 973**

For the purpose of managing interest rate risk, the Bank specifies trading operations, which cover securities and derivative contracts concluded for trading purposes, and banking operations, which cover other securities, own issues, borrowings, deposits, loans and derivative transactions used to hedge the banking book risk. The Bank also performs analyses of possible scenarios which cover, among other things, the impact of specific changes in interest rates on the future interest results and the economic value of capital. As part of these scenarios the Bank implements internal limits, the utilization of which is measured daily. Utilization of the limit for changes in the economic value of capital assuming a parallel movement of the interest rate curves of +/- 200 b.p. and non-parallel movements in scenarios of +/- 100/400 b.p. (assuming 1M/10Y tenors, and between them, the shifted linear interpolation) as at the end of December 2015 (in PLN'000) is presented below.

Scenario (1M/10Y)	Change in the economic value of capital
+400 / +100	-170 383
+100 / +400	-75 552
+200 / +200	-99 421
-200 / -200	79 039
-100 / -400	65 379
-400 / -100	78 498

The table below presents the statistics of the ratio of changes in the net interest income for 2015, for the scenarios of interest rate increases/decreases of 100 base points in annual terms (in PLN '000).

Change in the net interest income (PLN '000)		
Scenario	+100 pb	-100 pb
Minimum	-58 466	-96 873
Average	-34 814	-65 791
Maximum	-6 570	-40 003

Liquidity risk

The Bank defines liquidity risk as the risk of being unable to fulfil, on conditions favourable for the Bank and at an acceptable cost, its payment obligations resulting from all the Bank's balance sheet and off-balance sheet positions. Therefore, the Bank's liquidity risk management policy consists of maintaining its own liquidity in such a way that it is possible, at any time, to discharge all payment obligations with cash in hand, through the expected contractual inflows from transactions with specified maturity dates or by selling transferable assets and at the same time minimizing liquidity costs.

Specifically, as part of its management of liquidity risk, the Bank pursues the following goals:
- ensuring, at all times, that there is capacity to settle all obligations on a timely basis;
- maintaining basic liquidity provisions, in case the liquidity position suddenly deteriorates;
- determining the scale of liquidity risk incurred by setting internal liquidity limits;
- minimizing the risk of exceeding the defined liquidity limits;
- monitoring liquidity, so that the Bank is able to maintain liquidity and activate a relevant emergency plan when necessary;
- ensuring that the processes applied by the Bank comply with the regulatory requirements regarding liquidity risk management.

The goals set out above are pursued independently by appropriate organizational units, the competencies and responsibilities of which are clearly defined in the internal regulations. The Bank applies the following measures in the process of liquidity management:
- develops liquidity procedures and policies, including the financing plan for consecutive years of the Bank's operations;
- manages emergency plans with regard to liquidity;
- monitors liquidity limits;
- conducts periodical analyses of the categories and factors which impact the current and future liquidity levels in the form of reports.

Among the liquidity management measurements, the Bank takes into account the following ratios and the related limits for the following types of liquidity:
- financial liquidity – the ability to finance assets and discharge liabilities on a timely basis in the course of the Bank's everyday activities or in other conditions which may be anticipated, without the need to incur losses. In its liquidity management activities, the Bank specifically focuses on a vista and current (up to 7 days) liquidity analysis;
- short-term liquidity defined as the ability to discharge all monetary liabilities which mature within 30 consecutive days;
- medium-term liquidity understood as the ability to meet all liabilities which mature within 6 months;
- long-term liquidity defined as the ability to meet all monetary liabilities which mature in a period longer than 12 months.

As part of its management of liquidity risk, the Bank also carries out analyses of the maturity profile in a longer term, which to a large extent depends on the assumptions adopted in respect of the development of future cash flows related to asset and liability items. These assumptions specifically take into account:
- stability of liabilities without specified maturities (e.g. current accounts, deposit withdrawals and renewals, level of their concentration);
- option to shorten maturities of specific assets (such as mortgage loans with an early repayment option);
- option to sell assets (liquid portfolio); and they are accepted at the level of the ALCO or the Bank's Management Board.

To identify the realigned liquidity gap, the Bank uses model weights of the core deposits/loan repayments, determined based on the implemented statistical model and historical observations of balances of particular products.

The Bank maintains the liquidity buffer at a high level, investing in debt securities issued by the government and by the highest-ranking corporations, which are highly liquid, within the predefined financial limit plan. This level is controlled by the ratio of liquid assets to the deposit base which as at 31 December 2015 exceeded 15%.

Additionally, the Bank conducts liquidity stress-tests and prepares a plan for acquiring funds in emergency situations, specifies and verifies its liquid asset sale policies, taking into consideration the costs of maintaining liquidity.

In accordance with Resolution No. 386/2008 of the Polish Financial Supervision Authority dated 17 December 2008, the Bank specifies:

- the short-term liquidity gap (i.e. the minimum surplus of current liquidity) defined as the difference between the sum of the base and supplementary liquidity reserve as at the reporting date, and the value of unstable external funds. As at 31 December 2015, the surplus amounted to PLN 1,880 million;
- the ratio of coverage of non-liquid assets with own funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk to non-liquid assets;
- the ratio of coverage of non-liquid assets and assets with limited liquidity with own funds and stable external funds, calculated as the ratio of the Bank's own funds less total capital requirements relating to market risk, delivery settlement risk and counterparty risk, and stable external funds to the total of non-liquid assets and assets with limited liquidity;
- the short-term liquidity ratio defined as the total of the base and supplementary liquidity reserve as at the reporting date divided by the value of unstable external funds.

The values of the above-mentioned ratios as at 31 December 2015 were as follows: 4.72; 1.11; 1.53.

Moreover, in accordance with the requirements of the above-mentioned Resolution, the Bank performs an in-depth analysis of the stability and structure of the sources of financing, including the core deposits and concentration levels for term and current deposits. Additionally, the Bank monitors the changes in balance sheet and off-balance sheet items, in particular the amounts of projected outflows relating to guarantees granted to the customers.

On a monthly basis, the Bank also analyses the concentration of the deposit base aimed at indicating the potential risk of excessive dependency on those sources of funding which are insufficiently diversified. To assess the level of concentration, the Bank sets a HCI (High Concentration Indicator) calculated as the ratio of funds accumulated by the largest depositaries to the value of the deposit base. As at 31 December 2015, HCI amounted to 2.22%, which indicates a lack of concentration. The HCI statistics for 2015 are shown in the table below.

BPV statistics for January - December 2015 (in PLN'000):

Minimum	Average	Maximum
1.97%	3.02%	4.97%

To limit concentration risk, the Bank diversifies the structure of the deposit base into retail, business, financial customers, central and local government institutions, monitoring and reporting the share of each of the groups in the entire deposit base on a monthly basis.

In 2015 the Bank's liquidity remained at a safe level. The position was monitored and maintained at a level adequate to the Bank's needs by adjusting the deposit base and using additional sources of financing depending on the development of lending activity and other liquidity needs.

Credit risk

Managing credit risk and maintaining it at a safe level is of fundamental importance for the stability of the Bank's operations. The regulations in force at the Bank, in particular the lending methodology and models for risk assessment adapted to the customer segment, type of product and transaction, principles for determining and monitoring legal collateral for loans and monitoring and debt collection procedures are aimed at controlling credit risk. The Bank focuses on full centralization and automation of processes within the systemic infrastructure, and simultaneous use of available internal and external customer information.

The level of credit risk is limited in accordance with the restrictions following from external regulations, and internal principles set by the Bank, in particular with reference to the limits of credit exposure to one customer, a group of entities related in terms of equity or personal relationships, and particular industries.

The credit risk management system is comprehensive and integrated with the Bank's operating procedures. The basic stages of credit risk management comprise:
- identification;
- measurement;
- monitoring;
- reporting and controlling.

A process thus identified enables the Bank to proactively supervise current and potential risks and effectively apply risk steering methods and instruments.

Internal and external credit risk factors were identified in the credit risk management system and attributed to respective areas of the Bank's operations:
- Customer – each individual customer and groups of related customers are analyzed, homogenous groups of Customers are also verified in terms of the quality of portfolios set up;
- Product – all types of risk are defined which may be related to the specific product: individual loans and whole portfolios;
- Collateral – the following are verified: correctness of acceptance of collateral; its value and timeliness; accuracy of preparing the documentation for setting up the collateral and updating its value. To limit credit risk, the efficiency of implementing updated regulations for legally securing dues and applying current standards for securing the debts are monitored;
- Process and regulations – the quality and effectiveness of the crediting process, administration of crediting, monitoring, debt collection and restructuring are verified as well as cooperation with external debt-collecting agencies, and compliance with internal banking regulations which steer the processes;
- Systems – in particular, the systems supporting the lending, monitoring and debt collection processes are verified, as well as effectiveness of their application;
- Distribution channels – effectiveness and loss ratio in respect of the distribution channels operating in the Bank are checked;
- Employees – correctness of use of individually-allotted credit competences is investigated, potential irregularities which may have occurred during the lending process are detected;
- External conditions – in particular, the following are investigated: the level of interest rates; currency exchange rates; supply of cash; unemployment rate, changes on the labour market; economic conditions;
- Correctness of the credit risk management system – correctness of the adopted credit risk management policies is verified on a regular basis.

The Bank analyzes risk both on an individual and on a portfolio basis; this entails further action aimed at:
- minimizing the credit risk of individual loans at a predetermined rate of return;
- controlling the total credit risk resulting from the Bank's specific credit portfolio.

As part of the process of minimizing risk of individual exposures, each time when the Bank grants a loan or another credit product:
- it assesses the creditworthiness and credit rating of the exposure, taking into consideration, among other things, a detailed analysis of the sources of repayment;

- it assesses the collateral, including verifying their formal, legal and economic status, taking into consideration, among other things, LTV adequacy.

Additionally, as part of the procedure for strengthening risk control over individual exposures, the Bank regularly monitors customers, taking appropriate mitigating action in the event of identifying increased risk factors.

In respect of controlling the credit risk resulting from the Bank's specific credit portfolio, the Bank:
- determines and controls concentration limits;
- monitors early warning signals under the EWS system;
- regularly monitors the credit portfolio, controlling all material credit risk parameters (such as PD, LTV, CR);
- regularly performs stress tests.

Assessment of risk in the crediting system

The Bank sells credit products in accordance with the crediting methodologies appropriate for the customer segment and type of product. Assessment of a customer's creditworthiness which precedes the decision about granting a credit product is made using the following credit-process-supporting tools: scoring or rating; external information (such as CBD DZ, CBD BR, BIK, BIG databases) and the Bank's internal databases. Credit products are granted pursuant to the operational procedures in force at the Bank which indicate the appropriate actions to be taken in the crediting process, the responsible Bank units and the tools to be used.

Credit decisions are taken pursuant to the credit decision system in force at the Bank (competency levels adapted to particular customers' and transactions' risk levels).

In order to regularly assess the assumed credit risk and mitigate potential losses on credit exposures, the Bank monitors customer's position over the crediting period by identifying early warning signals and performing periodic individual credit exposure reviews.
The monitoring process ends with issuing a recommendation relating to the further Customer cooperation strategy.

Segregation duties

The Bank pursues a policy of separating the functions related to acquiring Customers and selling credit products from the functions related to risk assessment, taking credit decisions and monitoring credit exposure.

Concentration risk management

Out of concern for the stability and safety of the Bank and appropriate quality of its assets, their diversification, respective returns and appropriate equity levels, concentrations in various areas of the Bank's operations are assessed. The Bank considers excessive concentrations of items which are accompanied by credit risk or liquidity risk to be a phenomenon which will have a negative impact on the Bank's operational safety.

Management of concentration risk in the Bank's credit activities relates to risks which – among other things – result from:
- exposures to individual entities or entities related in personal or organizational terms;
- exposures to entities from the same industry, business sector, engaged in the same operations or selling similar goods;
- exposures to entities from the same voivodeship and particular countries or groups of countries;
- exposures secured with the same type of collateral or by the same collateral provider (including risk of the Bank's securing itself on securities with similar characteristics);
- exposures in the same currency;
- exposures to entities referred to in Art. 71 of the Banking Law;
- the product's datasheet;

- the Customer segment;
- the distribution channels;
- special offers and promotions;
- internal concentration.

Knowledge of the scale of potential dangers related to concentration of the Bank's exposures enables proper asset and liability management, and first and foremost, the safe structuring of the credit portfolio. To prevent unfavourable events following from excessive concentration, the Bank limits concentration risk by setting limits and using concentration standards following from external regulations and those adopted internally.

The Bank introduced:
- principles for identifying credit concentration risk areas;
- a process for determining and updating limits;
- a process for managing limits including the manner of proceeding if the allowable limit is exceeded;
- a process for monitoring concentration risk, including reporting;
- controls of concentration risk management.

In the process of determining and updating concentration limits the following are taken into account:
- reliable economic and market information relating to each of the areas in which exposure concentration occurs, in particular, macroeconomic ratios, industry ratios, information on business trends, taking into account projections of interest rates, foreign exchange rates, political risk analyses, ratings of governments and financial institutions;
- reliable information on business position of entities, industries, branches, business sectors, overall economic information, including on the economic and political position of countries, and other information necessary to assess the Bank's concentration risk;
- business and qualitative information relating to the management process within entities to which the Bank is exposed, which leads to concentration risk;
- interest rate risk, liquidity risk, operational risk and political risk related to the identified exposures, which may have an impact on an increase in concentration risk.

Provisions and write-downs

The Bank assesses all balance sheet loan exposures (groups of loan exposures in the balance sheet) in order to identify objective indications of impairment, based on the most up-do-date information possessed by the Bank as at the revaluation date. The Bank assesses off-balance sheet exposures in terms of the need to set up provisions.

Impairment is identified automatically in the Bank's central system based on the information from the system (default) or data entered by the users.

Catalogues of indications of impairment

Customer-related indications of impairment:
- Significant delays in repayment/unauthorized overdraft – this indication relates to business and individual customers; it is recognizable by the system in the event of repayment delays or unauthorized overdraft over a period of more than 90 days, if simultaneously the materiality criteria in respect of the amount due (PLN 500) is met, jointly in all the accounts which the customer owns or of which he is the co-owner, and all the accounts where the customer is the borrower/co-borrower;
- Remedial proceedings – the indication relates to business customers; it is recognized on the basis of flagging of information on a business having filed notification of the commencement of remedial proceedings with the court in the system;
- Bankruptcy/liquidation – the indication relates to business customers; it is recognized on the basis of flagging information on filing a petition for bankruptcy in the system;
- Consumer bankruptcy – the indication relates to individual customers; it is recognized on the basis of

flagging information on filing a petition for bankruptcy (consumer bankruptcy) by the borrower in the system;

- Undisclosed customer's assets – the indication relates to business and individual customers; it is recognized on the basis of flagging information on the customer providing untrue information on his assets in the system;
- Significant deterioration in the internal assessment of a scoring/rating – the indication relates to business customers; it is recognized by the system if the scoring/rating drops by at least one class (compared to that previously awarded), and at the same time is below the level accepted by the Bank;
- Significant deterioration in external rating – the indication relates to business customers and is recognized on the basis of flagging information on reducing the customer's external rating from investment to speculative grade in the system;
- Significant deterioration in the economic and financial position – the indication relates to business customers; it is recognized by the system if the assessment of the customer's economic and financial position (in accordance with the RMF classification) deteriorates by at least one category, to the level "substandard", "doubtful" or "loss";
- Demise – this indication relates to individual customers; it is recognized on the basis of flagging in the system, pursuant to confirmed information on a customer's death.
- Lack of information on the customer's place of residence – this indication relates to individual customers; it is recognized on the basis of flagging confirmed information on the absence of the residential address of the customer in the system;
- Loss of job – the indication relates to individual customers; it is recognized on the basis of flagging information on the inability to repay the debt by the customer as a result of the loss of job in the system;
- A customer's financial problems – the indication relates to individual customers; it is recognized on the basis of flagging information on the customer's financial problems (in accordance with BIK data) in the system.

Account-related indications of impairment:

- Issuing a banking executory title – the indication is recognized on the basis of introducing information on a Banking Executory Title having been issued;
- Instigating enforcement proceedings – the indication is recognized on the basis of introducing information on instigating enforcement proceedings by the Bank in the system;
- Effective termination of an agreement – the indication is recognized on the basis of introducing information on effective termination to the system, while simultaneously meeting the criterion of materiality of the amount due (PLN 500);
- Restructuring – the indication is recognized on the basis of introducing information to the system on changes in repaying the loan by the customer as a result of his problems with timely repayment in the form of an annexe to the loan agreement or an arrangement with the Bank;
- The exposure is challenged by the borrower at court – the indication is recognized on the basis of information introduced to the system on the exposure position being challenged by the Customer taking court action;
- Identified fraud – the indication is recognized on the basis of information on confirmed fraud entered to the system on the basis of a court judgement.

Indications of impairment relating to exposure to banks:

- Delay in repayment exceeding 30 days – the indication is recognized on the basis of information on repayment delays exceeding 30 days;
- Significant deterioration in external rating of the counterparty bank – the indication is recognized on the basis of information on lowering the external rating of the counterparty bank from investment to speculative class;

- Significant deterioration in external rating of the country of residence of the counterparty bank – the indication is recognized on the basis of information on lowering the external rating of the country of residence of the counterparty bank from investment to speculative class;
- Significant deterioration in the financial position of the bank/bankruptcy of the bank – the indication is recognized on the basis of information on the counterparty risk being unacceptable in the process of periodic monitoring of limits.

Indications of impairment relating to exposure to bonds:

- Absence of payments in respect of bonds – the indication is recognized on the basis of information on the absence of payments in respect of bonds specified in the Bonds issue terms and conditions;
- The issuer violating other Bond issue terms and conditions, which allows requesting early payment of the Bonds.

If an event arises which may indicate impairment and which is not included in the above list, it is possible to change the account status to default manually. This is done when information is obtained on other material events arising which could indicate impairment.

Indications of impairment of balance sheet impairment of a loan exposure (groups of loan exposures in the balance sheet) are registered in the system on the Customer's level or on the account level. Recorded indications of impairment at the level of a given account result in flagging all the accounts of the given Customer as impaired. Similarly, in the event of registering an indication of impairment at Customer level, impairment is propagated to all accounts in the Customer's portfolio. The propagation each time applies to all accounts in respect of which the Customer is the owner/co-owner or borrower/co-borrower. In respect of balance sheet loan exposures which became impaired, the Bank records impairment allowances in order to reduce their carrying amount to the present value of expected future cash flows.

Exposures with identified indications of impairment are classified into those measured on a case-by-case (individual) and on a group basis. The individual assessment applies to exposures carrying the risk of impairment (calculated at customer level) which exceed the established thresholds depending on the customer segment (see table below).

Customer segment	In PLN
	2015
Individual customer Mortgage loan	No treshold
Individual customer Other products	150 000
Business customer	500 000

Individual assessment is also applied to exposures threatened with impairment in respect of which the Bank is unable to identify the groups of assets with similar credit risk characteristics or does not have a sufficient sample for estimating group parameters.

In 2015 the Bank implemented a statistical model of the group valuation for mortgage loans of the individual customer. Implementation of the model was driven by an increasing observations ensuring a reliable estimation of the models' parameters. This model includes the Bank's empirical data on recoveries and specific nature of the given portfolio. The change included 1238 loans and caused an increase of impairment allowances of up to PLN 19.4 million.

In 2015 the Bank included the whole group of loan portfolio and loans of individual customers in the statistical model of the group valuation. At the same time the groups of homogenous loans has been distinguished considering the amount of the loan and a model parameters revaluation was made. For the given portfolio the tresholds has been abolished due to the need to optimization of the valuation process and an increasing observations ensuring to enhance the scope of statistical models. Implementation of the change resulted in drop of impairment allowances of up to PLN 4.4 million.

Individual assessment is based on an analysis of possible scenarios (business customers) or a probability tree (individual customers). Probabilities of realization and expected profits are attributed to each scenario and tree branch. For individual customers, standard event trees were developed which represent various debt collection procedures. The assumptions adopted for individual measurements are described in detail by the analysts. The amounts of recoveries expected under individual measurements are compared with the profits realized on a quarterly basis.

The group valuation is based on the period of a given exposure being in default and takes into account the specific nature of a given group in terms of the expected recoveries. Security is taken into account on the exposure level.

Exposures in respect of which no indications of impairment have been identified are grouped in keeping with the homogeneity principle in relation to the risk profile and an allowance is recorded against a group of exposures to cover losses incurred but not reported (IBNR). The IBNR amount is established based on PD and LGD parameters, and respective security (taking into account the expected recovery rates).

PD parameters are determined based on the migration matrix and the LIP (Loss Identification Period) levels adopted. The period of historical data which is the basis for assessing the PD parameter was selected so as to achieve two goals: maximize predictivity of the parameters and stability of assessments. Therefore, for most portfolios the Bank uses the 12-month period for observing the migrations between particular delay baskets and the default status to determine PD. Medium and large enterprise portfolios are an exception to this procedure because due to the smaller number of defaults the Bank uses a 24-month period. The PD parameter differs for particular portfolios and delay baskets. PD for particular overdue baskets is determined in LIP periods pursuant to the table below:

Basket/ Portfolio	Accounts/ LOR Individual Customer	Mortgage loans Individual Customer	Credit cards Individual Customer	Loans Individual Customer	Other Individual Customer	MICRO Business Customer	Other Business Customer
0 DPD	5	6	5	5	5	5	4
1-30 DPD	4	3	3	3	4	4	3
31-60 DPD	3	2	2	2	2	2	2
61-90 DPD	2	1	1	1	1	1	1

The LIP periods were determined on the basis of a quantitative analysis considering an event being an initial reason for the loss of ability to service the debt.

Collateral

Collateral is set up in an appropriate manner with reference to the credit risk incurred by the Bank and is flexible towards the customer's capabilities. Setting up the collateral does not exonerate the Bank from the duty to assess a customer's credit rating.

A loan has to be secured to ensure the Bank that the loan with the accrued interest and respective costs will be repaid if the borrower defaults on the dates determined in the loan agreement, and restructuring does not bring about the expected effects.

The Bank accepts, in particular, the following legal forms of collateral:

- Guarantees, re-guarantees and warranties;
- Account blocking;

- Registered pledges;
- Re-possession;
- Assignment of debts;
- Loan insurance;
- Bills of exchange;
- Mortgages;
- Power of attorney to bank account;
- Security deposits (as a special form of collateral).

Collateral is verified in the crediting process in terms of the legal ability to secure the Bank's interests, and its market value is assessed as well as the possibility of recovering it in the potential enforcement proceedings.

Debt collateral enables:
- reducing the amounts of impairment write-downs and allowances in accordance with IAS 39;
- applying more favourable risk weights for the purpose of calculating the capital requirement pursuant to Resolution No. 76/2010 of the Polish Financial Supervision Authority.

Managing repossessed assets

In justified cases the Bank repossesses assets put up as collateral to satisfy matured dues. Such transactions are conducted on the basis of accepted plans for managing the repossessed asset.

In 2015 Alior Bank S.A. only repossessed chattels classified to the widely meant group of vehicles in debt collection and restructuring processes. Assets repossessed in this manner were earmarked exclusively for sale and were not used for internal purposes.

The assets referred to above are repossessed both by internal services and using specialist external cooperating agents accepted by the Bank. Each repossessed chattel is valued to determine the selling price and to settle the repossession transaction with the collateralized loan by independent external experts operating under contracts concluded with the Bank.

Scoring/rating

Credit scoring is a tool which supports lending decisions in respect of individual Customers and micro-enterprises, and credit rating is an instrument supporting the decision-making process in the SME segment.

Implementation of the scoring and rating process enables:
- Controlling credit risk thanks to obtaining customer creditability;
- Standardizing the criteria for taking credit decisions in an unbiased and objective manner;
- Shortening the period necessary to take credit decisions and guaranteeing higher effectiveness of credit application assessments (increasing efficiency of work and reducing processing costs);
- Simplifying assessment of credit applications as result of automating the process;
- Customer segmentation in terms of risk;
- Monitoring and forecasting the quality of the credit portfolio;
- Facilitating assessment of the credit policy to-date and faster introduction of changes to decision-making processes used to assess credit risk relating to business and individual customers.

The Bank regularly monitors the correctness of operation of the scoring and rating models. This is done to determine whether the models used correctly diversify risks, and risk parameter assessments correctly reflect appropriate risk aspects. Additionally, functional controls verify correctness of the application of the models in the crediting process.

Currently applied scoring models were developed internally by the Bank. To reinforce risk management of the models operating within the Bank a new team was appointed which performs the function of an independent validation unit. Additionally, a Scoring and Rating Model Validation Committee operates within the Bank which supervises periodic monitoring of all scoring and rating models, which includes giving recommendations and approving periodic monitoring results.

The results of applying the scoring model are as follows:
- The value of the decision score of a given customer/application;
- Scoring class with intrinsic PD;
- Scoring recommendation to the credit application in the form of: “Approval” or “Rejection”.

The type of model used to assess individual customers depends on the type and specific nature of the credit product which is being applied for, the credit history and history of cooperation with the Bank. The score has an impact on the amount of the standard cost of risk accruing to a given transaction.

Monitoring credit risk of individual and business customers

The following actions ensure constant protection of the quality of the credit portfolio:
- on-going monitoring of the timely servicing of loans;
- periodic reviews, in particular of the financial and economic position of the customers and the value of accepted collateral.

Monitoring individual customers may be divided into the following areas:
- customer;
- credit products granted to the debtor;
- agreements which were the source of the credit exposure;
- accepted collateral;
- amounts of impairment losses and allowances.

Monitoring business customers relate mainly to:
- the customer and its related entities;
- the industry in which the customer operates;
- the credit products granted to the debtor;
- verification of the Customer meeting the contractual provisions included in the agreement which led to the credit exposure;
- collateral accepted (verification of establishment and value of collateral);
- market conditions which have an impact on the customer’s creditworthiness;
- amounts of impairment losses and allowances.

All credit exposures in the business customer segment are additionally covered by portfolio monitoring, i.e.:
– assessment on the basis of a dedicated model of behaviour; and
– early warning signal identification process.

All credit exposures of individual and business customers are monitored and classified to appropriate process paths on an on-going basis. To improve monitoring and operational risk control adequate solutions were implemented in the Bank’s credit systems. Systemic tools were consolidated to effectively perform monitoring procedures which cover all accounts.

Exposures classified as standard and irregular, which could lead to intensification of actions at the stage of pre-enforcement or debt collection procedures are regularly monitored. Accounts are assessed on terms of restructuring debt to minimize the Bank’s losses on default exposures.

Applying *forbearance* practices

In the restructuring process of a Retail Customer the Bank uses the following tools:
- Extending the lending period. Extending the lending period leads to a reduction in monthly principal and interest instalments, and cannot exceed 120 months (for unsecured products), irrespective of the initial lending period. If under the restructuring process the lending period is extended on a one-off basis to the maximum period, the tool cannot be used again in the future. When the lending period is extended, restrictions following from the product statement, such as the age of the borrower, are taken into account.

- Granting a payment grace period (the whole or part of the instalment). In the grace period for the payment of capital and interest instalments the borrower is not obliged to make any payments in respect of the contract concluded. The loan repayment period may be extended by the number of months of the grace period granted (this is not identical to applying the tool which extends the lending period). The grace period for a full instalment is applied for up to 3 months, the grace period for the principal part of the instalment cannot exceed 6 months. The maximum total grace period may amount to 6 months during 2 consecutive years (24 months), as of the date of signing the restructuring annex;
- Consolidation of several liabilities to Alior Bank, including change in the LOR debit limit /unauthorized ROR debit/consumer loan, to an instalment loan. The effect of consolidation is the transformation of several dues resulting from different contracts into one due. The product initiated as a result of the consolidation is paid back in monthly instalments on the basis of a predefined time schedule. The parameters of the product initiated as a result of applying the given tool have to be compliant with the Product Statement: cash loan/consolidation loan.

In particularly justified situations other tools may be used.

In the restructuring process of a Business Customer no restrictions were introduced relating to the forms of forbearance practices applied. Due to the specific nature of the customers, the most frequently used tools are:
- Arrangement through a change in the time schedule for matured exposures (after maturity or termination notice). It consists of transferring the debt from one or more exposures to a non-renewable account with possible time schedule options: settlement of the whole debt on an accrual basis, or settling part of the debt on an accrual basis, and part as a payment at the end of the period.
- An annexe reducing the limit in renewable loans. This consists of systematic reduction in the credit limit (most often on a monthly basis) by the amount specified in the annex.
- The annexe changing the terms and conditions relating to the deadline for payment /amount of instalment or grace period for the principal /interest.

Monitoring of the risk relating to *forbearance* practices

Reporting the quality of a restructured loan portfolio covers reporting at the level of particular overdue period brackets at which the restructuring decision was taken, and at the aggregate level. The base reporting period is a calendar month. In such breakdown the following subprocesses may be identified to which the presented amounts refer:
- The application process (number of applications, number of decisions issued, types of decisions);
- Quality of the loan portfolio (break-down into particular overdue levels, forms of restructuring, application of overrides);
- Measure of overdue period exceeding 90 days on restructured accounts in consecutive quarters, according to the balances as at the end of consecutive quarters after restructuring.

The results of the above monitoring of the restructured portfolio are shown in the monthly presentations for the Management Board.

The following risks relate to the application of forbearance tools by the Bank:
- Risk of lack/discontinuation of payments;
- Risk of loss of collateral (in particular chattels) or a significant reduction of its value.
- Risk of bankruptcy.

The Bank mitigates the above risks mainly through the Customer analysis, both in terms of financial possibilities and the history of cooperation with the Customer, information from site visits and other sources. Collateral may be used and exposure may thus be reduced before the forbearance tools are used. Using forbearance tools the Bank makes efforts to additionally insure the exposure to the largest possible extent (mortgage, warranties, pledges). Each Customer in respect of whom forbearance tools are used has an allocated care person from the Debt Collection Team who monitors the customer on an on-going basis in respect of delays, so as to react dynamically to any negative premises as they appear. Customers are obliged to cyclically update inventory balances in the event of pledges on inventories or to update their policies. In justified cases the Bank uses on-Site Collection – one of its functions is checking the collateral.

Assessment of impairment for exposures subject to *forbearance* practices

In respect of forbearance practices the Bank adopts more stringent criteria for impairment identification. Apart from the standard catalogue of premises additional criteria are used in respect of these exposures, defined as forbearance granted to a customer upon one of the following situations arising:

- A delay exceeding 30 days;
- Another premise of impairment;
- An analyst's assessment of the timeliness of servicing a debt being at risk (in respect of Retail Customers);
- Assessment of the economic and financial position as Substandard or worse (in respect of Business Customers).

For those exposures, impairment is determined on the basis of an individual scenario analysis based on historical behaviours of similar Customers and features specific for the given Customer. The Bank discounts the expected cash flows using the effective interest rate before applying the forbearance practices.

In 2014 the Bank implemented a mechanism for marking entry to the forbearance status and exiting it in accordance with the provisions of the "EBA FINAL draft Implementing Technical Standards on Supervisory reporting on forbearance and non-performing exposures under article 99(4) of Regulation (EU) No 575/2013". The introduced changes had no impact on the manner of identifying impairment or the terms and conditions for reversing losses.

The Bank does not differentiate its approach to recognizing impairment depending on the type of facilitation granted to the customer. All types of facilitations are subject to additional more stringent criteria for identifying impairment.

Operational risk

The purpose of managing the Bank's operational risk is to minimize its operational risk exposure which indicates the possibility of loss resulting from non-compliance or the unreliability of internal processes, people, systems, or external threats.

The Bank has a formalized operational risk management system according to which it counteracts operational events and incidents and mitigates losses if the risk materializes. The principles and structure of operational risk management at Alior Bank are based on the Banking Law, the provisions of resolutions and recommendations issued by the Polish Financial Supervision Authority and the Bank's Operational Risk Management Policy approved by the Management Board and the Supervisory Board.

In its Operational Risk Management Policy the Bank specified – among other things – the operational risk management strategy, which covers:

- identification;
- assessment and measurement;
- counteracting;
- controlling;
- monitoring; and
- reporting operational risk.

The following operate under the Bank's risk operational management system: the Supervisory Board, the Management Board and the Operational Risk Committee.

The Management Board, which participates in Alior Bank's risk operational management process, is responsible for the correct functioning of the operational risk management and control processes, and specifically supports the process:

- by accepting the Bank's policy in this respect;
- by determining competences and the segregation of duties in the operational risk management process;

- by appointing and approving the composition of the Operational Risk Committee;
- by approving the level of internal operational risk limits and operational risk appetite;
- by conducting regular assessment of the operational risk management process and the level of use of internal operational risk limits and operational risk appetite;
- by creating and developing an organizational structure in the area of effective operational risk management.

The Supervisory Board supervises the adopted strategy with reference to operational risk, which, among other things:
- approves the Management Board's competencies necessary to manage operational risk;
- approves the Policy specifying the operational risk management policies;
- approves and assesses the pursuit of operational risk management strategy and – if necessary – orders that it be revised;
- periodically assesses the level of risk on the basis of information submitted by the Bank's Management Board and Operating Risk Committee;
- recommends actions to be taken to mitigate risk or change the operational risk profile of the Bank.

The Operational Risk Committee advises and supports the Management Board in effective risk management. The Operational Risk Committee monitors the level of exposure to operational risk on a current basis and assesses the current operational risk position at Bank level. It also participates in the operational risk management process, among other things, by:
- assessing the operational risk of the Bank's projects;
- approving or recommending changes in business continuity plans;
- determining the scope of self-assessment of operational risk by the Bank;
- approving assumptions for conducting stress tests in respect of operational risk and their results.

It also issues the necessary recommendations and decisions to counteract operational issues, and if such are identified, mitigates their effects.

The process of mitigating operational risk is one of the most important elements of operational risk management as the decisions regarding the mitigation of this risk have a direct impact on its profile. Based on the recommendations of the Operational Risk Committee regarding the Bank's operating areas especially exposed to operational threats, the Bank's Management Board takes decisions on the Bank's further actions aimed at mitigating or accepting the operational risk, or on the discontinuation of operations which are exposed to operational risk. The Management Board may decide to insure the identified operational risk.

The Operational Risk Strategy Department is responsible for on-going control and monitoring of operational risk. This entity is also responsible for:
- developing and implementing appropriate operational risk methodologies and controls;
- giving opinions on and consulting the assessment of operational risk of the Bank's projects, products and procedures (new and modified);
- monitoring the level of use of internal operational risk limits and operational risk appetite;
- accumulating high quality data on events and operational results;
- monitoring internal and external events;
- monitoring the level of the Bank's risk using the tools used by the Bank, such as the level of key risk indices (KRI) and self-assessment;
- preparing cyclic reports relating to the operational risk level at the Bank.

The duty to monitor and mitigate operational risk in day-to-day activities relates to all the employees and organizational entities of the Bank. The Bank's employees control the risk level on a current basis in respect of the processes for which they are responsible, and actively minimize the risk exposure, taking action to avoid/limit operating losses. They are responsible for current registration of events and financial operational effects relating to their areas of operation, they define and report the Key Risk Indicator (KRI) levels and the level of tolerance for processes especially exposed to operational risk, they also participate in the self-assessment process commissioned by the Operational Risk Committee.

Recording events/incidents and operating losses

The Bank records the events, incidents and operational effects, which enables it to effectively analyse and monitor operational risks in accordance with the internal instruction specifying the recording principles. The records are maintained using the OpRisk system which supports operational risk management and which enables registering, analysing and monitoring data.

In 2015 gross operational losses amounted in total to PLN 15 942 thousand. Compared with 2014 the value of gross operational losses increased by PLN 11 315 thousand. In 2015 the amount of recoveries/ operating income on operational risk amounted to PLN 8 688 thousand compared with PLN 629 thousand in 2014.

Capital management (ICAAP)

Alior Bank manages capital in a manner enabling safe and at the same time effective functioning.

To ensure the security of operations, the Bank defines, within the scope of its risk appetite, appropriate levels of offset of potential unexpected losses in respect of material risks identified under the ICAAP process and risks under the regulatory capital calculation procedures by available capital (and Tier 1 capital).

Under the ICAAP process the Bank identifies and assesses the materiality of all types of risks to which it is exposed in connection with its operations.

Material risks as at 31.12.2015 r.	
1. Credit risk – insolvency	7. Interest rate risk in the Banking Book
2. Credit risk – industry concentration	8. Market risk
3. Credit risk – Customer concentration	9. Model risk
4. Credit risk – currency concentration	10. Reputation risk
5. Operational risk	11. Business risk
6. Liquidity risk	

The Bank assesses internal capital using external risk assessment models for particular risks identified as material for the Bank. Internal capital is assessed in respect of:

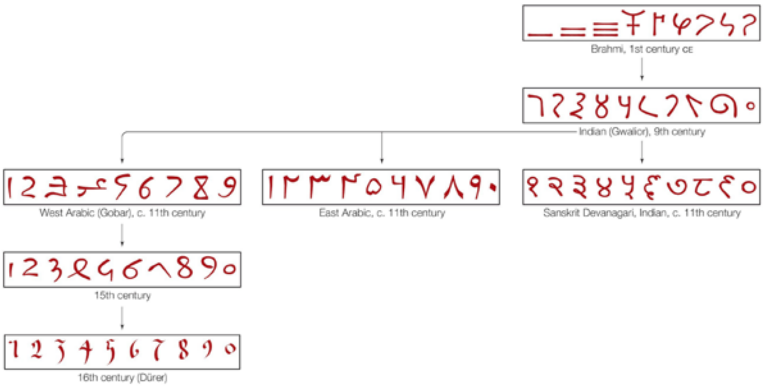
- na risk based on the CreditRisk+ methodology as 99.95 quantile of the distribution of losses on the credit portfolio;
- market risk and interest rate risk in respect of the banking book, based on the VaR methodology;
- liquidity risk based on the liquidity gap model on the assumption of stress conditions;
- operational risk based on the composition model of frequency and amount of loss;
- reputation risk based on the composition model of frequency and amount of loss.

The total designated internal capital and the calculated regulatory capital are secured by the value of available capital (and Tier 1) in consideration of appropriate safety buffers.

Capital ratios of the Bank's Group as at 31.12.2015		
Capital adequacy ratio	Tier1 ratio	Ratio of offsetting internal capital by available capital
12.54%	9.69%	2.01

Considering the need to secure sustainable growth of its scale of operations, the Bank will expand the available capital base using various channels, i.e. reinvesting profits, issuing subordinated debt, and issuing new shares on the stock exchange.

The Bank's available capital base is expanded while ensuring operating effectiveness, that is realizing the stipulated return on the capital entrusted by shareholders.



No. 10

"Arabic" or arabic numerals?

IF THE NUMERALS WE USE ARE CALLED "ARABIC", WHY THE NUMBERS IN ARABIC SCRIPT LOOK DIFFERENT? THEIR GENESIS IS THE SAME – BOTH CAME FROM INDIA. THE EUROPEANS ADAPTED THE WEST ARAB VERSION, WHEREAS IN THE COUNTRIES USING THE ARABIC ALPHABET THE NUMERALS REMAINED CLOSER TO THE INDIAN ORIGINALS. TO SUM UP: THE NUMERALS WE USE ARE "ARABIC" AND NOT ARABIC. AS SIMPLE AS 2+2.

X

CHAPTER X

Contingent liabilities

X. Contingent liabilities

The Group grants contingent liabilities to its individual customers in respect of renewable limits in checking (ROR) accounts. These liabilities are granted for an unspecified period, but at the same time, the adequacy of inflows of funds to the accounts is monitored.

Contingent liabilities for business customers include:

- current account limits (for a period of 12 months);
- guarantees, mainly for a period of 6 years;
- credit cards for an unspecified period (with simultaneous monitoring of adequacy of cash inflows and portfolio or individual monitoring);
- guarantee limits;
- loans launched in tranches for a period of up to 2 years.

The amounts of guarantees shown in the table below reflect the maximum loss which may be incurred and which would be disclosed as at the balance sheet date if the customers defaulted on all their liabilities.

As at 31.12.2015 the number of active guarantees granted by Alior Bank was 2,585 amounting to PLN 1,569,922 thousand.

The Bank ensures to maintain a correct timing structure of the guarantees issued. Active guarantees with maturity shorter than two years (of 744) amount to PLN 531,976 thousand.

Off-balance sheet liabilities granted (in PLN'000)

Off-balance sheet contingent liabilities granted to Customers	as at 31.12.2015	as at 31.12.2014
Off-balance sheet liabilities granted	8 941 675	7 786 373
Relating to financing	7 371 753	6 246 398
Guarantees	1 569 922	1 539 975

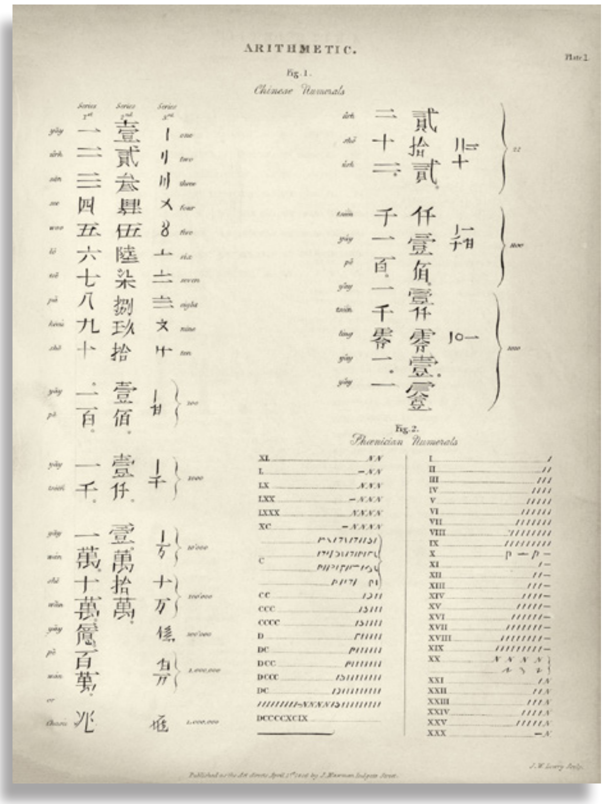
Off-balance sheet contingent liabilities granted to Customers – by Customer

by Customer	as at 31.12.2015
entity 1	239 114
entity 2	101 000
entity 3	88 800
entity 4	82 966
entity 5	63 843
entity 6	60 000
entity 7	50 000
entity 8	50 000
entity 9	44 693
entity 10	32 174
Other	757 332

Off-balance sheet contingent liabilities granted to Customers – by type

by type	as at 31.12.2015
credit lines	7 149 114
import letters of credit	33 796
loan promises	188 843
guarantees	1 569 922
Total	**8 941 675**

The Bank was not a warrantor or guarantor of any bonds in 2015 (there were no off-balance sheet liabilities in respect of bonds).



No. 11

The Chinese banker's numbers

THE CHINESE HAVE MORE THAN ONE SYSTEM OF WRITING NUMBERS. THE CHARACTERS USED IN EVERYDAY TEXTS CAN'T BE USED IN FINANCIAL DOCUMENTS. THE SHAPE OF "EVERYDAY" CHARACTERS IS SIMPLE, SO THEY CAN BE EASILY FORGED – E.G. A FEW SIMPLE STROKES CHANGE 30 TO 5000. THAT IS WHY THE MORE SOPHISTICATED, ANTI-FORGERY VERSION OF THE NUMERALS IS CALLED "BANKER'S NUMBERS".

XI

CHAPTER XI

Internal control system

XI. Internal control system

Alior Bank S.A. has an internal control system which comprises all the control processes that support management. The aim of the system is to ensure the effectiveness of the bank's operations, the reliability of financial reporting, compliance with the risk management policies and with the law, internal regulations and market standards.

Alior Bank's internal controls comprise the control function, the compliance function and an independent internal audit function.

The internal audit function is responsible for providing objective information and assessments relating to the management process, controls, compliance with generally binding legal provisions, best practices and standards, and the bank's internal regulations, supporting the process of the bank's management by recognizing and assessing significant risk exposures and contributing to improving the risk management and control system.

The control function enables achieving the required quality and correctness of the actions performed, eliminates potential irregularities, minimizes risk, thus ensuring safe operation of the Bank. the control function covers all the solutions adopted by the Bank in respect of its organizational structure, internal procedures, documentation of IT systems, documentation of financial and business transactions, and functional controls.

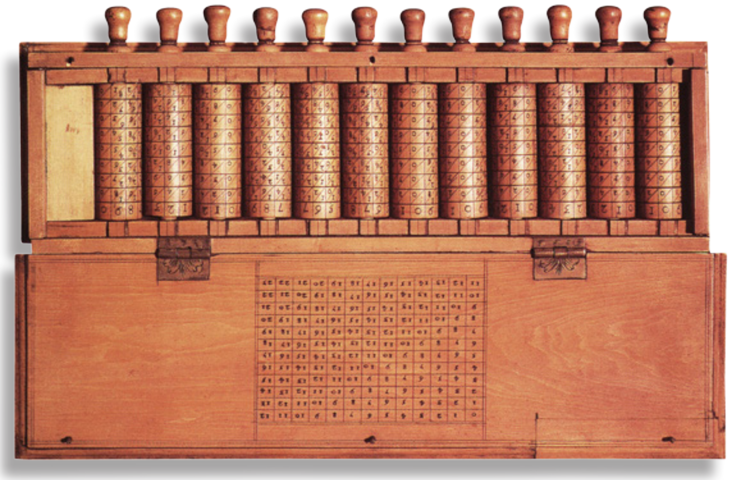
The organizational structure creates a framework for the control function by segregating duties and responsibilities, ensuring organizational independence of the functions responsible for operations from those responsible for controlling those operations, attributing responsibilities for decision-making to appropriate competency levels and to collective bodies. Internal procedures and documentation of the IT system document the course of the processes enabling their analysis and designing an appropriate control function. The functional controls cover all management levels and every employee, all organizational units and all areas of the Bank's operations. They consist of regular analysis of the course and results of work of particular employees and teams. The functional controls are performed in the form of self-control, vertical and horizontal functional control and the automatic performance of processes executed by the IT systems.

Compliance risk management

Compliance risk management is aimed at minimizing the risk of incurring legal sanctions, financial losses or losing reputation or reliability due to the failure of the Bank, entities acting on its behalf (including subsidiaries) or its employees to comply with the provisions of the law, regulatory requirements, internal regulations and standards adopted by the Bank, including ethical standards. The Compliance Department ensures proper compliance risk management, in particular:

- it identifies and analyses on an on-going basis the key compliance risk areas of the Bank's operations;
- it monitors legislative changes and regulator moves, as well as court and administrative authorities' decisions, and notifies appropriate organizational entities of the Bank of compliance risk or reputation risk;
- it supports the Bank's organizational entities in the process of developing internal regulations and adapting them to the binding legal regulations and regulatory requirements, and ensures the consistency of internal regulations, their compliance with the legal regulations, requirements of the supervisory authorities and best market practices;
- it analyses the Bank's operations in terms of compliance risk on an on-going basis, including in particular in respect of developing new business models, creating and offering new products and services, as well as in terms of relationships with customers, cooperation with whom could expose the Bank to reputation risk;
- it prepares or consults responses to regulators' questions and complaints;
- it gives its opinions on the Bank's promotional and advertising materials;

- it sets standards in the area of ethical conduct of the Bank's employees and supervises compliance with them. It coordinates proceedings in respect of notifications of violations of the law and of ethical conduct;
- it manages the Bank's policy in respect of conflicts of interest and accepting and offering gifts;
- it develops training programs and conducts compliance training for the Bank's employees;
- it ensures, jointly with the Security and Electronic Security Department, the Bank's compliance with the personal data protection regulations;
- it monitors exercising the Bank's corporate governance policy over subsidiaries.



No. 12

Napier's bones

WE OWE THE WAY WE WRITE DECIMAL FRACTIONS TO JOHN NAPIER, A SCOTTISH MATHEMATICIAN WHO LIVED IN THE SHAKESPEARE'S TIMES. THUS WE CAN WRITE EIGHT AND A HALF AS 8.5, ALTHOUGH IN SOME COUNTRIES THE DOT IS REPLACED BY A COMMA. NAPIER ALSO DISCOVERED LOGARITHMS. THERE IS CERTAINLY NO NEED TO CITE THE DEFINITION OF A LOGARITHM HERE. BUT IT MAY BE WORTH MENTIONING THAT THE FIRST DEVICE FOR COUNTING LOGARITHMS WAS ALSO INVENTED BY NAPIER. “NAPIER'S BONES” WERE, ACTUALLY, THE FIRST SLIDE RULE.

XII

CHAPTER XII

Corporate social responsibility

XII. Corporate social responsibility

Relations with customers

Alior Bank plays a key role on the banking market in terms of maintaining and promoting high service quality standards, as confirmed by various awards and distinctions. From the beginning of its existence Alior Bank has been an organization focused on customer needs, providing beneficial advice and tailoring products to customer needs.

The Bank analyses the needs of its stakeholders on an on-going basis, and flexibly tailors its strategy to market conditions, both in terms of the product offer, distribution network, employing experts and the service process.

Relations with employees

To promote good employee relations Alior Bank is implementing a new HR strategy which accounts for the specific nature of a large and dynamic organization. The adopted formula stipulates active support in achieving common business goals through activities aimed at improving employee experiences throughout the employment cycle, and forming an organizational structure which supports the transformation process. The initiatives taken in 2015 were focused on building the best job offer in the banking industry, responsible human resource management during the restructuring related to the merger with Meritum Bank, establishing a new development model for all the Bank's employees and improving the efficiency of internal communication in respect of the offer for employees.

In 2015, being concerned about the good experiences of candidates for jobs with Alior Bank, we implemented a standard recruitment and offer system which ensure a unique experience even before taking up a job. The adopted operating model stipulates that the candidates receive comprehensive and complete information about the Bank, its organizational structure and specific characteristics of the work in a selected position, which enables taking an intentional decision about cooperation and translates positively into the dedication of newly-hired employees.

New employees are included in a specially prepared program aimed at ensuring their effective introduction to work. Additionally, each employee in a branch is assigned a coach from among other employees, who supports him and enables him to quickly learn and understand his responsibilities. Such a model not only translates into the effectiveness of a professional, but also of the whole organization, ensuring the highest quality of services for the Customer.

Alior Bank employees may specialize in a given area or manage teams, developing managerial skills. A management system and the implemented new development program enables the effective directing of professionals and allows them to dynamically develop their careers. We make a range of training programs, both external and internal, available to employees. The offer comprises product, sales and quality service, interpersonal skills and management training. In autumn 2015 Alior Bank launched a special program addressed to management. The eighteen-month intensive Advanced Management Program was organized jointly with the Spanish IESE Business School, one of the best business schools in the world. Additionally, a program called "Share your knowledge" is operating at the Bank's Head Offices. The program allows the employees to propose and independently develop technical skills training in the areas in which they specialize. Each department also has an executive funds pool for employee training.

Alior Bank enables employees to influence the firm in real terms, both on a small and on a large scale. The new project in the form of the Innovation Lab Department enables all Alior Bank employees to notify and bring to life their own innovative business ideas relating to the customer offer. Thus the Bank strengthens its position as an organization which facilitates professionals participation in new projects, and cooperation in implementing innovations, which are their own initiative. On a smaller scale – we have organized a competition entitled “Design your space” in which particular teams may propose their ideas for adapting the office space and facilities in their immediate surroundings. The best ideas were carried out, which to a large degree translated into employee satisfaction and their everyday involvement in subsequent projects.

The merger with Meritum Bank in 2015 was an important event in the history of Alior Bank. After the merger was finalized in legal and formal terms in July 2015, we began actions aimed at integrating the staff of the merged Bank. Apart from organizing integration events under the motto “One bank—from the mountains to the sea” (“Jeden Bank od gór do morza”), we covered all of the employees who joined us from Meritum Bank with most of the non-remuneration benefits and trainings available at Alior Bank.

The merger with Meritum Bank also constitutes another challenge, i.e. optimization of employment in the target structure of the merged Bank. From the point of view of employee relations, this necessitated responsible restructuring. Persons not covered by voluntary redundancy programs and group layoffs were offered benefits higher than the statutory ones, and additionally we took care of those who were in a particularly difficult position (e.g. in the event of the need to lay off both spouses, single parents and parents of handicapped children). In the negotiated agreement with employee organizations we showed openness and a good understanding of the positions of particular employees resulting from the merger, and we made every effort to ensure that our offer has no negative impact on their professional position.

The internal audit “Changes under Scrutiny” (“Zmiany pod Lupą”) performed in November 2015 was an element of the dialogue which was to help build relations with employees after the merger with Meritum Bank. The purpose of the audit was to draw conclusions from the actions to-date and obtain recommendations from the employees themselves in order to optimize the potential future change process. The conclusions from the process will allow us to shape the human resources policy and relations with employees both on a local and on the overall bank level.

Employee benefits offered by Alior Bank in 2015 focused on three pillars: supporting employee families, promoting sports and inspiring women’s professional development.

During vacations we invited children of Head Office employees in Warsaw, Kraków and Gdańsk, aged 5–12, to summer play centres. As a result, their parents had more comfort at work, which contributed to the effective use of the working hours. Support for parents employed with Alior Bank included books and stationery for children beginning education in the first and second classes of elementary school. Sumptuous sets of stationery and school books and utensils constituted true financial support for employees raising children and allowed them to save on those purchases. In September 2015 in five locations (Gdańsk, Kraków, Poznań, Warsaw, Wrocław) we held picnics to which Alior Bank employees with their families were invited. The picnics were a great occasion for acquainting ourselves better and for team integration, which also related to employees from the dispersed sales network of Alior Bank. All Alior Bank employees who have children may also order Christmas presents for their children from a wide range of educational and creative toys, or sports equipment. The offer enabled the parents to save both money and time looking for an attractive gift.

In the Head Offices of Alior Bank in Warsaw, Kraków and Gdańsk we additionally organized Christmas workshops, and particular teams also met for Christmas Eve meetings during office hours, which were held to integrate employees. This was a chance to get better acquainted in a friendly holiday atmosphere.

Alior Bank supports sports initiatives of employees. Ten sports sections operate within the Bank: running, yoga, basketball, football, netball, sailing, squash, snooker, golf and tourist. Groups of employees in each section are committed to actively engaging in sports in the given discipline and promote it before a wider audience by actively participating in exercises, competitions, and business leagues.

In September 2015, Alior Bank also started a career development program addressed to women. The initiative pursued as an element of diversity management policy is to facilitate sharing experiences and transferring knowledge among the Bank’s employees. The superior purpose of the program is to build the Bank’s organizational structure, in which women will be able to fully use their potential.

The starting point to planning all employee relation initiatives is the observation that employment with Alior Bank is one of several elements comprising their everyday life. The personal needs of our employees are no less important to them during office hours; therefore, we wish to respond to them and propose solutions which facilitate the organization of everyday functioning. Such an approach leads to improving comfort at work and translates into effectiveness in performing tasks.

Educational, cultural and charity activities

Alior Bank is a socially responsible corporation and as such for many years it has supported local communities undertaking many initiatives. Such activities are aimed not only at aiding the completion of various programs, but also spreading knowledge on corporate social responsibility and sustainable growth among employees, customers, business partners and the Bank's shareholders. What is important is that employees more and more often propose their own projects which in their opinion are important and reflect the values represented by the Bank. Moreover, year on year, an increasing number of internal initiatives combine with external actions.

In March 2015, Alior Bank supported the action "Czytam w podróży ... Herberta" ("During trips I read... Herbert") aimed at promoting reading and promulgating the works of one of the most outstanding Polish poets of the 20th century. As part of cooperation with the Zbigniew Herbert Foundation the Bank's employees participated in the initiative promoting the poet's works by giving customers bookmarks showing his works and encouraging them to read when travelling to school, work or holiday.

Alior Bank sponsored the first edition of the Festival "Szczebrzeszyn – Stolica języka polskiego" ("Szczebrzeszyn – capital of the Polish language") which took place in August 2015. This is an extraordinary literary and linguistic event organized in cooperation with the Ministry of Culture and national Heritage, the National Culture Centre and local culture and art centres. The purpose of the initiative is to promote Polish classic and contemporary literature as an important element of social and national identity. Alior Bank also sponsored a concert by Stanisława Celińska.

In 2015 Alior Bank was the sponsor of the Christmas illumination of one of Warsaw's main streets, Nowy Świat. The Bank took care to exceptionally arrange the lighting on this representative street. This allowed Warsaw residents to walk along the remarkably decorated Nowy Świat enjoying the view until the end of February. It is worth mentioning that to light up ul. Nowy Świat energy-efficient lighting was used – the ECO-LED lights, which use 10 times less power than the traditional light bulbs.

At Christmas Alior Bank also organized a charity event "Podaruj świąteczny prezent" ("Christmas Gift"). The event stipulated lighting 25 000 lights on the Bank's electronic Christmas tree which enabled supporting five selected childcare centres in Gdańsk, Kraków, Krasnystaw, Szczecin and Warsaw with PLN 25,000.

Sponsoring activities

Alior Bank as the official sponsor of the Polish Football Representation continues cooperation with the Polish Football Association. Already more than 21 thousand fans have the Karta Kibica fan cards issued by the Bank. The cards are identity badges and replace the traditional paper tickets to matches, as well as being pre-paid payment cards. This is a key element linked to the multimedia platform "Łączy nas piłka" ("Connected by football"), of which Alior Bank is also an official partner.

In 2015 Alior Bank also sponsored prestigious golf tournaments which took place in Sobienie Królewskie and Rajszew. The best players associated in the Sobienie Królewskie Golf & Country Club and in First Warsaw Golf club took part in the tournament.

Prizes and awards

In 2015 Alior Bank S.A. gained several prizes and awards. The main ones comprise:

- **an award for Alior Bank in the "Złoty Bankier 2014" rating**. For the third year in a row Alior Bank triumphed in the category "Best Cash Loan".;
- **"Najlepszy Bank 2015" (best bank) title in the category "Medium-Sized Commercial Bank"** in the competition organized by the "Gazeta Bankowa" paper. The jury appreciated Alior Bank's effective business strategy and dynamic development on the market;
- **3 awards for Alior Bank in the "Gwiazdy Bankowości 2014" (banking stars) ranking** by "Dziennik Gazeta Prawna" paper in cooperation with PwC. Alior Bank received the main prize awarded for overall business activity. The jury also ranked the Bank second in the category "Innovation" and "Pace of development";
- the title **"Najszybciej rozwijający się bank 2014"** for the fastest growing bank in 2014 in the competition "Liderzy Świata Bankowości" ("Banking World Leaders") organized as part of the Banking Forum, one of the key events in the banking and financial sector. The jury awarded Alior Bank for maintaining the leader bank position in terms of the rate of acquiring new customers;
- the titles **"Created in Poland Superbrands 2015/16" and "Business Superbrands 2015/16"**. These awards are granted by the Superbrands organization to the strongest consumer and business brands on the Polish market;
- the title **"Best European Retail Bank in 2015"** awarded in the international competition organized by "Retail Banker International" for retail banks. Alior Bank received this prestigious title for the second year in a row;
- **third place in the "Best bank for firms" ranking**, organized by the "Forbes" monthly and Millward Brown research and polls company. Alior Bank ranked first in the loans, mobile banking and versatility of offer for small and medium enterprises categories;
- award in **"The Champ Awards"** organized by the sports marketing agency ABK Sport. Alior Bank, the official sponsor of the Polish Football Representation, received the highest award in the category "Exceptional contribution to Polish sports";
- two main prizes and three awards for Alior Bank employees in the **"Polish National Sales Awards"** competition, the most important event on the Polish market dedicated to representatives of sales departments.

No. 13

Pascalina

IN 1642 A 19-YEAR OLD FRENCHMAN BUILT A MACHINE THAT WOULD HELP HIS FATHER IN PREPARING PAINSTAKING TAX REPORTS. THE MACHINE COULD ADD AND SUBTRACT, AND MADE HISTORY AS ONE OF THE WORLD'S FIRST CALCULATORS. IN TOTAL, ABOUT 50 COPIES OF THIS DEVICE WERE MADE. WITH TIME, IT WAS NAMED *PASCALINA* AFTER ITS INVENTOR, A MATHEMATICIAN, PHYSICIST AND PHILOSOPHER, BLAISE PASCAL.

XIII

CHAPTER XIII

Controls applied in the process of preparing financial statements

XIII. Controls applied in the process of preparing financial statements

The financial statements are prepared in the Financial Department in accordance with the Bank's accounting policy adopted by the Management Board and the organization of the Bank's accounting. The policies specify the principles for recording business events in the Bank to reflect in a true, fair and clear manner the assets and financial position of the Bank and its financial results.

As a result of recording those events, the Bank's books of account are created, which form the basis for preparing financial statements.

In the process of preparing financial statements, the following risks were identified:

- risk of incorrect input data;
- risk of incorrect presentation of data in the financial statements;
- risk of using incorrect estimates;
- risk of lack of integration of the operating systems used at the Bank and operating and reporting applications.

To limit the above-mentioned risks, the structure of the process of preparing the financial statements was defined, constituting two layers: the application layer and the factual layer.

The application part of the process consists of the flow of data from the Bank's operating systems through predefined interfaces to the statutory reporting system database.

The application layer is subject to controls compliant with the IT security system policy adopted by the Bank.

The controls cover specifically:

- user management;
- management of the production and development environment;
- integrity of the data transfer systems, including the correctness of operation of the interfaces in terms of completeness of data transfer from operating systems to the reporting environment.

For the purpose of correct management of the process of preparing financial statements, a description of the process was prepared in accordance with the policies adopted by the Bank, which includes all actions contained in the process and their operators. Moreover, the description indicates key control points. The key controls embedded in the process of preparing financial statements include, but are not limited to:

- controlling the quality of financial statements input data, supported by data control applications; a series of principles for ensuring the correctness of data are defined in the applications, as well as the error correction path and strict monitoring of the quality of data;
- controlling the mapping of data from source systems to the financial statements, which ensures correct presentation of data;
- performing analytical reviews based on specialist knowledge, aimed mainly at confronting business knowledge with the financial data and discovering potential signs of incorrect presentation of data or incorrect input data.

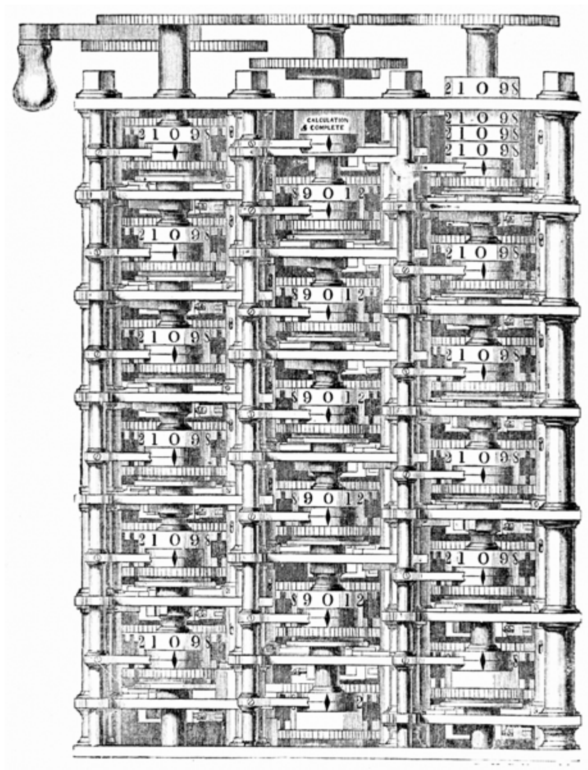
The accounting policies include a description of the estimates adopted by the Bank, in accordance with professional judgement and assumptions resulting from IAS/IFRS, which affect presentation of the amounts of income, costs, assets and liabilities as at the balance sheet date. However, due to uncertainty associated with professional judgement and estimates, the amounts of assets and liabilities may change in the future in line with the ultimate effects of transactions.

To eliminate the risk of incorrect estimates, among other things, the following solutions were adopted:

- to estimate loan impairment, the Bank uses models and processes approved by the Bank's Management Board; all models and processes are subject to embedded controls and periodical monitoring and validation, which enables verifying the models' functional assumptions, adequacy of parameters and correctness of implementation;
- to measure financial instruments which are quoted on active markets or which are measured based on such quotations – the required functionality was implemented in the basic systems, and additionally, controls were implemented to be operated by market risk management unit;
- to measure financial instruments which are not quoted on active markets, valuation models were implemented which had been independently checked beforehand and calibrated based on available quotations for these types of transactions;
- to estimate provisions for pension and disability pension one-off benefits – the preparation of estimates was commissioned to an independent actuary;
- to estimate the provision for employee and management bonuses – calculations are applied in accordance with the bonus regulations adopted by the Bank and the Bank's forecast results.

Accounting policies are described in detail in the Annual Consolidated Financial Statements, in the section "Accounting policies".

The implemented organizational structure of the Bank enables segregating duties between the Front -office, Back-office, Risk and Finance. Additionally, the implementation of appropriate internal controls compels the Bank to implement transaction and financial data control in the back office and support units. This area is assessed independently and objectively by the Internal Audit Department both in terms of adequacy of the internal control system, risk management, and in terms of corporate governance.



No. 14

Babbage's counting machine

THE FIRST COMPUTERS APPEARED IN THE 17TH CENTURY. THEY WERE INDIVIDUALS WHO CARRIED OUT CALCULATIONS. COMPUTERS ASSISTED E.G. ASTRONOMERS BY CARRYING OUT SOPHISTICATED MATHEMATICAL OPERATIONS. MEASURING THE HEIGHT OF MT. EVEREST FOR THE FIRST TIME WOULDNT BE POSSIBLE WITHOUT “COMPUTERS” – PEOPLE WHO WERE PROFICIENT IN TRIGONOMETRICAL COMPUTING. AS FAR AS MECHANICAL COMPUTERS ARE CONCERNED, THE PERSON REGARDED AS THEIR INVENTOR IS CHARLES BABBAGE, AN ENGLISH POLYMATH. ALTHOUGH HIS DIFFERENCE ENGINE WAS STARTED USING A CRANK, THE IDEA ON WHICH IT WAS BASED OPENED A STRAIGHT ROAD TO CREATING THE FIRST COMPUTERS IN TODAY'S MEANING OF THE WORD.

XIV

CHAPTER XIV

Corporate governance

XIV. Corporate governance

The Management Board hereby represents that in 2015 the Bank and its authorities abided by the adopted corporate governance principles specified in WSE Best Practices. Additionally, pursuant to the resolution of the Supervisory Board dated 29 December 2014, Corporate Governance Principles for Supervised Institutions were adopted for use.

Scope of corporate governance

In accordance with the Regulations of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) ("WSE"), Alior Bank, as a company quoted on the WSE, is obliged to comply with the principles of corporate governance specified in WSE Best Practices. WSE Best Practices consist of a set of recommendations and proceeding policies which refer specifically to the authorities of listed companies and their shareholders.

The text of the above set of rules is published on the website of Giełda Papierów Wartościowych w Warszawie S.A. at http://corp-gov.gpw.pl.

Within the competencies granted to the Management Board of the Bank by the Articles of Association, and based on generally binding legal regulations, ultimately, the Management Board intends to oblige Alior Bank to comply with all the regulations specified in the Best Practices.

Moreover, the Bank's Management Board has made efforts to ensure that the information policies addressed to investors, both individual and institutional, are as consistent with their expectations as possible.

In 2015 the Management Board of the Bank did not, however, anticipate the possibility of shareholder participation in the General Shareholders' Meeting using electronic communication channels. Current non-compliance with this rule as set out in WSE Best Practices is due to the absence of a regulation stipulating this in the current version of the Bank's Articles of Association (as required by the Commercial Companies' Code), and the absence of appropriate market practice and experience related to applying this rule, which in consequence could lead to factual and legal doubts and complications.

Additionally, due to the new set of WSE Best Practices coming into force as of 1 January 2016, the Bank's Management Board published a report on their application. Pursuant to the report, the Bank abides by the said rules, but:

- Rule I.Z.1.8. is applied in the scope of financial data published after 2012– admitting and introducing the Bank's shares to trading on the main market of the WSE in December 2012;
- Rule I.Z.1.10. does not apply – the Bank does not publish financial forecasts;
- Rule II.Z.2. will be applied – work is continuing on the precise determination of particular items of the Regulations of the Bank's Management Board;
- Rule II.Z.8. will be applied - Audit Committee of Alior Bank S.A. has been established according to the requirements of the Act on auditors, their self-government and the entities authorized to audit financial statements and on public supervision and Recommendations concerning the operation of the Audit Committee issued by the Office of the Polish Financial Supervision Authority. The above requirement of the Good Pratices of the Companies Quoted at the Warsaw Stock Exchange is currently not fulfilled as the Chairmen of the Audit Committee – Mrs Helene Zaleski, represents the Alior Lux S.a.r.l. & CO S.C.A. shareholder, holding 5,27% of the shares in Alior Bank S.A. The rationale will cease to exist once Powszechny Zakład Ubezpieczeń Spółka Akcyjna will purchase 3.828.673 block of shares of Alior Bank S.A. from Alior Lux S.a.r.l. & CO S.C.A., which, according to the preliminary agreement for the purchase of shares, should be completed in march 2016.
- Rule II.Z.10. will be applied – for the first time the assessment will be presented to the 2015 Ordinary General Shareholders' Meeting;
- Rule III.Z.6. does not apply to the Bank – an Audit Department operates within the Bank;

- Rule IV.R.2. is not applied with reference to item 2. – taking into consideration the need to conduct multiple technical and organizational operations and the related costs and risks, as well as the market's meager experience in this respect, currently the Bank has not decided to ensure its shareholders the option to communicate in real time remotely with the General Shareholders' Meeting. The Bank intends to comply with the above recommendation; however, due to the fact that it has not yet completed the implementation process, it will be applied as soon as the implementation works of appropriate info-comm systems are completed by the Bank;
- Rule IV.R.3. does not apply to the Bank – the securities issued by the Bank are traded on the Polish market;
- Rules IV.Z.16. – IV.Z.18 will be applied – as yet, the Bank has not paid dividend, contingent dividend and has not divided the nominal value of its shares.
- Rule IV.Z.4. is applied – the detailed description of the remuneration policy is in the Directors' Report for 2015.

Changes in the basic principles of management

In order to amend the Bank's Articles of Association, the General Shareholders' Meeting must pass a relevant resolution, which must subsequently be registered in the National Court Register. Amendments to the Articles of Association require a majority of three quarters of the votes. Moreover, pursuant to Art. 34.2 of the Banking Law, in specific cases amendments to the Bank's Articles of Association must be approved by the Polish Financial Supervision Authority.

In the financial year 2015 the following amendments were made to the Bank's Articles of Association and registrations of its share capital increases, based on the resolutions passed by the General Shareholders' Meeting, relating to:

- increases in the Bank's share capital by way of issuing 2,355,498 H series shares with a total nominal value of PLN 23,554,980. On 25 February 2015, 2,355,498 of the Bank's shares were registered with the National Depository for Securities, and the increase in the Bank's share capital of PLN 23,554,980 was registered with the National Depository for Securities on 16 March 2015;
- an increase in the Bank's share capital by way of issuing a total of 373,599 ordinary D series bearer shares with a total nominal value of PLN 3,735,990, on the basis of partial settlement of the Incentive Scheme. On 30 March 2015, 187,744 of the Bank's shares were registered with the National Depository for Securities, on 22 June 2015, 159,588 of the Bank's shares were registered with the National Depository for Securities, and on 28 September 2015, 26,267 shares were registered with the National Depository for Securities. The above-mentioned increases were registered with the court.

As at 31 December 2015, the Bank's share capital amounted to PLN 727,074,630 and consisted of 72,707,463 ordinary shares with a par value of PLN 10.00 each, including:

- 50,000,000 ordinary A series shares;
- 1,250,000 ordinary B series shares;
- 12,332,965 ordinary C series shares;
- 6,358,296 ordinary G series shares;
- 410,704 ordinary D series shares;
- 2,355,498 ordinary H series shares

Pursuant to the provisions of the Bank's Articles of Association all the existing shares are ordinary bearer shares. No special rights or limitations are attached to the existing shares. The rights and obligations associated with shares are in compliance with the law. Securities issued by the Bank do not grant any special control powers to their holders.

There are no limitations to exercising voting rights carried by the Bank's shares in the Bank's Articles of Association.

The Bank's Articles of Association do not contain any limitations to transferring ownership title to the Bank's shares. Such limitations result from the original incentive plan described below.

Shareholders of Alior Bank S.A.

In accordance with the notifications received, the following shareholders of Alior Bank had more than a 5% interest in share capital as at 3 March 2016:

- Powszechny Zakład Ubezpieczeń SA (including PZU Życie SA)
- Genesis Asset Managers LLP
- Alior Lux S.a r.l. & Co S.C.A.
- Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK

Shareholders holding more than 5% of the Bank's shares as at 3 March 2016

Shareholder	Number of shares	Par value of shares [PLN]	% share in share capital	Number of votes	Share in total number of votes
PZU S.A. (with PZU Życie S.A.)	14,517,147	145,171,470	19.97%	14,517,147	19.97%
Genesis Asset Managers LLP	5,093,922	50,939,220	7.00%	3,483,391	4.79%
Alior Lux S.a r.l. & Co. S.C.A.	3,828,673	38,286,730	5.27%	3,828,673	5.27%
Aviva OFE Aviva BZ WBK	3,806,451	38,064,510	5.23%	3,806,451	5.23%
Other shares	45,461,270	454,612,700	62.53%	47,071,801	64.74%
Total	72,707,463	727,074,630	100%	72,707,463	100%

On 18 and 21 December 2015, the Bank's Management Board received notifications pursuant to Art. 69 of the Public Offering Act of changes in the share in the total number of votes at the General Shareholders' Meeting of Alior Bank from PZU and Alior Lux. In accordance with the notifications received, as a result of a transaction dated 17 December 2015 (settled on 18 December 2015) PZU and its subsidiary PZU Życie SA holds 14,517,147 shares in the Bank which constitute 19.97% of the voting rights at the General Shareholders' Meeting. After the conclusion of the said transaction, Alior Lux holds 3,828,673 shares in the Bank, which constitute 5.27% of the voting rights at the General Shareholders' Meeting.

In accordance with the best knowledge of the Bank's Management Board, in the period from submitting the previous periodic report to the date of this report there were no changes in the structure of shareholdings with over 5% of the total voting rights apart from those referred to above.

Shareholders who were Members of the Bank's Management Board as at 3 March 2016

Shareholder	Number of shares/votes	Par value of shares held	% share in share capital	Share in total number of votes
Wojciech Sobieraj	435,296	4,352,960	0.60%	0.60%
Witold Skrok	104,103	1,041,030	0.14%	0.14%
Katarzyna Sułkowska	47,612	476,120	0.07%	0.07%
Krzysztof Czuba	168	1,680	0.00%	0.00%

In the period from the date of the last interim report, there were no changes in the number of the Bank's shares held by the Bank's Management Board Members.

On 23 December 2015, pursuant to Art. 160 of the Act on trading, Mr Wojciech Sobieraj – CEO of the Bank – notified of selling and purchasing 435,296 of the Bank's shares on 23 December 2015. Thus, as at the date of this report the shareholdings of the CEO in the Bank have not changed compared with the balance as at the date of the report for the third quarter of 2015.

Shareholders who were Members of the Bank's Supervisory Board as at 3 March 2016

Shareholder	Number of shares/votes	Par value of shares held	% share in share capital	Share in total number of votes
Helene Zaleski	210,774	2,107,740	0.29%	0.29%
Niels Lundorff	80,021	800,210	0.11%	0.11%
Małgorzata Iwanicz-Drozdowska	1,465	14,650	0.00%	0.00%

In the period from the date of the last interim report, there were no changes in the number of the Bank's shares held by the Bank's Supervisory Board Members.

Alior Bank S.A.'s bodies

Management Board

Composition of the Bank's Management Board as at 31.12.2015		Composition of the Bank's Management Board as at 30.09.2015	
Wojciech Sobieraj	CEO	Wojciech Sobieraj	CEO
Małgorzata Bartler	Deputy CEO	Krzysztof Czuba	Deputy CEO
Krzysztof Czuba	Deputy CEO	Michał Hucał	Deputy CEO
Joanna Krzyżanowska	Deputy CEO	Joanna Krzyżanowska	Deputy CEO
Witold Skrok	Deputy CEO	Witold Skrok	Deputy CEO
Barbara Smalska	Deputy CEO	Katarzyna Sułkowska	Deputy CEO
Katarzyna Sułkowska	Deputy CEO		

On 14 October 2015, The Bank's Supervisory Board passed Resolution No. 64/2015 on accepting the resignation of Mr Michał Hucał as Member of the Bank's Management Board, then the Supervisory Board passed Resolution No. 65/2015 on appointing Ms Barbara Smalska Member of the Bank's Management Board in the position of Deputy CEO, and Resolution No. 66/2015 on appointing Ms Małgorzata Bartler Member of the Bank's Management Board in the position of Deputy CEO.

Wojciech Sobieraj – CEO

Wojciech Sobieraj has been the CEO of Alior Bank S.A. since April 2008. He was Vice President of the Management Board of Bank BPH S.A. from 2002 to 2006, where he was responsible for the retail banking division. While employed at Bank BPH S.A., he also held the posts of Chair of the Supervisory Boards of Gornośląski Bank Gospodarczy S.A. and BPH Bank Hipoteczny S.A. Previously, in the years 1997–2002, he was an employee, manager and partner of The Boston Consulting Group (BCG) in Boston and in London, and one of the founders of the BCG office in Warsaw, where he was partner and Vice President. He was also head of the BCG financial services division in Central and Eastern Europe, and an expert on mergers and acquisitions and the banking payments market. Between 1991 and 1994, Wojciech Sobieraj was the owner of the Central European Financial Group in New York, which analysed Eastern European capital markets. In that period he gained a broker's licence on Wall Street and worked as an assistant in the Department of Finance and Operations at New York University. He graduated from the Warsaw School of Economics. In 1993, he entered the Stern School of Business at New York University, and in 1995 obtained a Master's degree in Business Administration.

Małgorzata Bartler – Deputy CEO

Małgorzata Bartler has been Deputy CEO since October 2015. She has over 20 years of experience in the development of human resources management strategies and systems, gained in Polish and international companies, in the following sectors: banking, telecommunications, brewing, entertainment and fuel. Apart from strategic planning, her qualifications cover a wide range of competencies related to managing human resources, including talent management and leadership development, succession planning, managing by objectives and employee appraisal systems, training, acquiring talents and recruitment, building commitment, managing employee relationships, and change management and internal communication. Since 2014, Małgorzata Bartler has been with Alior Bank, where as Director of the Personnel Department she developed the human resources management strategy based on three main pillars: strengthening employees' commitment, building the Bank's position as first choice banking employer and implementing customer-oriented corporate culture. In the years 2008–2014 she was the HR Director in P4, Play network operator. Her work was recognized and she was awarded many prizes and awards, among others, three "Top Employers" certificates and the particularly important title "Best Employer of the Year" awarded on the basis of employee appraisals. Earlier, she had been HR Manager in the Żywiec Group and in Multikino S.A. In both companies she implemented recruitment, training and talent management, remuneration and employee benefit, and internal communication strategies. She began her professional career with Shell, where she worked in the years 1994–1998. She graduated from the Department of Management of the University of Warsaw, and Post-graduate Human Resources Management Studies at the Warsaw School of Economics.

Krzysztof Czuba – Deputy CEO

Krzysztof Czuba has been Deputy CEO of Alior Bank S.A. since June 2009. Since the moment the Bank received its banking licence, he has been responsible for strategic advisory services and handling projects related to the launch of the retail offering. He was involved, among other things, in the organization of the activities of the Retail Regions and Branches and prepared the assumptions to the project for starting up the Bank's agencies. Furthermore, he exercised control over the implementation of the Bank's branches' acquisition and finance plans. From 1994 to 2007 he worked for Bank BPH S.A., where he held the posts of: Branch Manager, Macroregion Retail Banking Director, followed by the Bank's Managing Director responsible for the Sales and Distribution Area in the Retail Banking Division. In the years 2003–2004 he was member of the Supervisory Board of Śrubex S.A., and in the years 2007–2008 he was Deputy Chairman of the Supervisory Board of ZEG S.A. In 1995 he graduated in Management from the Kraków University of Economics. He participated in a number of training courses, including: the General Management Programme for Managers of the HVB/BACA Group organized in cooperation with the Executive Academy of Wirtschaftsuniversitat (2006) and Professional Banking Cyber School organized by Finance & Trainer in Switzerland (2006).

Joanna Krzyżanowska – Deputy CEO

She has over ten years of experience in managing the development of distribution channels and banking products and services. Since the mid-1990s she has been on management boards of Polish banks and banks with foreign capital. Until 2007 she had been Vice President of GE Money Bank S.A. - she was responsible, among other things, for the Sales and Marketing Function and managed the work of more than 1500 employees. She was responsible for forming the Bank's strategy in respect of developing its position on the cash and car loan markets, consumer loans, credit cards, mortgage loans and developing own distribution channels and distribution in partnership with third parties. From 2008 to 2015 she was the First Vice-President of Meritum Bank. She was responsible, among other things, for building the foundations of consumer finance and on-going management of sales, building stable relations with partners and developing and implementing new products and solutions. She is experienced in bank mergers and acquisitions. She graduated from the University of Gdańsk. She holds a Master's degree in Business Administration (Executive MBA).

She completed the Management Development Course (MDC) at GE Crotonville (USA) and several training courses in management, banking and finance.

Witold Skrok – Deputy CEO

He has been Deputy CEO since December 2011. Before, from May 2008, he worked for Alior Bank as Finance Area Director. Between 2006 and 2008, he was Managing Director & CFO at Bank BPH S.A. In the same period, he was also Member of the Supervisory Board of Gornośląski Bank Gospodarczy S.A. and collaborated with the Centre for Social and Economic Research (CASE). Between 2004 and 2006, he performed the role of Reporting and Management Information Department Director of Bank BPH S.A. where he was responsible, among other things, for establishing a common reporting platform for obligatory reporting and management information. In 2001, he took the position of Controlling Department Director at Bank BPH S.A. In 2000, he became Controlling Department Deputy Director at Powszechny Bank Kredytowy. In 1991–2000, he worked at the Ministry of Finance's Financial Policy and Analyses Department. In 1999, he was appointed Department Director. Between 1998 and 2000, he also performed the role of Member of the Supervisory Board of Bank Powszechna Kasa Oszczędności S.A. He graduated from the Warsaw School of Economics and completed a number of courses, such as the Visiting Program Partners and Financial Programming and Policy at the IMF Institute in Washington and other training courses in banking, finance and tax.

Barbara Smalska – Deputy CEO

She has been Deputy CEO since October 2015. She has 13 years of experience in developing and implementing business strategies and managing the individual customer segment in the insurance sector and in performing various consulting projects in banking and telecommunications. In the years 2013–2014, as Member of the Management Board of PZU SA and PZU Życie SA, she was the person overall responsible for the mass customer segment in the PZU Group. In the years 2008–2013 she was Product Management Office Director at PZU, and Managing Director for Marketing and Individual Products in the years 2012–2013, when she was responsible for various aspects of managing the individual and SME customer segments in the Group, in particular in the areas of products, marketing, sales and CRM. Between 2010 and 2012 she was also Managing Director for Mass Customers. In the years 2002–2008 she was engaged in work for The Boston Consulting Group, participating in many projects from the financial services and telecommunications sector in Poland and Eastern and Central Europe, among other things, in the area of business strategy, operating models, organization and activation of sales networks, reorganization and cost optimization. In the years 2006–2008 as Project Leader, and then Principal, she managed strategic projects for the largest Polish banks, insurers and telecommunications companies, mainly in the area of business strategy and distribution strategy in the retail customer segment. From September 2014 she has been Member of the Supervisory Board of Link4 TU S.A. Ms Smalska graduated from the Department of Physics at the University of Warsaw and holds a PhD in Physics of Elementary Particles.

Katarzyna Sułkowska – Deputy CEO

She has been Deputy CEO since December 2011. Before, between January 2008 and November 2011, she managed the Credit Risk Department at Alior Bank. In her function, she was responsible for developing credit policies, product principles and methodological assumptions, designing and implementing credit check processes, and monitoring and collection processes. In 2002–2007, she was Managing Director of the Retail Collection Department at Bank BPH S.A., where she was responsible, among others, for managing the integration process of two collection structures of Bank BPH and Bank PBK, for the implementation of the new process-based approach and the IT system to support the process. She was also responsible for performing one of the first bundled debt sale transactions. Between 1998 and 2001, she worked for Citibank Polska where she was Head of the Collection Department. She started her career path at the Regional

Accounting Chamber in Kraków in the Information, Analyses and Training Department. She graduated from the Kraków University of Economics with a degree in finance and banking (1997). Subsequently, she completed a number of training courses in Poland and abroad and participated in conferences on debt servicing and credit management.

Composition of the Management Board

Pursuant to the Articles of Association, the Management Board is composed of at least three members. Members of the Management Board are appointed for a joint term of three years. The Supervisory Board appoints and dismisses Members of the Management Board in a secret ballot. At the request of the CEO, the Supervisory Board appoints Deputy CEOs. The appointment of two Members of the Management Board, including the CEO, requires the consent of the PFSA. The Supervisory Board applies to the Polish Financial Supervision Authority to grant its consent to the appointment of those two Members of the Management Board. Moreover, the Supervisory Board informs the PFSA of the composition of the Management Board and changes in its composition, immediately after its appointment or a change in its composition. The Supervisory Board also informs the PFSA of members of the Management Board who are responsible specifically for credit risk management and internal audit. Currently, with the consent of PFSA, the CEO is Wojciech Sobieraj and the Deputy CEO is Katarzyna Sułkowska. The Supervisory Board is authorized to suspend individual or all members of the Management Board for important reasons and to delegate Members of the Supervisory Board – for a period of no more than three months – to temporarily perform the functions of Members of the Management Board who had been removed from the Board, have resigned or for other reasons are unable to perform their functions. A Member of the Management Board may also be removed or suspended from performing his duties by a resolution of the General Shareholders' Meeting.

Competencies of the Management Board

The Management Board manages the Bank's affairs and represents the Bank. The Management Board is authorized in all matters which are not reserved for the competencies of other Bank's bodies by legal regulations or provisions of the Articles of Association. All issues outside the normal operations of the Bank require Management Board resolutions. The Management Board decides specifically on the following in the form of resolutions:

- it specifies the Bank's long-term operating plans and strategic goals;
- it determines the Bank's short- and long-term financial plans and monitors their progress;
- it monitors the Bank's management system, including the management reporting system used to control the Bank's operations on a current basis;
- it accepts the Bank's operating principles, policies and regulations, and specifically in respect of prudent and stable management of the Bank, risk management, lending operations, investment activities, the Bank's management system, asset and liability management, accounting, the Bank's funds, human resources management and internal control principles;
- it determines the size of the bonus pool for the Bank's employees and its general break-down;
- it grants proxy powers;
- it takes decisions relating to the issue of bonds by the Bank, with the exception of exchangeable bonds or bonds with pre-emptive rights; it accepts the subscription, acquisition and sale of shares in companies by the Bank;
- it takes decisions about incurring liabilities, managing assets, encumbering or leasing assets (and renting them), whose total value in respect of one entity exceeds 1/100 of the Bank's share capital, in recognition of art. 8 clause 2 of the Management Board Regulations;
- it approves the investment plan and accepts each capital expenditure of the Bank (purchase or sale of fixed assets or property rights) with a value exceeding 1/100 of the Bank's share capital, in recognition of art. 8 clause 2 of the Management Board Regulations;
- it accepts issues relating to the organizational structure of the Bank's head office, including the creation and liquidation of the Bank's organizational entities and organizational units of the Bank's head office;
- it takes decisions on establishing and liquidating the Bank's branches;

- it takes decisions as to paying out interim dividend to the shareholders, after obtaining the approval of the Supervisory Board;
- it accepts all documents presented to the Supervisory Board or to the General Shareholders' Meeting;
- it considers all other issues which are brought for examination by the Supervisory Board, the General Shareholders' Meeting, members of the Management Board, the Bank's organizational entities, or committees or teams appointed in accordance with the Bank's internal regulations;
- it takes decisions on all other issues within the scope of the Bank's operations, if this is required by other regulations or if such decisions could have a significant impact on the financial position or image of the Bank. The Commercial Companies Code prohibits the General Shareholders' Meeting and the Supervisory Board from giving binding orders to the Management Board regarding the management of the Bank's operations. Additionally, Members of the Management Board and Supervisory Board are liable to the Bank for losses following from any action or omission which is against the law or provisions of the Bank's Articles of Association.

In accordance with the regulations of the Commercial Companies Code and the Bank's Articles of Association, decisions relating to issuing or redeeming shares are within the competencies of the Bank's General Shareholders' Meeting.

The Bank's Management Board, on the basis of the Resolution of the General Shareholders' Meeting no. 28/2012 dated 19 October 2012 on the conditional increase of the Bank's share capital and issue of subscription warrants (regulating the principles for issuing D, E and F series shares with the right to take them up by holders of subscription warrants, that is participants of the Incentive Scheme who are members of the Bank's Management Board, the Bank's officers, members of Management Boards of the Bank's subsidiaries and partners from Kancelaria Prawna P. Tokarz, B. Kapuściński, M. Zaręba i Wspólnicy s. k.) will have the competencies to:
- offer and issue subscription warrants to participants of the Incentive Scheme other than members of the Bank's Management Board (with reference to members of the Management Board, the competencies lie with the Supervisory Board);
- take all the necessary actions related to launching the new shares and admitting them to trading on a regulated market operated by the WSE immediately after they have been issued;
- conclude an agreement with KDPW on registering the newly-issued shares and, immediately after their issuance, to take all other actions related to their dematerialization.

A detailed description of the actions conducted by the Management Board for the purpose of issuing shares under the Incentive Plan are included in the Regulations of the Incentive Scheme approved by the Supervisory Board.

Competencies of the CEO

The competencies of the CEO include, in particular:
- managing the work of the Management Board;
- convening Management Board meetings and presiding over them;
- presenting the position of the Management Board to the Bank's bodies and to third parties;
- issuing internal regulations relating to the Bank's operations and authorizing other members of the Management Board or the Bank's employees to issue such regulations;
- exercising other rights and obligations in accordance with the Regulations of the Management Board.

Principles of Management Board operations

The Management Board acts on the basis of the Bank's Articles of Association and the regulations passed by the Management Board and approved by the Supervisory Board. The Management Board takes decisions in the form of resolutions at Management Board Meetings, or by way of a circular resolution. Management Board resolutions are passed by an absolute majority of votes of those Members of the Management Board present at Management Board Meetings, with the exception of resolutions on appointing a proxy, which requires a unanimous vote of all Members of the Management Board. As a rule, resolutions are passed by open vote. However, the person presiding over the Management Board meeting may order a secret ballot; the secret ballot may also be ordered at the request of at least one Member of the Management Board. In the event of an even number of votes, the CEO has the casting vote. In accordance with the Regulations of the Management Board, in order for the resolutions passed by the Board to be valid, at least one-half of the Members of the Management Board have to be present at the meeting and all Members have to have been properly informed of the meeting. Declarations may be made on behalf of the Bank by the following persons:

- two Members of the Management Board jointly;
- one Member of the Management Board jointly with a proxy or a plenipotentiary;
- two proxies jointly;
- plenipotentiaries acting independently or jointly within the limits of the power of attorney granted to them.

Description of Management Board activities in the financial year 2015

In the financial year 2015 the Management Board held 45 Meetings and passed 422 resolutions relating, among other things, to:
acceptance of the financial plan for the financial year 2015; approving the financial statements of the Bank for the financial year ended 31 December 2014; approving the financial statements of the Group for the financial year ended 31 December 2014; the manner of appropriating the Bank's profit for 2014; approving the Management Board Report of Alior Bank for 2014; approving the Management Board Report for the Bank's Group for 2014; amendments to the Bank's Articles of Association; issue of bonds; accepting the merger plan in relation to the merger of Alior Bank Spółka Akcyjna with Meritum Bank ICB S.A.; adopting the Corporate Governance Policy of Alior Bank S.A.; adopting the Bancassurance Policy; restructuring of employment; amendments to the Organizational Regulations of the Head Office of Alior Bank Spółka Akcyjna; establishing a company under the name Alior Leasing spółka z ograniczoną odpowiedzialnością; establishing a new company under the name NewCommerce Services Spółka z ograniczoną odpowiedzialnością; sale of a set of dues from the individual customer segment; taking up new shares in the increased share capital of Money Makers Towarzystwo Funduszy Inwestycyjnych S.A.; taking up new shares in the increased share capital of Centrum Obrotu Wierzytelnościami Spółka z ograniczoną odpowiedzialnością; adopting and amending Regulations; including Work and Remuneration Regulations; instructions; policies; methodologies; legal acts of Meritum Bank and other internal regulations standardizing the principles of the Bank's operations and provision of services by the Bank; introducing products and services to the Bank's offer; determining and cancelling transaction and concentration limits; accepting requests for financing; issuing subordinated bonds; establishing the Bank's branches and changing them, and preparing motions addressed to the Bank's Supervisory Board and the General Shareholders' Meeting.

Supervisory Board

Composition of the Bank's Supervisory Board as at 31.12.2015		Composition of the Bank's Supervisory Board as at 30.09.2015	
Helene Zaleski	Chair of the Supervisory Board	Helene Zaleski	Chair of the Supervisory Board
Przemysław Dąbrowski	Deputy Chair of the Supervisory Board	Małgorzata Iwanicz-Drozdowska	Deputy Chair of the Supervisory Board
Sławomir Dudzik	Member of the Supervisory Board	Sławomir Dudzik	Member of the Supervisory Board
Małgorzata Iwanicz-Drozdowska	Member of the Supervisory Board	Niels Lundorff	Member of the Supervisory Board
Niels Lundorff	Member of the Supervisory Board	Marek Michalski	Member of the Supervisory Board
Marek Michalski	Member of the Supervisory Board	Krzysztof Obłój	Member of the Supervisory Board
Sławomir Niemierka	Member of the Supervisory Board	Stanisław Popów	Member of the Supervisory Board
Krzysztof Obłój	Member of the Supervisory Board		

On 22 December 2015, Mr Stanisław Popów resigned as Member of the Supervisory Board upon resuming the Extraordinary General Shareholders' Meeting on 22 December 2015 which had been convened on 30 November 2015 and which continued after a break.

Additionally, the Bank's Extraordinary General Shareholders' Meeting convened on 30 November 2015, which continued its session on 22 December 2015, appointed Mr Przemysław Dąbrowski and Mr Sławomir Niemierka Members of the Supervisory Board.

Helene Zaleski (Chair of the Supervisory Board) represents the investor - the Carlo Tassara Group. From 1994 to 2000, she was advisor to the Management Board of Carlo Tassara S.p.A. Between 1990 and 1994, she worked for AGF Ubezpieczenia Życie, AGF's affiliate office in Poland. In 1989, she obtained a diploma in statistics (specialization accounting and insurance statistics) at the Institute of Statistics of the Pierre and Marie Curie University in Paris.

Przemysław Dąbrowski (Deputy Chair of the Supervisory Board) Graduate of the University of Warsaw, specializing in IT, and post-graduate studies in management. He also obtained an MBA from the University of Illinois and completed a Warsaw--Illinois Executive MBA program. He has extensive experience in managing the finances of insurance companies, managing financial investments and closing large financial deals. He also has a practical and theoretical knowledge of accounting, tax issues and elements of actuarial mathematics. He started his professional career in 1993. From 1993 to 1998, he worked as a financial analyst and controller at Whirlpool Polska Sp. z o.o. Between 1998 and 2000, he served as the Treasurer at AIG Polska. In 2000–2001, Mr Dąbrowski was the Financial Director and a Management Board Member at Creative Team SA (Elektrim Group). In 2001–2006, he headed PZU's Planning and Controlling Department. In the years 2006–2008, he worked for the consulting firms AT Kearney and Accenture as Manager and, subsequently, as Senior Manager. From October 2008 to March 2009, he performed the function of Director and Deputy Head of the Financial Division at the PZU and PZU Życie Head Office. From November 2008 to February 2009, he worked as Director of the Planning and Controlling Department at PZU and PZU Życie Head Office. Then, in March 2009, he became Director of the Information Management Department at PZU and PZU Życie Head Office. Since January 2010, he has been a Management Board Member of PZU Życie. Since December 2010, he has been a Management Board Member of PZU. He is responsible for the Finance Division.

Prof. dr hab. Sławomir Dudzik (independent) is a legal counsel and tax advisor. He lectures at the Department of Law and Administration at the Jagiellonian University. He is professionally related to the Law Firm T. Studnicki K. Płeszka Z. Ćwiąkalski J. Górski sp.k. in Kraków. Professor Dudzik is the author of multiple publications on administrative law and EU law (including competition law and law on state aid for enterprises). He specializes in competition law, subsidy law, telecommunications law and energy law.

Prof. Małgorzata Iwanicz-Drozdowska (independent) has been with the Warsaw School of Economics since 1995, where she received her academic degrees, including the title of Professor in Economic Sciences in 2009. She is a recognized expert in the analyses of bank operations, banking risk, financial security network and financial stability. She was actively involved in banking practice in the years 1993–2007 (Polski Bank Rozwoju S.A. and the Bank Guarantee Fund). She also works with the Institute for Market Economics and the Warsaw Institute of Banking. She has work experience with Belgian and German banks, as well as the Federal Deposit Insurance Corporation (FDIC) in the USA. She is the author and co-author of more than 100 publications on banking and the financial services market and takes part in numerous Polish and international research projects.

Niels Lundorff has been involved in the finance sector from the beginning of his career. In the years 1989–1993 he gained experience with KPMG in Copenhagen and Prague. In the 1990s he was Director of the Accounting and Controlling Department in Bank Austria CR in Prague and Vice President of Bank Austria Creditanstalt in Slovakia. Since 2001 he has been employed with Bank BPH S.A., where he was responsible, among other things, for the control, accounting, market risk department and for adapting the bank's procedures to the requirements of Basel II. In the years 2006–2007 he was Executive Director, Risk Area Control and Credit Policy Director in the Unicredit Group in Milan. He also was CEO of Alior Bank S.A. from April 2008 to April 2014. Niels Lundorff graduated from the Copenhagen Business School with a diploma in the economics of business and audit, and participated in many training courses, among other things, in banking and management.

Prof. Marek Michalski (independent) is the Dean of the Department of Law and Administration at the Cardinal Stefan Wyszyński University in Warsaw, head of the Faculty of Private Business Law of the Department of Law and Administration at the Cardinal Stefan Wyszyński University in Warsaw, President of the Arbitration Court at the National Depositary for Securities, Krajowy Depozyt Papierów Wartościowych S.A., and an arbitrator at the Arbitration Court at the Polish Financial Supervision Authority; until 2008, he was also a member of the Council of the Warsaw Stock Exchange. Previously, Prof. Marek Michalski was Director of the Legal Office at Krajowy Depozyt Papierów Wartościowych S.A., as well as advisor to the Minister of the Treasury. He took part in legislative work on securities trading, investment funds, compensation certificates, commodities exchanges and reprivatization. He is the author and a co-author of more than 100 academic publications on matters of securities and financial instruments, public trading of securities, banking law, capital market law, commercial law and joint stock companies.

Mr Sławomir Niemierka graduated from the Department of Law and Administration at the University of Warsaw and completed post-graduate studies in European Union Law and Economics and at the Harvard Business School. He is a licensed legal adviser. He is author and co-author of numerous publications on finance law and banking supervision. In 1994–2007, he was a lecturer in post-graduate studies at the Polish Academy of Science, at the University of Warsaw, and at the Higher School of Insurance and Banking. For many years he was employed with the National Bank of Poland – the General Inspectorate for Banking Supervision, where for eight years he led the Inspection Department responsible for inspection activities at banks, foreign bank branches and lending institutions in Poland, including in particular internal control systems and risk management. Member of the Steering Committee of the General Inspectorate of Banking Supervision for the implementation of Basel II, responsible for control over risk models, operating risk and accounting standards. Member of the Risk Management System Development Team at the NBP. In 2010–2011, he was Member of the Management Board of the Bank Guarantee Fund, where he supervised the operational risk management system and inspections and monitoring of banks availing themselves of the Fund's financial support. He has been affiliated with the PZU Group since 2008 as the Managing Director responsible for Audit. In this position he was responsible for developing and implementing the new internal control and internal audit system, and he supervised the internal audit and internal control function in PZU SA and PZU Życie SA. As of 19 March 2012 he is on the Management Board of PZU Życie SA, where he is responsible for the risk management, compliance and security areas.

Prof. Krzysztof Obłój (independent) is a known expert on organizational strategy and international management. He lectures at the Faculty of Management at the University of Warsaw and at the L. Koźmiński Business School. He has also lectured at renowned international universities, including the University of Illinois at Urbana Champaign and Yale University, the French ESCP-EAP and Ecole Nationale des Ponts et Chaussees, the English Henley-on-Thames College, BI Norwegian School of Management, Bodo Graduate School of Management and the Slovenian Bled School of Management. He is the author of many publications on organization and management and his books and articles have been published in the USA and throughout Europe including Poland. He advises Polish and international enterprises on strategy, as well as organizational structure and culture. He also has extensive experience in corporate governance. He has been chair or member of supervisory boards of such companies as Agora-Gazeta S.A., Orlen S.A., Dwory S.A., Ambra S.A., Polmos Lublin S.A., Eurobank S.A. and NFI Foksal S.A. Currently, he is Chair of the Supervisory Board of Impel SA, Deputy Chair of LOOK Finansowanie Inwestycji SA and Member of the Supervisory Board of Prochem SA.

Competencies of the Supervisory Board

The Supervisory Board constantly supervises the Bank in all aspects of its operations. Its duties include assessing the Directors' Report on the Bank's operations and the Bank's financial statements for the prior financial year, both in terms of their compliance with the books of account, and other documents, and the actual status, as well as assessing the requests of the Management Board in respect of the distribution of profit or offset of loss, and submitting an annual report on the results of this assessment to the General Shareholders' Meeting. The Supervisory Board represents the Bank in concluding agreements with Members of the Management Board and in disputes with members of the Management Board, unless these competencies are granted to a plenipotentiary appointed by a resolution of the General Shareholders' Meeting.

In accordance with the Articles of Association, the competencies of the Supervisory Board, apart from the rights and obligations stipulated in generally binding legal regulations, comprise:

- assessing periodical information relating to internal controls;
- examining and approving the Directors' Reports and the financial statements of the Bank's Group;
- appointing and dismissing Management Board members;
- applying to the Polish Financial Supervision Authority to grant consent to appointing two Members of the Management Board, including the President of the Board;
- concluding and changing agreements with members of the Management Board;
- passing the Regulations of the Supervisory Board;
- approving the Management Board Regulations determined by the Management Board;
- determining the remuneration of the Members of the Management Board employed on the basis of an employment contract or another agreement;
- representing the Bank in issues between members of the Management Board and the Bank;
- suspending individual or all Management Board members in the performance of their duties for important reasons;
- delegating members of the Supervisory Board – for a period of up to three months – to perform the functions of members of the Management Board who have been dismissed, have resigned or are unable to perform their functions for other reasons;
- giving opinions on requests of the Management Board relating to the Bank's establishing or acquiring shares in companies, and selling shares if such investments are of a long-term and strategic nature;
- giving opinions on the Bank's long-term development plans and its annual financial plans;
- passing – at the request of the Management Board – regulations for the creation and use of funds stipulated in the Articles of Association;
- approving the requests of the Management Board to purchase, encumber or sell real estate or shares in real estate, or perpetual usufruct of land, if their value exceeds PLN 5,000,000;
- approving the motions of the Management Board on incurring liabilities or managing assets whose total value in respect of one entity exceeds 5% of the Bank's own funds;
- supervising the implementation and monitoring of the Bank's management system, including specifically supervision over managing compliance risk and assessing the adequacy and effectiveness of the system at least once a year;
- approving the principles for maintaining internal controls and procedures for estimating internal capital, equity management and equity planning;
- approving the Bank's operating strategy and principles of prudent and stable management of the Bank;
- approving the Bank's Organizational Regulations and the overall organizational structure of the Bank adapted to the size and profile of the risks incurred;
- accepting the overall level of the Bank's risks;
- approving the assumptions of the Bank's policy in respect of compliance risk;
- approving the Bank's information policy;
- appointing an independent registered auditor.

Principles of operation of the Supervisory Board

The Supervisory Board acts on the basis of the Bank's Articles of Association and the regulations passed by the Supervisory Board. Supervisory Board meetings are convened when necessary, at least three times in each financial year. Resolutions of the Supervisory Board are passed by an absolute majority of votes unless the legal regulations or the Articles of Association stipulate otherwise, by an open vote, or by circular voting. A secret ballot is ordered in respect of personal matters or at the request of at least one member, by order of the Chairman of the Supervisory Board. In the event of an even number of votes, the Chair of the Supervisory Board has the casting vote. For the resolutions to be valid, at least one-half of the members of the Supervisory Board have to be present and all members have to be notified. The Supervisory Board may establish permanent and ad hoc committees.

Description of Supervisory Board activities in the financial year 2015

In the financial year 2015 the Supervisory Board held 10 meetings and passed 83 resolutions, relating, among other things, to: assessing the Bank's financial statements and Management Board Report for 2014; motions relating to the appropriation of profit and approving the activities of the Members of the Bank's Management Board in 2014; adopting the Board's Report for 2014; accepting the Bank's financial plan for 2015 and 2016; accepting the resignation of a Member of the Bank's Management Board; appointing three new Members of the Bank's Management Board to the functions of Deputy CEOs; appointing the Deputy Chair of the Supervisory Board; giving an opinion on the plan to merge Alior Bank Spółka Akcyjna with Meritum Bank ICB S.A.; changing the asset and liability management policy; accepting amendments to some of the regulations and procedures of the Bank; approving financing granted to entities in events following from the Articles of Association and the credit competencies of the Bank; accepting Management Board motions to the Bank's General Shareholders' Meeting; accepting the establishment of Alior Leasing Spółka z ograniczoną odpowiedzialnością and accepting the establishment of a new company NewCommerce Services Spółka z ograniczoną odpowiedzialnością; changing the composition of the Supervisory Board's Audit Committee and appointing the Supervisory Board's Risk Committee for approving the ultimate allotment of the A series Subscription Warrants, deferred according to the Resolution No. 42/2014 dated 9 April 2014 of the Supervisory Board under the Incentive Scheme of Alior Bank S.A.; approving payment of the second tranche of A series Warrants deferred according to the Policy of Variable Remuneration Components adopted pursuant to Resolution No. 33/2015 of the Supervisory Board and approving the ultimate allotment of the B series Subscription Warrants, issued according to Resolution No. 28/2012 dated 19 October 2012 of the Extraordinary General Shareholders' Meeting on conditional increase in the share capital of the Bank and issue of subscription warrants; approving the sale of a set of debts of the individual customer segment; introducing the Regulations for the Bonus Scheme for the Management Board.

Supervisory Board Committees

In accordance with the Articles of Association and the Regulations of the Supervisory Board, the Supervisory Board may – by way of a resolution – establish permanent and ad hoc committees. In such cases, the Supervisory Board determines the regulations of such committees, their composition and purpose.

The Remuneration Committee was established on the basis of a resolution of the Supervisory Board on 7 December 2011, to apply the principles for determining policies relating to variable compensation components for persons holding managerial positions at the Bank, adopted by a resolution of the PFSA no. 258/2011 dated 4 October 2011 which came into force on 31 December 2011.

The Remuneration Committee:
- gives its opinion on the policy regarding variable compensation components in accordance with the principles of stable and prudent risk, equity and liquidity management, and specifically taking into consideration the Bank's and its shareholders' long-term interests;
- gives its opinion on the acceptability of paying variable compensation components in the part relating to deferred payment terms of such components;

- gives its opinion and monitors variable compensation payable to persons holding managerial positions at the Bank, related to risk management and the Bank's compliance with the binding legal regulations and internal regulations;
- gives its opinion on the classification of positions which is subject to the variable compensation components policy.

The Remuneration Committee is composed of:
- Helene Zaleski;
- Marek Michalski;
- Krzysztof Obłój.

In the financial year 2015 the Remuneration Committee held five meetings, at which, among other things: it approved the results of the audit of pursuit of the Variable Remuneration Components Policy, approved amendments to the regulations of the Remuneration Committee. Additionally, it acquainted itself with the current list of persons in management positions in the context of Resolution No. 258/2011 of the PFSA and the CRD3 Directive, in compliance with the final draft of EBA RTS dated 16 December 2013, it approved the proposed changes in the variable remuneration components for persons in managerial positions at Alior Bank S.A., recommending submitting the materials for the decision of the Supervisory Board, it gave a positive opinion on the list of persons in managerial positions in the context of Resolution No. 258/2011 of the PFSA and the CRD3 Directive in accordance with the final draft of EBA RTS dated 16 December 2013, it gave its positive opinion on the goals for 2015 for the persons covered by the Incentive Scheme policy and the positions covered by the requirements of para. 31 of Resolution No. 258/2011 of the PFSA.

The Audit Committee was established to meet the requirements of the Act on registered auditors and their self-government.

The Audit Committee is composed of:
- Helene Zaleski;
- Małgorzata Iwanicz-Drozdowska;
- Sławomir Niemierka (in connection with the resignation of Mr Stanisław Popów as Member of the Supervisory Board of Alior Bank S.A., on 22 December 2015, the Supervisory Board appointed Mr Sławomir Niemierka Member of the Bank's Supervisory Board.

In 2015 the Audit Committee held five meetings (on 21 January 2015, 11 March 2015, 14 May 2015, 9 September 2015, 7 October 2015) during which its tasks in the area of monitoring the financial reporting process, controls effectiveness, internal audit and risk management were realized. As part of its meetings, the Committee monitored the performance of the audit tasks and monitored the independence of the registered auditor, meeting up and holding discussions with the registered auditor of the Bank's financial statements. The committee was presented the control report for 2015 prepared by the Audit Department, and reports from the key risk areas.

The Supervisory Board Risk Committee was appointed on 22 December 2015, pursuant to the Resolution of the Supervisory Board No. 81/2015, to support the Supervisory Board in the area of supervising risk management at the Bank.

The Risk Committee is composed of:
- Małgorzata Iwanicz - Drozdowska
- Sławomir Niemierka
- Niels Lundorff.

The first meeting of the Committee was held on 13 January 2016. During the meeting materials on credit risk, financial risk, and operational risk were presented. Additionally, the action plan for the Committee in 2016 was determined.

General Shareholders' Meeting

The manner of operation of the General Shareholders' Meeting and its basic rights, as well as the shareholders' rights and the manner in which they are exercised are specified in: the Regulations approved by resolution of the Ordinary General Shareholders' Meeting of 19 June 2013, the Bank's Articles of Association and the relevant provisions of the law, including the Commercial Companies Code and the Banking Law.

The General Shareholders' Meeting is convened as an ordinary or extraordinary meeting. The General Shareholders' Meeting is convened by the Bank's Management Board, unless respective regulations, the Bank's Articles of Association or the Regulations of the General Shareholders' Meeting provide otherwise. The General Shareholders' Meeting is held in the Bank's registered office or in another venue specified in the Bank's announcement on convening the General Shareholders' Meeting. The General Shareholders' Meeting is convened by an announcement published on the Bank's website and in line with the procedure for providing current information according to the binding regulations. The announcement should be made at least twenty-six days before the date of the General Shareholders' Meeting.

Only the persons who were the Bank's shareholders sixteen days before the date of the General Meeting have the right to participate in the General Shareholders' Meeting is (the registration date).

The Bank's shareholders may participate in the General Shareholders' Meeting and execute voting rights in person or by proxy.

The resolutions of the General Shareholders' Meeting are passed by an absolute majority of votes, unless the Commercial Companies Code or the Bank's Articles of Association provide otherwise. One share gives the right to one vote at the General Shareholders' Meeting.

In accordance with the Commercial Companies Code and the Articles of Association of Alior Bank S.A., amendments to the Bank's Articles of Association require passing the respective resolution by the General Shareholders' Meeting and entry into the register. The resolution of the General Shareholders' Meeting on amending the Articles of Association is passed by a majority of three-quarters of all votes.

General Shareholders' Meetings in 2015

In 2015, two General Shareholders' Meetings took place, at which a total of 34 resolutions were passedy.

- Apart from resolutions of a formal nature the Ordinary General Shareholders' Meeting (25 May 2015) passed resolutions relating to the closing of the financial year 2014 and approving: the financial statements of the Bank and the Bank's Group, the Management Board Reports on the operations of the Bank and the Group, on appropriation of profit, approving the actions of all Members of the Management Board and the Supervisory Board, determining remuneration of the Members of the Supervisory Board who participate in the work of the Committees, adopting the Corporate Governance Principles for Supervised Institutions, merging Alior Bank Spółka Akcyjna with Meritum Bank ICB S.A. and giving consent to the purchase of real estate by the Bank.
- The Extraordinary General Shareholders' Meeting (30 November 2015, resumed after a break on 22 December 2015), apart from formal resolutions, passed a resolution on determining the number of Members of the Supervisory Board of the Bank and decided on appointing Mr Przemysław Dąbrowski and Mr Sławomir Niemierka to the Board.

Remuneration policy

Alior Bank's remuneration policy is intended to ensure that employees receive remuneration commensurate with their position, competencies and skills, to encourage the pursuit of long-term goals and to maintain risk at an acceptable level.

The level of basic salary for each employee is periodically reviewed and verified. Alior Bank uses market data to ensure an adequate level of salaries compared with the market level prevailing in its industry. The principles of awarding bonuses are also reviewed periodically.

The policy governing variable remuneration components for persons holding managerial positions at the Bank is an important element of Alior Bank's remuneration policy.

The policy of variable remuneration components for persons holding managerial positions

The policy of variable remuneration components for persons holding managerial positions at the Bank sets out the rules applied by Alior Bank S.A. to variable remuneration components for persons holding managerial positions at Alior Bank S.A. The policy was determined based on the provisions of Resolution No. 258/2011 of the Polish Financial Supervision Authority of 4 October 2011 on detailed rules for the functioning of the risk management and internal control systems, and detailed conditions for estimating internal capital by banks and a review of the internal capital estimation and maintenance processes, as well as the rules for determining a policy for variable remuneration components for persons holding managerial positions at the bank. The policy promotes appropriate and effective risk management and discourages excessive risk-taking (exceeding the acceptable level of risk as approved by the Supervisory Board or the Management Board) in order to maintain a solid capital base and, having in mind the long-term interests of the Bank, its shareholders' and customers, supports the Bank's sustainable development strategy and prudent risk management policy, mitigates conflicts of interest, and facilitates maintaining a transparent relationship between individual performance and individual remuneration, by focusing on targets associated with responsibilities and actual influence.

The Policy of Variable Remuneration Components for Persons Holding Managerial Positions at Alior Bank S.A. was approved by Resolution no. 97/2011, subsequently amended by Resolutions no. 33/2013 and 55/2015 of the Bank's Supervisory Board.

The following bodies are responsible for preparation and implementation of the Policy:
The Supervisory Board:

- approves the Policy of Variable Remuneration Components;
- appoints the Remuneration Committee from among its members;
- reads reports of the Audit Department;
- and may instruct Audit Department to conduct additional reviews of whether the Policy of Variable Remuneration Components is up to date and how it operates;
- instructs the Management Board to update the Policy;
- oversees compliance with the Policy; decides to grant or refuse its consent for the payment of some or all variable remuneration components to members of the Management Board and the Director of Audit Department. Consent to pay some or all variable remuneration components depends on the evaluation of the performance of a person holding a managerial position;
- has other competencies specified, among others, in a Resolution of the General Shareholders' Meeting and the Incentive Program By-Laws (Management Option Plan). .

The Management Board:

- is responsible for developing, implementing and updating the Policy of Variable Remuneration Components;
- approves, after consulting the Remuneration Committee, the managerial positions at Alior Bank S.A. covered by the Policy of Variable Remuneration Components;
- may instruct Audit Department to conduct an additional review of whether the Policy of Variable Remuneration Components is up to date and to prepare a report;
- decides to grant or refuse its consent for the payment of some or all variable remuneration components to persons other than members of the Management Board and the Director of Audit Department. Consent to pay some or all variable remuneration components depends on the evaluation of the performance of a person holding a managerial position;

- has other competencies specified, among other things, in a Resolution of the General Shareholders' Meeting and the Incentive Program By-Laws (Management Option Plan).

The Remuneration Committee:
- issues opinions on the Policy, being guided by a prudent and stable risk, capital and liquidity management, and with particular care for the long-term good of the Bank and the interests of the Bank's shareholders;
- issues opinions on the permissibility of the payment of variable remuneration components a regards deferred payment terms for the variable remuneration components covered by the Policy;
- issues opinions on and monitors the variable remuneration of persons holding managerial positions at the Bank relating to risk management and the Bank's compliance with the provisions of the law and with internal regulations, and issues opinions on the annual targets for the persons listed in paragraph 31 of Resolution no. 258/2011 of the PFSA;
- reviews the performance of persons covered by the incentive plan of Alior Bank S.A. and presents recommendations for the allotment of subscription warrants;
- issues opinions on the classification of positions covered by the Policy.

The Audit Department:
- conducts a review of the Policy of Variable Remuneration Components and its execution, at least once a year;
- presents, via the Director of the Audit Department, a report on the review of the Policy of Variable Remuneration Components, by 31 March each year;
- conducts a review of whether the Policy of Variable Remuneration Components is up to date at other times, as instructed by the Supervisory Board, the Management Board or the President.

Director of the Employee Department:
- maintains and updates the List of managerial positions covered by the Policy of Variable Remuneration Components;
- sends the data referred to in § 34 clause 1 of Resolution no. 258/2011 of the PFSA;
- maintains a register and stores written declarations of persons holding managerial positions at the Bank obliging these persons not to use own hedging strategies or insurance relating to remuneration and responsibility, excluding mandatory insurance resulting from specific legislation, intended to neutralize measures undertaken with respect to these people as part of executing the Policy of Variable Remuneration Components.

The following people holding managerial positions at the Bank are covered by the provisions of the Policy:
- Members of the Management Board;
- persons occupying other positions indicated by the Management Board after obtaining an opinion from the Remuneration Committee.

Alior Bank S.A. did not use external advisory services to prepare the Policy.

Criteria for performance measurement and evaluation of persons holding managerial positions

The Bank does not grant undefined retirement benefits to persons in managerial positions. For the purposes of the Policy, undefined retirement benefits are understood as retirement benefits awarded at the Bank's discretion to an individual employee as part of his/her variable remuneration package.
Persons holding managerial positions at the Bank cannot use own hedging strategies or insurance relating to remuneration and responsibility, excluding mandatory insurance resulting from specific legislation, intended to neutralize measures undertaken with respect to these people as part of executing the Policy of Variable Remuneration Components. Such persons issue a relevant written statement to this effect, which is registered and stored by the Director of the Employee Department.

In the case of variable remuneration, the total amount of variable remuneration is determined based on an evaluation of the performance of a person holding a managerial position at the Bank and the Bank's results in the area of that person's responsibility, taking into account the overall results of the Bank. The evaluation of individual performance takes into account both financial and non-financial criteria. The following financial and non-financial criteria are adopted: the Bank's net profit, return on equity, the Bank's capital adequacy ratios, liquidity ratios, profitability ratios, compliance with the law and internal regulations, sustainability of employment and other criteria adopted as individual objectives to be achieved by individual Employees.

Performance evaluation is conducted once a year and with regard to individual assessment periods covering the previous three years, so that the level of variable remuneration takes into account the Bank's business cycle and the risk associated with its business activities.

Variable remuneration components which are not covered in the Policy are an exception, are used only when recruiting new employees and are limited to the first year of employment.

A fixed part of remuneration represents a sufficiently large portion of the total remuneration, as at the date of its award, to enable flexibility in the policy of variable remuneration components, including lowering or not awarding at all specific variable remuneration components.

The total variable remuneration awarded to persons holding managerial positions at the Bank does not restrict the Bank's ability to increase its capital base.

If severance pay is agreed in an individual employment contract, the severance pay shall reflect the effort, efficiency and quality of the work provided in the last three years of holding a managerial position at the Bank.

50% of the variable remuneration is supposed to be an incentive to taking particular care of the Bank's long-term interests. Variable remuneration is awarded or paid if it corresponds to the financial position of the Bank as a whole and is justified by the Bank's results, performance of the organizational unit employing a given person and the person's performance. Variable remuneration should be accounted for and paid transparently, to enable effective execution of the Policy of Variable Remuneration Components.

If the Bank takes advantage of exceptional public intervention, particularly based on the Act on providing support to a financial institution by the State Treasury of 12 February 2009 (Journal of Laws no. 39, item 38, as amended) and the Act on recapitalization of certain financial institutions of 12 February 2010 (Journal of Laws no. 40, item 226 and of 2011, no. 38, item 196), then:

- if maintaining a solid capital base and the timely withdrawal from public aid are threatened, variable remuneration shall only be paid provided that the Bank earned a net profit;
- the Bank adjusts the level and components of remuneration in order to support appropriate risk management and a long-term growth of the Bank's results; this includes introducing remuneration caps for the Management Board of the Bank;
- variable remuneration is paid to the Management Board only in justified cases;
- variable remuneration components shall be allocated based on an analysis of the extent to which objectives set out in individual programmes have been achieved and based on an assessment of the Bank's profitability and liquidity indicators, provided there were no infringements of the law and the Bank's internal regulations .

The Bank's results used for the purposes of determining variable remuneration components should take into account the Bank's cost of risk, the cost of capital and liquidity risk in the long-term perspective.

Managers of the internal audit unit, the non-compliance risk management unit and organizational units responsible for risk management and HR matters receive variable remuneration for the achievement of the objectives resulting from the roles performed by them, and their remuneration does not depend on the business results generated by the areas of the Bank controlled by them.

In accordance with the principle of proportionality, a minimum amount of variable remuneration which will not be deferred or paid in financial instruments shall be introduced at PLN 70,000. If variable remuneration exceeds PLN 70,000, at least 50.1% of the variable remuneration component shall comprise financial instruments, and at least 50.1% shall be deferred.

Principles for awarding variable remuneration components to persons holding managerial positions.

Variable remuneration components for persons holding managerial positions at the Bank shall be awarded based on the following principles:

- Variable remuneration relating to a given annual period shall be determined as a fixed percentage of the basic salary for that year, based on the achievement of the objectives adopted for that year;
- After accounting for individual objectives, the amount referred to above shall be determined, resulting in the initial total amount of variable remuneration in Polish zloty, further marked as X;
- This entire amount (100%) can be paid in the form of a financial instrument which provides an incentive to taking particular care of the Bank's long-term interests – "phantom" sfares;

The entire amount (100%) of variable remuneration for the persons covered by the Policy may also be paid in the form of Subscription Warrants resulting from the Incentive Plan (Management Option Scheme). By Resolution no. 34/2013 of the Supervisory Board, the by-laws of the Incentive Plan were adopted, based on which subscription warrants are awarded to members of the Management Board of the Bank and other Eligible Persons. Subscription warrants entitle their holders to shares issued by the Bank based on Resolution no. 28/2012 of the Extraordinary Shareholders' Meeting of Alior Bank Spółka Akcyjna with its registered office in Warsaw dated 19 October 2012.

The Policy of Variable Remuneration Components for persons holding managerial positions is verified and updated every year. The Policy was updated by Resolution of the Supervisory Board of 19 August 2015 and no material changes were introduced.

Management Option Plan

On 13 December 2012, based on a power of attorney granted by a Resolution of the Supervisory Board of Alior Bank S.A. of 10 December 2012, preliminary allocation of A, B and C series Subscription Warrants was performed. The said Subscription Warrants entitle their holders to acquire the Bank's shares, in accordance with the Resolution of the General Shareholders' Meeting of Alior Bank S.A. no. 28/2012 of 19 October 2012 on the conditional increase of the Bank's share capital and issue of subscription warrants. The Warrants were allocated as follows:

- Wojciech Sobieraj – 666,257 warrants;
- Niels Lundorff – 366,437 warrants;
- Krzysztof Czuba – 266,500 warrants;
- Artur Maliszewski – 266,500 warrants;
- Katarzyna Sułkowska – 266,500 warrants;
- Witold Skrok – 266,500 warrants.

Detailed data related to the warrants awarded to the Members of the Management Board performing the function in 2015 are presented in the table below:

Name and surname	Number of A series warrants alloted as at 31.12.2015	Number of B series warrants alloted as at 31.12.2015	Number of C series warrants initially allocated as at 31.12.2015
Sobieraj Wojciech	222,086	222,086	222,086
Bartler Małgorzata*		11,000	20,000
Czuba Krzysztof	88,833	88,833	88,833
Hucał Michał**	53,300	66,625	88,833
Skrok Witold	71,067	88,833	88,833
Sułkowska Katarzyna	88,830	88,833	88,833
Total	524,116	566,210	597,418

* warrants allocated for the period before assuming the position of Deputy CEO
** warrants allocated during the period of the position of Deputy CEO

The incentive scheme is also addressed to a group of the Bank's key managers who are not Management Board members.

Principles of execution of the incentive scheme have been determined in the Incentive Scheme adopted by a Resolution of the Supervisory Board of Alior Bank S.A.

Under the new incentive scheme, it is anticipated that three tranches of subscription warrants (A, B and C series) and the corresponding three tranches of new shares of the Bank (D, E and F series) with a total nominal value of up to PLN 33,312,500 will be issued, including:

- up to 1,110,417 A series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 D series shares of the Bank in the period of five years starting from the first anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,416 B series subscription warrants, which shall entitle their holders to acquire up to 1,110,416 E series shares of the Bank in the period of five years starting from the second anniversary of the first quotation of the Bank's shares on the WSE;
- up to 1,110,417 C series subscription warrants, which shall entitle their holders to acquire up to 1,110,417 F series shares of the Bank in the period of five years starting from the third anniversary of the first quotation of the Bank's shares on the WSE.

The eligible persons will be able to take up subscription warrants on condition that the change in the price of the Bank's shares on the WSE in the reference period (calculated as the difference between the final price of the shares offered and the average closing price from 30 trading session days preceding the first (for A series subscription warrants), second (for B series subscription warrants) or third (for C series subscription warrants) anniversary of the first quotation of the Bank's shares on the WSE exceeds the change in the WIG-Banki index in the same period (calculated as the difference between the WIG-Banki index as at the day of the first quotation of the Bank's shares on the WSE and the average closing value of the WIG-Banki index for 30 trading session days preceding the day of the first, second or third anniversary of the first quotation of the Bank's shares at the WSE (as appropriate)).

The issue price of the shares will amount to the average price of the Bank's shares in the Public Offering calculated by dividing the net proceeds from the public offering by the total number of offered shares allocated in the public offering, increased by 10% (in the case of D series shares), 15% (in the case of E series shares) or 17.5% (in the case of F series shares).

The management option affects the Bank's financial result as a component of labour costs and will be recognized, in the same amount, as an increase in equity under other capital – share -based payment – equity component. At the day of the start of the plan its value amounted to PLN 24,692 thousand. In 2015, the expenses amounted to PLN 3,377 thousand. The value of the scheme was determined based on the fair value model. The fair value of share warrants was determined based on the simulation model of the share prices and the value of the WIG-Banki index. It is assumed that both the share prices and index prices change over time in accordance with the Geometric Brownian Motion process, assuming: long-term volatility of the Bank's share prices, long-term volatility of the value of the WIG-Banki index, the correlation between the share price and the value of the index during the simulation period, the dividend rate of the shares, and the risk-free rate. The estimates of volatility and correlation were based on historical data and comparable data (in the absence of historical data). The model takes into account the right to exercise the series A, B and C warrants for a period of five years from the first, second and third year from the date of issue, respectively.

On 9 April 2014 and on 16 December 2014, the Bank's Supervisory Board passed resolutions approving the vesting of subscription warrants for the first period of assessment under the Alior Bank S.A. Incentive Scheme. Pursuant to the provisions of the resolution, 713,140 A series subscription warrants were allotted, and the vesting of 262,614 was deferred and conditional on the achievement of goals by eligible persons in 2014.

On 30 April 2015, resolutions of the Bank's Supervisory Board and Management Board were passed on the allotment of 262,614 deferred A series warrants and 1,003,050 B series warrants. Vesting of 49,968

B series warrants was deferred and, as in the case of A series warrants, conditional on the achievement of goals in 2015.

To maintain the valuation of the Scheme unchanged, 134,663 A series warrants and 57,398 B series warrants were not allotted.

With respect to persons holding managerial positions at the Bank within the meaning of the Policy of Variable Remuneration Components at Alior Bank S.A., each pool of Warrants will be offered and issued in four tranches (the first tranche of the Subscription Warrants of 49.95% and the other three tranches of 16.7% of the number of warrants granted for the period), subject to the terms and conditions of the Policy of Variable Remuneration Components at Alior Bank S.A.

As at the date of publication of this report, the Bank's Management Board completed the procedures for increasing the Bank's share capital by five issues of new D-series ordinary bearer shares with a nominal value of PLN 4,107,040 constituting 12.32% of all exercisable rights vested in the participants of the Subscription Warrant Scheme. The new issues constitute 0.56% of the currently issued shares. Representations on exercising the rights vested in them by the Bank in respect of A-Series Subscription Warrants and taking up a total of 410,704 D-Series ordinary bearer shares with a nominal value of PLN 10.00 each, with a total nominal value of PLN 4,107,040, at an issue price of PLN 61.84 per one D-Series share, were submitted on 29 August 2014, 28 November 2014, 27 February 2015, 29 May 2015, 24 August 2015 and 28 August 2015. On 15 October 2014, 5 February 2015, 7 May 2015, 7 September 2015 and 2 November 2015, the District Court for the capital city of Warsaw, 13th Business Department of the National Court Register in Warsaw registered the share capital increase through the issue of D series ordinary bearer shares and the amendments to the Bank's Articles of Association.

Incentive Scheme for the Management Board

Following the end of the three-years validity period of the Original Incentive Program based on the shares of the Bank, the Supervisory Board adopted an Incentive Scheme for the Management Board for the year 2016.

The objective of the Program is to establish additional mechanisms motivating its participants to maintain effective fulfillment of the assigned tasks, managing the Bank in particular, as well as making efforts aimed at further sustainable development of the Bank and its capital group, while preserving correct and effective risk management in the Bank, stability of the senior management of the Bank and pursuing long-term interests of the shareholders by bringing the growth of the value of the stock market valuation of the Bank and simultaneous maintaining an increase of the net value of the assets of the Bank and its companies.

The premium depends on achieving and passing a relevant Thresholds of the Results of the Bank as well as Individual Targets. According to the Resolution of the PFSA, the assessment takes into account the results of work of the Authorized Person of the three preceding calendar years. The decision to grant the Premium will be made in regard to provisions of the Policy, financial and non-financial criteria as well as the evaluation of the results of the Bank, and also the evaluation of the results of the Bank in the field of responsibility of the given Authorized Person. According to the Resolution of the PFSA, the Supervisory Board of the Bank will also consider the results of the whole Bank for the three preceding calendar years, when making a premium disbursement decision and the amount of the premium. The Premium shall be paid in the event that the financial situation of the whole Bank shall support it. The Premium will be a defined percent of the fixed gross annual remuneration of the Authorized Person. Once the amount of the Premium is determined, it will be disbursed under the conditions set out below.

- 50% of the Premium will be paid out in cash in four tranches: 40% will be paid out without deferment, 60% will be deferred and paid out in 20% tranches in the following years,
- 50% of the Premium will be paid out in the form of the financial instrument motivating to a special attention to the long term business of the Bank – the “phantom” shares. The phantom shares will be cashed and paid out in the four tranches: 40% will be postponed for 5 months, and 60% will be deferred and cashed out in three 20% tranches.

All or partial Premium ay also be paid out in the form of subscription warrants According to the Resolution of the General Assembly of the Bank.

Remuneration of the Members of the Management and Supervisory Boards of Alior Bank S.A. 2015

Remuneration of the Members of the Management Board of Alior Bank S.A. in 2015 (in PLN ‘000)

(in PLN ‘000)	Period	Remuneration	Medical care / life insurance	Social security contributions	Total
Wojciech Sobieraj	01.01.2015-31.12.2015	2205	0,8	90	2296
Katarzyna Sułkowska	01.01.2015-31.12.2015	1245	0,8	59	1305
Joanna Krzyżanowska	01.07.2015-31.12.2015	718	0	23	741
Małgorzata Bartler	15.10.2015-31.12.2015	302	0,8	14	317
Barbara Smalska	15.10.2015-31.12.2015	356	0,8	11	368
Krzysztof Czuba	01.01.2015-31.12.2015	1245	0,8	59	1305
Witold Skrok	01.01.2015-31.12.2015	1245		59	1304
Michał Hucał	01.01.2015-28.10.2015	991		51	1042
Total		8 307	4	366	8678

Remuneration of the Members of the Supervisory Board of Alior Bank S.A. in 2015 (in PLN ‘000)

Supervisory Board	Period	Remuneration	Remuneration paid by Meritum Bank	Medical care	Compensations paid in respect of non-competitionearly termination of employment contract	Social security contributions	Total
Małgorzata Iwanicz-Drozdowska	01.01.2015-31.12.2015	132	2.4	0		8	142.4
Marek Michalski	01.01.2015-31.12.2015	121	1.6	0		10	132.6
Krzysztof Obłój	01.01.2015-31.12.2015	121		0		4	125
Niels Lundorff**	01.01.2015-31.12.2015	120		0	1080	5	1205
Helene Zaleski	01.01.2015-31.12.2015	123		0		0	123
Sławomir Dudzik	01.01.2015-31.12.2015	120		0		11	131
Sławomir Niemierka*	23.12.2015-31.12.2015	2		0		0	2
Przemysław Dąbrowski*	23.12.2015-31.12.2015	2		0		0	2
Stanisław Popów	01.10.2015-22.12.2015	122		0		22	144
Total		863	4	0	1080	60	2007

*remuneration includes remuneration due but not paid in 2015.

**resigned from the position of Management Board Member effective from 21 April 2014. The amount shown was paid in 2015.

Contracts with Management Board Members

Contracts with Management Board Members are concluded for an unspecified period. Contracts may be terminated by any of the parties with nine months' notice, effective at the end of a given calendar month.

In the case of the Bank terminating an employment contract with a Management Board Member before his/her term of office has expired, the Management Board Member shall be entitled to compensation at an amount of not less than 6 times and not more than 12 times his/her gross monthly basic salary.

The contracts contain non competition clauses which forbid Management Board Members to conduct any competitive activity for 12 months after termination of their employment contract with the Bank. In connection with the above, Management Board Members are entitled to receive remuneration representing the equivalent of their gross remuneration for 12 months.

Registered audit company

In respect of the review of the condensed interim financial statements for the period from 1 January to 30 June 2015 and for the audit of the annual financial statements for 2015 the Alior Bank Group uses the services of PricewaterhouseCoopers Sp. z o.o. with which it concluded a contract on 06 June 2014. The contract was signed for a period of 3 years.

The auditor's fee in PLN in 2015/2014 for:

	2015	2014
Audit of the annual financial statements	430 000	430 000
Other assurance services, including review of the financial statements	330 000	150 000

Alior Services Sp. z o.o. used the audit services of Mazars Audyt Sp. z o.o. for its audit of the financial statements for the year 2015. The fee for the audit was PLN 18,200.

As at day of the report's announcement, in connection with the annual financial report's audit for the year 2015:

- Money Makers S.A. established provisions amounted to PLN 25 000 for services of Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością sp.k.
- Alior Leaisng S.A. established provisions amounted to PLN 40 000 for services of Pricewaterhouse-Coopers Sp. z o.o.
- Meritum Services ICB S.A. established provisions amounted to PLN 4,400 for services of VISTA Audytorzy, Księgowi I Doradcy Sp. z o.o.

No. 15

Cash register

THE FIRST CASH REGISTER WAS INVENTED IN THE UNITED STATES IN 1879. IT DIDN'T PRINT RECEIPTS, BUT IT HAD ANOTHER IMPORTANT FEATURE: A BELL THAT ALARMED THE OWNER THAT THE SHOP ASSISTANT IS OPENING THE REGISTER. THIS WAY THE OWNER HAD BETTER CONTROL OF THE CASH IN THE SHOP. A FURTHER STEP WAS THE INTRODUCTION OF ODD PRICE ENDINGS. WHEN THE PRICE WAS $ 9.50 INSTEAD OF $ 10, THERE WAS A GREATER PROBABILITY THAT THE SHOP ASSISTANT WOULD GIVE CUSTOMERS THEIR CHANGE. THAT WAS THE MOMENT THE BELL RANG, MAKING THE OWNER AWARE OF THE FACT THAT THE REGISTER HAS BEEN OPENED.

XV

CHAPTER XV

Assessment of Alior Bank's operations and perspectives for 2016

XV. Assessment of Alior Bank's operations and perspectives for 2016

Assessment of the Alior Bank S.A. Group's operations

In 2015, the Alior Bank Group generated a net profit attributable to shareholders of the parent company of PLN 309.6 million and achieved return on equity (ROE) of 9.5%.

This result has been achieved in spite of a number of factors which negatively affected the Bank's functioning, including: incurring costs in connection with the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin, making a payment to the Support Fund for Borrowers, increased rates of the contributions to the Bank Guarantee Fund, reduction in interchange rates, and operating in an environment of record low interest rates. These factors have been discussed in more detail in the section entitled: *Summary of Alior Bank's operations in 2015*.

In 2015, net interest income was the main source of the Group's revenue, which in spite of low interest rate pressure, increased in annual terms by PLN 271.4 million to PLN 1,501.0 million, i.e. by 22.1%, thanks to the dynamic growth of lending activity achieved as a result of the merger with Meritum Bank and organic growth, in combination with effective pricing policy management at the Bank.

The main sources of the Group's revenue in 2015 also included net fee and commission income, which went down by 4.7% to PLN 331.7 million in annual terms and had a 15.3% share in revenue generated by the Bank in 2015. Moreover, the Group's revenue generated in 2015 was significantly affected by net trading result, representing 12.4% of revenue, and in particular the result generated in connection with transactions on the currency market and interest rate-related transactions generated on behalf of customers.

The Cost/Income ratio amounted to 51.1% in 2015 compared with 49.4% in 2014. Excluding the costs incurred in relation to the bankruptcy of Spółdzielczy Bank Rzemiosła i Rolnictwa in Wołomin and the payment to the Support Fund for Borrowers, the Cost/Income ratio in 2015 would have amounted to 48.1% and would have been 1.3 b.p. lower in comparison to an indicator in 2014.

At the same time, we should emphasize the success of the operational merger with Meritum Bank conducted in parallel with ongoing business activities, within less than four months from the date of the legal merger.

Bearing in mind the above, the Bank's Management Board positively assesses the operating activities conducted in 2015, the merger process with Meritum Bank and the financial results achieved in 2015. In the Management Board's opinion, they constitute a solid basis for consistently and securely increasing the scale of the Bank's operations in the coming years.

Development perspectives of the Alior Bank S.A. Group

In the coming months the results achieved by the Bank will be affected mainly by the following external factors:

- a new tax burden arising from the Act on taxation from selected financial institutions (the so-called banking tax).
  On 15 January 2016, the Sejm enacted the Act on taxation from selected financial institutions, the purpose of which is to tax the assets of financial institutions, including banks. The tax base for banks is the surplus of the total assets of a given bank arising from the trial balance determined as at the last day of a month based on the records from the general ledger accounts above PLN 4 billion. The Act also specifies the amounts which reduce the tax base. The tax is 0.0366% of the tax base per month. The Act on taxation from selected financial institutions is binding from 1 February 2016. In accordance with the provisions of the Act, introducing this tax cannot constitute the basis for changing the terms for providing financial and insurance services performed on the basis of contracts concluded before the date of the Act coming into force. Introducing the above-mentioned regulation will limit the possibility of including the tax in the price of services, the profitability of which was calculated on the assumption that the said tax charge did not exist.

- the PFSA increasing from 1 January 2016 the minimum recommended capital requirements to 10.25% as regards the Tier I ratio and 13.25% for the total capital ratio, from the currently binding 9.0% and 12.% respectively, which directly translates into the need to ensure an adequate level of own funds in the future that would enable executing the Bank's development strategy which assumes, among other things, a dynamic growth of assets;
- functioning in an environment of record low interest rates, which creates pressure on the level of the net interest margin generated. This pressure may increase significantly if the Monetary Policy Council makes a decision to reduce the main interest rates again in 2016, and thus, until any compensating measures have been implemented it may have a negative effect on the Bank's revenue.
- continuation of the positive trends in the economy. An increase in the gross domestic product and an increased number of employees and level of salaries and wages, accompanied by historically low interest rates and low prices of energy-related raw materials, which has a positive effect on the level of generated sales of loans and the quality of the loan portfolio.
- The slowdown of the global economic activity which may contribute to limiting new investment activity of enterprises remains the main risk factor here. Political uncertainty, the deterioration in the investment climate on the emerging markets, slowdown of the global economy, drops in prices of raw materials and the announced rate increases in the USA, which stop investors from increasing their exposure in risk-bearing assets.
- Poland is the biggest beneficiary of the unions' support. In the years 2014-2010 the European Union granted PLN 82.5 billion for our country. The funds are invested to strengthen the competitiveness of the polish economy, strengthen social and territorial cohension, as well as to increase efiiciency of administration.

  In connection with the above, bearing in mind the performance of its business customers, Alior Bank continues a wide campaign to support participation of enterpreneurs for utilization of union funds from the UE programs for years 2014-2020. Communication campaign informing customers and the distribution network on the currently lasting calls within specialized programs is on-going.

Moreover, all potential changes in the legal environment resulting in increased charges related to conducting banking operations, both in terms of tax and increasing operating expenses (including those arising from the proposed Act permitting currency conversion of loans denominated in foreign currencies, or the coming into force of the proposed Act on the Bank Guarantee Fund, the deposit guarantee system and mandatory restructuring), as well as the potential possibility of making additional payments to the Bank Guarantee Fund in the future, designated for the payment of guaranteed funds, will have a negative effect on the return on equity (ROE).

Bearing in mind the above-mentioned external factors, in order to execute its strategic objectives Alior Bank intends to continue implementing existing projects and initiate new ones in order to extend and optimize the product offer, and maintain the high dynamics of gaining new customers. Achieving these objectives is the basis of the Bank's strategy which assumes establishing and extending the Bank's relationships with existing customers and gaining new ones to the existing distribution network.

Continuing the processes aimed at maintaining high volumes of sales of cash and mortgage loans (in the case of individual customers) and revolving and investment loans (in the case of business customers) will be a significant factor affecting the level of revenue generated by the Bank in 2016.

Support to customer acquisition and the level of sales generated will be provided by:
- developing the banking activities as part of the relationship with T-Mobile Polska under the brand T-Mobile Banking Services delivered by Alior Bank. Alior Bank's ambition is to gain 2 million customers in Poland over the next 5 years based on the above-mentioned initiative. Moreover, on 7 August 2015, Alior extended its strategic alliance with Deutsche Telekom by signing a contract with a Romanian operator Telekom Romania Mobile Communications from the Deutsche Telekom Group. The purpose of the initiative is to create a branch of the Bank in Romania, which will operate according to a model

similar to the current cooperation between Alior Bank and T-Mobile Polska. The project is of strategic importance to Alior Bank as it is the first step towards the Bank's expansion to foreign markets. By virtue of this contract, Alior Bank will gain access to more than 6 million customers of Telekom Romania Mobile Communications. Alior's long-term objective is to build a strong market position on the Romanian bank market by gaining 800,000 customers over 5 years;

- continuing the acquisition of customers in the Consumer Finance sector. Based on the sale of instalment loans through an extensive network of retail shops, the Bank is building the customer base which will be used to further develop sales of loan products (mainly cash loans). Increasing the scale of productization of the customers thus gained is one of the sources of strengthening the level of income generated;
- concluding a contract for continuing strategic cooperation on the Polish market with a British hypermarket network Tesco in 2015. The Bank plans to extend its sales network by adding new locations in shops belonging to the partner and gradually enlarge the portfolio of products and services available to Tesco customers. By 2019, the Bank plans to gain 350,000 new customers served by Tesco Finanse;
- extending the product offer by adding operating leases, finance leases and lease loans in the fourth quarter of 2015, through the subsidiary Alior Leasing.

At the same time, one of the most significant actions that would affect the further effective operation of the Bank in 2016 would be the execution of processes enabling the Bank to obtain maximum possible synergies related to the merger with Meritum Bank.

In the Management Board's opinion, combining the experience of Meritum Bank, in particular in the segment of cash loans and micro- and small business banking, with the current activities of Alior Bank enables achieving effective business synergies and creates promising development perspectives.

The Bank does not rule out the possibility that the above-mentioned activities which form a basis for organic growth in 2016 may be supplemented by ongoing analyses and processes aimed at acquiring assets from the financial market the acquisition of which would enable increasing the scale and profitability of operations on the competitive market of banking products and services, with the perspective of growing costs of banking activities.

No. 16

Binary system

IS THERE ANYTHING SIMPLER THAN 2+2? SURE: 0+1. ONCE YOU CAN COUNT FROM 0 TO 1, YOU CAN COUNT EVERYTHING. THE ELEMENTS OF BINARY CALCULATIONS WERE FIRST USED BY JOHN NAPIER, BUT A COMPLETE INTRODUCTION INTO THE BINARY SYSTEM WAS PRESENTED BY GOTTFRIED WILHELM LEIBNIZ IN 1703 IN A TREATISE: *EXPLANATION OF THE BINARY ARITHMETIC, WHICH USES ONLY THE CHARACTERS 1 AND 0, WITH SOME REMARKS ON ITS USEFULNESS, AND ON THE LIGHT IT THROWS ON THE ANCIENT CHINESE FIGURES OF FU XI*". THIS WAS A SEVEN-LEAGUE STEP FOR MANKIND TOWARDS THE DIGITALIZATION OF COMPUTING.

XVI

CHAPTER XVI

Management representations

XVI. Management representations

Appointing the registered auditor

The registered audit company auditing the annual financial statements of the Alior Bank Group was appointed in accordance with the legal regulations. This company and the registered auditors performing the audit met the requirements for issuing an unbiased and independent audit opinion on the annual consolidated financial statements, in accordance with the respective legal regulations in force in Poland.

Policies adopted in the preparation of the financial statements

The Bank's Management Board hereby represents that to its best knowledge, the annual consolidated financial statements for 2015 and the comparative figures have been prepared in accordance with the binding accounting policies and that they give a true, fair and clear view of the asset and financial position of the Alior Bank Group and its results. The Directors' Report included in this document reflects the true achievements, development and position of the Alior Bank Group, including a description of its basic risks, in 2015.

Material contracts

The Bank's Management Board represents that as at 31 December 2015 Alior Bank S.A. did not have:

- material loan contracts, warranties and guarantees not relating to operating activities;
- liabilities to the Central Bank.

In the reporting period, the Bank had liabilities resulting from debt securities issued, in particular subordinated bonds, Banking Securities and other financial instruments.

In 2015, the Bank did not grant or terminate any lending agreements outside the scope of the Bank's normal business activities.

The Group companies did not grant any loan guarantees or warranties to a single entity or its subsidiaries, whose combined value would exceed 10% of the Bank's equity.

In the last reporting year no transactions with related entities were concluded within the Alior Bank Group on a non-arm's length basis. Transactions with related entities concluded by the Bank or its subsidiaries are described in Note 33 to the consolidated financial statements of the Alior Bank S.A. Group.

The total value of conditional liabilities granted to the Customers amounted to PLN 8 941 675 thousand (increase by 14.8% y/y) as at 31 December 2015. The given amount consisted of PLN 7 371 753 thousand of offbalance conditional liabilities for the financing and PLN 1 569 922 thousand of offbalance guarantee conditional liabilities.

The Bank does not know of any agreements which could result in future changes in the proportion of shares held by the existing shareholders or bondholders, apart of an preliminary agreement for the sale of 18,318,473 shares of the Bank, representing 25.26% of the share capital, concluded by and between Alior Lux S.a.r.l. & Co. S.C.A. seated in Luxembourg and Alior Polska Sp. z o.o. seated in Warsaw, and Powszechny Zakład Ubezpieczeń S.A. seated in Warsaw, on 30 May 2015, precisely described in the chapter: VIII. Events and contracts significant to the business operations of the Bank's Group.

Court proceedings in progress

The value of litigation relating to the Bank's liabilities or receivables pending in 2015 did not exceed 10% of the Bank's equity. In the Bank's opinion, none of the individual proceedings pending in 2015 before a court, a competent arbitration body or a public administration body, nor all the proceedings in aggregate, pose a threat to the Bank's financial liquidity.

In the cases related to business customers, the number of executory titles issued by the Bank as at the end of 2015 was 1,379 (including the titles issued by Meritum Bank ICB S.A.) and it covered the total indebtedness of PLN 355,355 thousand. With respect to individual customers, as of November 2015, the Bank issued 50,613 executory titles and motions for granting an enforcement clause for a total of PLN 756,975 thousand.

Signatures of the Management Board

Wojciech Sobieraj
CEO

02.03.2016 r., Signature

Małgorzata Bartler
Deputy CEO

02.03.2016 r., Signature

Krzysztof Czuba
Deputy CEO

02.03.2016 r., Signature

Joanna Krzyżanowska
Deputy CEO

02.03.2016 r., Signature

Witold Skrok
Deputy CEO

02.03.2016 r., Signature

Barbara Smalska
Deputy CEO

02.03.2016 r., Signature

Katarzyna Sułkowska
Deputy CEO

02.03.2016 r., Signature