



Management Board Report of the Alior Bank  
S.A. Group  
for the first half of 2013

## Selected financial and operating data, key ratios

in PLN'000				
	1.01.2013 - 30.06.2013	1.01.2012- 30.06.2012	%% (A-B)/B	1.01.2012- 31.12.2012
	A	B	C	F
Net interest income	417 766	325 733	28,3%	710 565
Net fee and commission income	227 018	217 114	4,6%	469 367
Trading result & other	145 758	97 943	48,8%	253 809
Net operating income*	790 542	640 790	23,4%	1 433 741
General administrative expenses before IPO expenses**	-409 061	-371 471	10,1%	-762 610
Impairment losses	-166 354	-119 309	39,4%	-282 252
Gross profit before IPO expenses**	215 127	150 010	43,4%	390 144
Net profit before IPO expenses**	171 815	133 173	29,0%	332 454
General administrative expenses	-409 061	-371 471	10,1%	-921 734
Gross profit	215 127	150 010	43,4%	229 755
Net profit	171 815	133 173	29,0%	174 063
Total net cash flow	-554 978	3 256	0,0%	568 258
Loans and advances to customers	17 654 499	12 297 431	43,6%	14 535 432
Customer deposits	19 051 608	13 593 330	40,2%	17 463 353
Total equity	2 382 256	1 363 958	74,7%	2 246 352
Total assets	23 032 700	16 507 729	39,5%	21 352 348
Ratios before IPO expenses				
Earnings/losses per share (PLN)	2,70	2,60	4,0%	5,23
ROE	14,85%	21,51%	-31,0%	19,80%
ROA	1,55%	1,67%	-7,0%	1,81%
C/I	51,74%	57,97%	-10,7%	53,19%
CoR	1,99%	2,05%	-3,3%	2,21%
L/D	0,93	0,90	2,4%	0,83
NPL ratio	6,41%	4,43%	44,7%	5,62%
NPL coverage ratio	57,23%	67,84%	-15,6%	58,83%
Capital adequacy ratio	14,42%	12,07%	19,5%	17,00%
Tier 1	12,48%	9,23%	35,2%	14,54%
Book value per ordinary share (PLN)	37,47	26,61	40,8%	35,33
*) net operating income means the sum of following: (i) net interest income, (ii) dividend income, (iii) net fee and commission income, (iv) trading result, (v) net gain (realized) on other financial instruments and (vi) net other operating income				
**)for 1.01.2012-31.12.2012				

## Contents

Selected financial and operating data, key ratios .....	2
1. Short description of Alior Bank S.A. ....	4
2. The Bank's external operating environment .....	8
3. Conditions in the banking sector .....	13
4. Financial results of the Alior Bank S.A. Group .....	14
5. Balance sheet .....	18
6. Operations of Alior Bank S.A. ....	23
7. Events and agreements significant to the operations of the Bank's Group ....	35
8. Significant non-adjusting events and agreements after the balance sheet date .....	40
9. Disputed claims .....	41
10. Operation of companies belonging to the Alior Bank S.A. Group .....	41
11. Report on the risk exposure of Alior Bank .....	43
12. Contingent liabilities .....	59
13. Internal control system .....	60
14. Corporate social responsibility .....	61
15. Controls applied in the process of preparing financial statements .....	63
16. Shareholders of Alior Bank S.A. ....	64
17. Alior Bank S.A.'s bodies .....	68
18. Registered audit company .....	76
19. The main risks and threats connected with the Alior Bank Group activity .....	76
20. Management representations .....	77

## 1. Short description of Alior Bank S.A.

### 1.1 Description

Alior Bank started operating in November 2008 as a universal bank of the new type, combining traditional banking principles with innovative products. Its innovative offer and high customer service quality standards enabled it to achieve a significant position among medium-sized banks and to build a strong, recognizable and renowned brand. The Bank's objective is to offer simple and functional banking services to its customers. The Bank's vision is to be one of the best, most estimated and appreciated banks in Poland and as such to participate in establishing European banking standards. The Bank's basic values are integrity, entrepreneurship, innovation and simplicity. Alior Bank adopted these values upon its establishment in 2008 and has since been acting in compliance with them.

In over four years of its operations, Alior Bank has created one of the largest distribution networks in Poland.

As at 30 June 2013, it had 795 outlets (209 own branches, 444 partnership branches, 142 mini-branches operating under the Alior Bank Express brand). Alior Bank products are also offered in a network of almost three thousand outlets of financial intermediaries.

**Alior Bank S.A. distribution network**

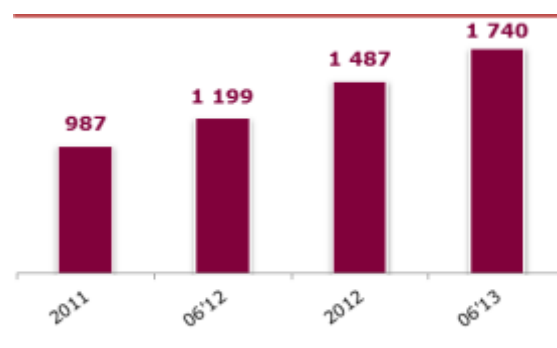


Alior Bank also uses distribution channels based on a modern IT platform covering online banking, virtual banking, call centres and mobile banking.

In the first half of 2013, Alior Bank continued the dynamic process of customer acquisition. As at 30 June 2013 the Bank had 1,739.6 thousand customers. Around 1,627.0 thousand are individual customers (including 252.2 thousand who are customers of the virtual bank AliorSync opened June 2012), and almost 112.6 thousand are business customers.

Alior Bank provides services mainly to Polish customers. The share of foreign customers in the total number of the Bank's clients is insignificant.

**Number of Alior Bank S.A.'s customers (in thousands)**



In effect of the Bank's operations it is gradually consolidating its position on the Polish banking market and is steadily generating increasing financial results, at the same time showing high effectiveness ratios and maintaining a high level of security in its operations.

The table below shows the basic balances and financial ratios as at 30 June 2013 and comparable data:

Selected balances and ratios	30.06.2013	30.06.2012
<b>Net loans and advances to customers</b>	17 654 499	12 297 431
<b>Amounts due from customers</b>	19 051 608	13 593 330
<b>Equity</b>	2 382 256	1 363 958
<b>Assets</b>	23 032 700	16 507 729
<b>Net interest income</b>	417 766	325 733
<b>Net commission income</b>	227 018	217 114
<b>Net operating income*</b>	790 542	640 790
<b>Profit before tax</b>	215 127	150 010
<b>Net profit</b>	171 815	133 173
<b>ROE</b>	14,85%	21.5%
<b>ROA</b>	1,55%	1.7%
<b>Net interest margin</b>	4,08%	4.38%
<b>Costs/ income</b>	51,74%	58.0
<b>Capital adequacy</b>	14,43%	12.07%
<b>Tier 1 ratio</b>	12,49%	9.23%

\*Included: interest result, the result of commissions and fees, income from dividends, the result achieved on the rest of the instruments and for the rest of the revenue and operating costs.

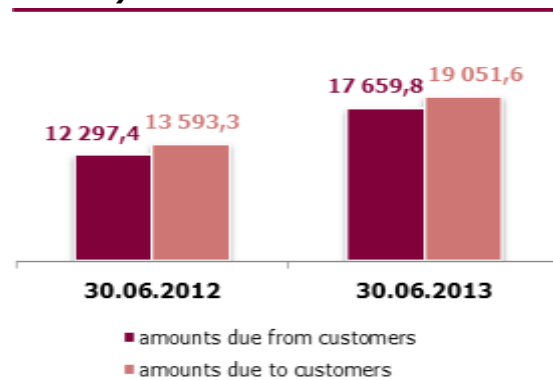
As at the end of June 2013 the total net amounts due from customers amounted to PLN 17 654 499 thousand, and the value of customer deposits – PLN 19 051 608 thousand, i.e. 43.6% and 40,2% respectively more than in June 2012.

Alior Bank is still a bank with one of the lowest loan/deposit ratios on the banking market. As at 30 June 2013 this ratio amounted to 92.7%.

Maintaining a ratio at below 100% is the result of the principles with which the Bank has complied since the outset of its operations:

- financing lending activities exclusively with funds acquired from customers;
- no proprietary trading.

#### Customer loans and deposits (in PLN million)

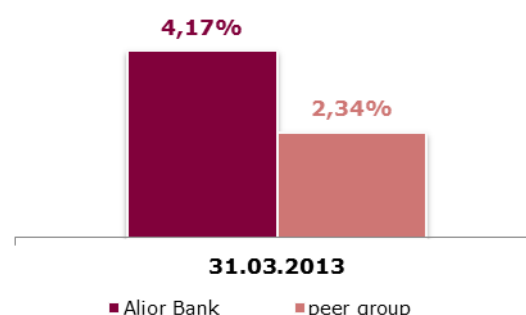


The Bank emphasizes the importance of credit risk diversification. The share of amounts due from the ten largest customers in total loans granted amounted to 8.4%. Diversification of the deposit base ensures a secure level of liquidity. The total amount due to the ten largest depositaries comprises 4.9% of the total amounts due to customers.

In June 2013 Alior Bank's market share in the credit market amounted to 2.2%, and in the deposit market to - 2.4%. Compared with June 2012 these shares increased by 6 p.p. and 5 p.p. respectively. The accumulated deposit base gives a stable foundation for lending activities and enables earning a stable interest margin.

The Bank maintains high profitability in its customer relations. Compared to its peers, Alior Bank maintains an interest margin significantly above the average. According to available data from 31 March 2013, the average interest margin for the peer group of banks was 2.34%. In the same period, the interest margin realized by Alior Bank amounted to 4.17%.

#### Interest margin as at 31.03.2013



Source: PFSA, (Report on economic and financial ratios)

As at 30 June 2013, the net profit of the Alior Bank S.A. Group amounted to PLN 171 815 thousand and was 29.0% higher than the net profit earned in the same period of the prior year. The main factors with a positive impact on the profit earned were the net interest income, net commission income and trading result increases noted during the period (of 28.3%, 4.6% and 56.5% y/y respectively).

The high sales dynamics referred to above was accompanied by consistent diligence in respect of the amount of operating expenses incurred by the Group, which increased by 10.1% y/y. In effect, the cost to income ratio dropped from 58.0% to 51.7%.

As at 30 June 2013 the number of employees in Alior Bank was equal to 5 720. This is an increase of 1 150 persons compared with the end of June 2012. Key managers have been with Alior Bank since its inception. As at the end of June 2013, there were 464 management positions in Alior Bank and 5 256 other positions.

#### Employment (persons)

	06'12	06'13
<b>Branches</b>	2 902	2 187
<b>Head office</b>	1 668	3 533
<b>Total</b>	<b>4 570</b>	<b>5 720</b>

The Bank's further development, aimed at doubling its market share in the Polish banking sector in the years 2013-2016, leads to earmarking the funds earned on the new issue of the Bank's shares as follows: for financing loans granted to households, among other things in the form of cash advances and Consumer Finance, for increasing the volume of financing granted to small and medium enterprises, and for supporting the investment plan aimed at consolidating new distribution channels (mini-branches Alior Bank Express, Consumer Finance, Internet platform).

## 1.2 Prizes and awards

In the first half of 2013 Alior Bank S.A. won several prizes and awards. The most important of them include:

- **February 2013** - seven awards for Alior Bank in the "Złoty Bankier 2012" ("Golden Banker 2012") poll. Alior Bank received statuettes both in product categories: "Best cash loan" and "Best business account for an Internet business", and in special categories, including the "2012 Financial Innovation" for launching Alior Sync – the first new generation virtual bank on the market. The "Personality of the Year" award was granted to Wojciech Sobieraj, President of Alior Bank.
- **February 2013** - a prestigious honorable mention for the highest value of a public offering of a Polish private company on the Warsaw Stock Exchange.
- **February 2013** - two "Bulls and Bears" prizes awarded by the daily paper *Parkiet*. Alior Bank received a prize for the largest private IPO in the history of the stock exchange. Wojciech Sobieraj – the President of the Bank – was honoured with a special prize – for building from scratch a bank that achieved a strong position on the market over several years and has capitalization of PLN 4.5 billion;
- **February 2013** - two titles of Innovation of the Year 2012 – granted by the jury made up of representatives of the Forum Biznesu editors' portal and the Technical Sciences Department of the Polish Academy of Sciences. The Innovation of the Year 2012 was deemed to be: the Foreign Exchange Outlet – the first Internet foreign exchange outlet in Poland managed by the Bank and Alior Sync – the first virtual bank of the 21<sup>st</sup> century in the world;
- **March 2013** - the main prize in the 11<sup>th</sup> edition of the competition "IT Leader of Financial Institutions 2012" organized by the Gazeta Bankowa newspaper. IT solutions implemented in the Bank also received an honourable mention in the categories "Electronic Banking and E-finance" and "Safety in Electronic Banking";
- **April 2013** – Rzeczpospolita journal's Eagle prize for the best and most effective financial services firm. The jury also acknowledged Alior Bank's fastest development against the background of the banking sector, and the successful largest public offering of a private company in Poland;
- **May 2013** - "Leopards 2013" – victory in the competition for the most admired brand creation in banking, organized by TNS Polska and banking circles.

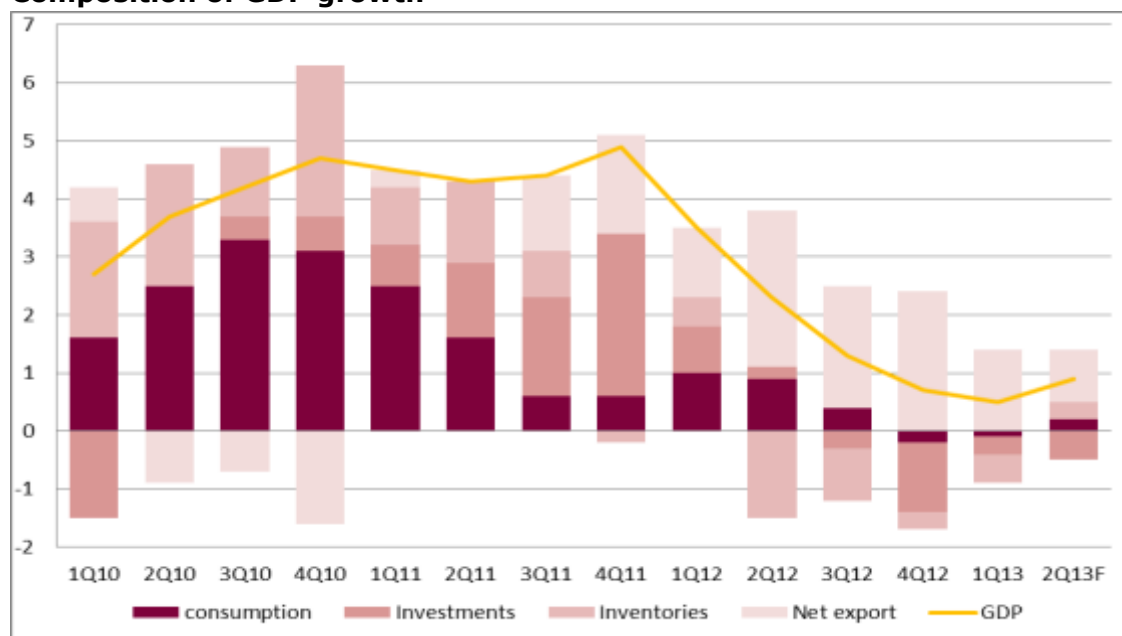
## 2. The Bank's external operating environment

### 2.1 Macroeconomic conditions (trends in the economy, inflation, unemployment)

In the first half of 2013 the pace of economic growth in Poland slowed down visibly due to the continuing recession in the Eurozone economy and lower, although still present, uncertainty on the financial markets. In the first quarter of 2013 GDP dynamics amounted to 0.5% y/y compared with 0.7% y/y in the fourth quarter of 2012. In the second quarter of 2013 the pace of economic growth is expected to increase to 0.9% y/y,<sup>1</sup> among other things, thanks to the positive impact of consumption and restoration of inventories.

In the first half of 2013, the drop in investments resulting from continued (since the third quarter of 2012) uncertainty of businesses as to the economic development perspectives in Poland and abroad had a significant impact on the slowing of the GDP growth. The high base effect from the first half of 2012 also contributed negatively to this trend, when infrastructural projects related to the 2012 Europe Football Cup were at the final stage of completion. Unfavourable conditions on the labour market at the beginning of the year induced households to accumulate savings at the expense of consumption; as a result we had negative consumption dynamics at a level of 0.1% in the first quarter. Net export maintained its positive contribution to economic growth; however, its share dropped from quarter to quarter.

**Composition of GDP growth**



<sup>1</sup> Alior Bank's forecast



In the first half of 2013 the labour market remained stagnant. In June 2013 the average employment in the business sector amounted to PLN 5 488 thousand compared with PLN 5 474 thousand at the end of December 2012. Annual employment dynamics were negative and amounted to -0.8%.

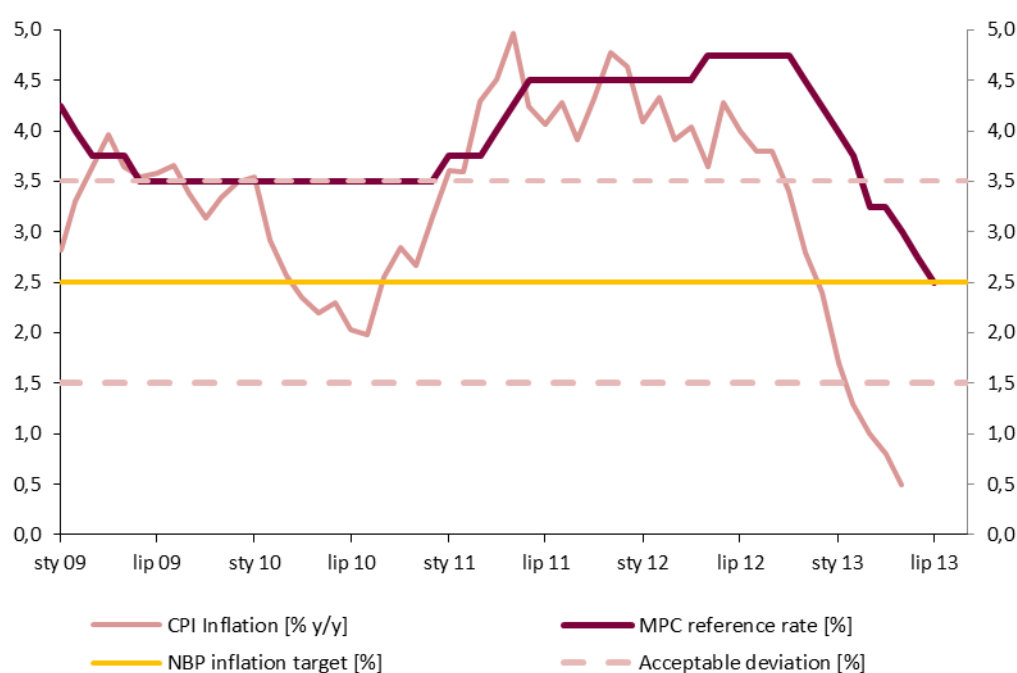
As a result of the weak condition of the Polish economy unemployment increased and amounted to 13.2% in June compared to 13.4% at the end of 2012 and 12.4% in June 2012. As at the end of June 2013, 2 109 thousand people were unemployed, 28 thousand less than in December 2012.

High unemployment and a low pace of economic growth suppressed wage pressures on the part of employees. In June 2013 remuneration dynamics in the business sector dropped to 1.4% y/y compared with 2.4% in December 2012.

In the first half of 2012 the Consumer Price Index dropped systematically from 2.4% y/y in December 2012 to 0.2% in June 2013, thus evidently dropping below the lower limit of acceptable fluctuations specified by the Monetary Policy Council, i.e. 2.5% +/-1 p.p. In the period from January to June 2013 the steepest price rises were in the following categories: education (2.6%), restaurants and hotels (2.5%) and food (2.2%). A large drop in prices related to the telecommunications sector (6.6%) and garments and shoes (5%).

Low inflation pressure enabled the Monetary Policy Council to continue the cycle of reducing interest rates to spur economic growth. After two cuts of 25 bp each in the fourth quarter of 2012, in the first half of 2013 the Monetary Policy Council made further cuts of a total 150 bs, reducing the reference rate to 2.75%. At its July meeting the Council made a further reduction of 25 b.p., at the same time signaling the end of the cycle of loosening monetary policy. In the opinion of the Council, the series of interest rate reductions made since November 2012 are conducive to economic revival and limit the risk of inflation being below the inflation target in the mid term.

### Inflation and MPC reference rate



Economic slowdown translates into deterioration of public finances. Due to the fact that the economic growth forecasts stipulated in the Budget Act for 2013 at a level of 2.2% and inflation of 2.7% are unrealistic in current circumstances, the government amended

the budget. According to the newest estimates of the Finance Ministry, budget income will be PLN 24 billion lower in 2013 than those initially planned; therefore, the government decided to increase the budget deficit by ca. PLN 16 billion (1% of GDP) to PLN 51.6 billion, and will try to accumulate ca. PLN 8 billion in the form of expense reductions in particular ministries. Condition of public finance will be partially improved with unforeseen in budget act payment of NBP profit equal to 5 mln PLN. Government made also an order of suspension for budget regulation for 2013-2014, precluding from increase of the budget deficit in the event of government debt to GDP ratio being exceeded by 50%.

Economic downturn results in high level of bankruptcies of enterprises. In the first half of 2013 number of enterprises which declared bankruptcy was close to the corresponding period in the previous year, and numbered to 483 institutions in comparison to 472 in the same period in 2012.

Slowing pace of investments translates into lower demand on machines and production lines, which resulted in higher number of bankruptcies in sector of manufacturing industry (132) in the period between January-June 2013. Construction sector (124) is in the second position due to limitation of investments in infrastructure and real estate. There are no signs of improvement in respect of new orders possibly to slowing pace of bankruptcies of companies in this sector, despite the current high season in construction. Difficulty of the industry has been stressed by latest data of GUS (GUS - The Polish Central Statistical Office) – in the first half of 2013 production in construction and assembly has been decreased year-on-year by 21.5%.<sup>2</sup>

## 2.2 Financial markets

In the first quarter of 2013 political and economic turmoil in the Eurozone was the main factor determining the moods on financial markets. In February and March attention was focused on the prolonged political paralysis in Italy after the elections. Cyprus also created a stir up when it became another state to avail itself of international financial aid in connection with the insolvency of the Polish banking sector. Ultimately, the endorsed agreement prevented small depositors from incurring losses and brought relief to financial markets, as it sustained confidence in the European financial system.

The important thing was that the reaction of the financial markets to both events, although nervous, did not transform into long-term periods of increased concerns about the eruption of a debt crisis, mainly thanks to the ECB's position of defending the euro "at all costs" and the standby program for intervention on the debt markets (OMT).

In the second quarter, speculation about extinguishing monetary expansion by the US Fed came to the foreground. The correction on the American T-bonds market caused by this change brought about the outflow of capital from emerging markets towards the dollar. The June meeting of FOMC and the press conference of Fed's President Ben Bernanke were boosted by expectations that the moment of extinguishing QE3 may occur earlier than had been discounted (the start date was September), although there is uncertainty about the date and the final decision depends on fulfilling the extremely optimistic forecasts for development of the US economy.

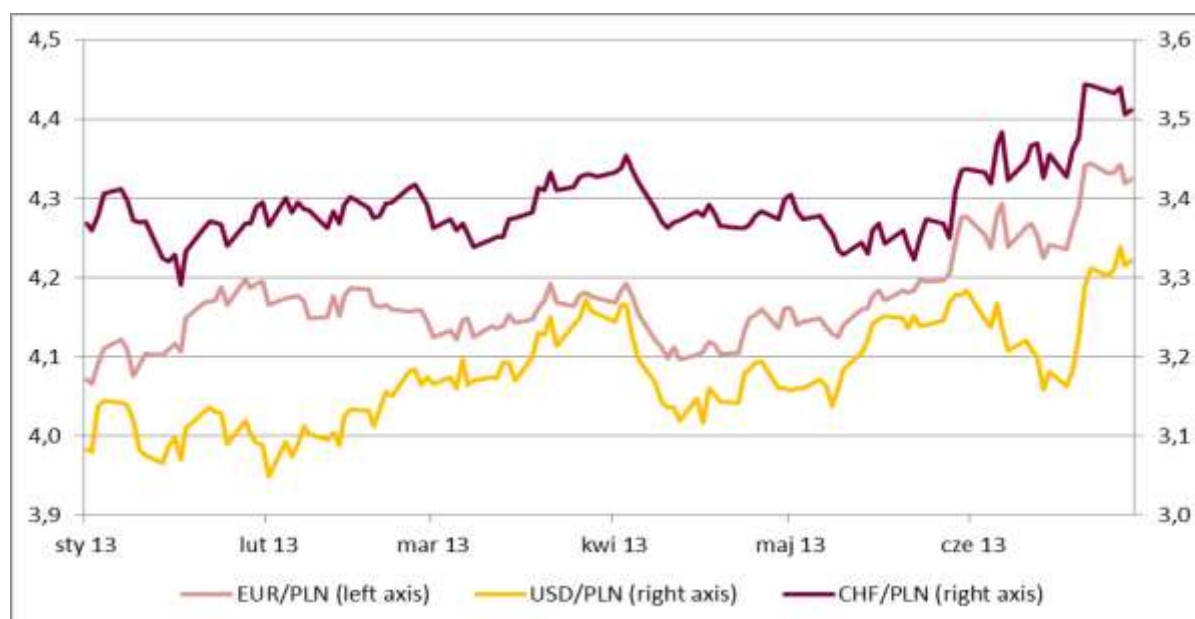
In the period from January to April, zloty quotations fluctuated slightly on a scale similar to that in the fourth quarter of 2012. In May the zloty began losing its value in line with

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<sup>2</sup> Source: Eurel Hermes, MSiG

the revaluation of emerging market assets caused by growing expectations relating to the US Fed's preparations for extinguishing the quantitative easing program (QE3).

### Quotations of the Polish zloty in the first half of 2013



In consequence, the zloty weakened compared to the euro and Swiss franc to the level last noted in June 2012, and in respect of the USD it was weakest since July 2012. Zloty quotations only stabilized vis-à-vis other currencies at the end of June, although at a raised level. Ultimately, over the first half of 2013 the zloty weakened by 6.1% compared with the euro, by 7.7% compared with the American dollar and 4.2% compared with the Swiss franc.

## 2.3 External conditions impacting the operation of the Bank in the second half of 2013

The prepared forecasts stipulate that in consecutive quarters, Poland's economic growth will systematically accelerate. The dynamics of Gross Domestic Product are expected to reach 1.7% in the third quarter and 2.0% in the fourth quarter of 2013. Economic growth throughout the year will reach 1.3%.

In the second half of 2013 the recovery of private consumption should significantly contribute to the economic revival. Increasing demand on the part of households will translate into the need to complete inventories by companies, and the growing demand for imported goods will have an impact on the decrease in the positive contribution of net export to economic growth. In the third quarter of 2013, negative gross capital expenditure dynamics are still expected to prevail and only the fourth quarter will bring about a slight increase. The expected end of the Eurozone recession will additionally boost the Polish economy and will have a positive impact on the acceleration of global economic growth.

The acceleration of economic growth in the second half of 2013 will be insufficient to lead to a significant drop in unemployment. At the beginning of the period, continuing uncertainty among businesses will prevent them from undertaking new capital expenditure projects which would be related to the creation of new jobs, and we do not

expect the situation to improve until the turn of 2013 and 2014 however, due to seasonal fluctuations, it is assumed that at the end of 2013, the unemployment rate is expected to be at a level of 13.6%.

After the end of the second quarter of 2013 which was the worst quarter in the last two years, it seems that the zloty has stopped losing value; however, its recovery at the beginning of the second quarter of 2013 will be slow due to the delayed moment of the Polish economy rebounding from the low point of the business cycle and the negative reaction of the outflow of capital from the national debt market. Until the end of the year positive changes in Poland's and the Eurozone's macroeconomic conditions should bring about a significant drop in exchange rates to the zloty. The readiness to intervene expressed by the National Bank of Poland in order to limit excessive fluctuations on the national Forex market additionally supports the concept that the zloty will cease losing value.

Low pressure on the increase in consumer prices, the stability of raw material prices and reduced prices of gas and energy will cause inflation until the end of the year to be maintained below the lower threshold for acceptable fluctuations from the target set by the Monetary Policy Council, i.e. 2.5% +/-1 p.p. In 2013 the forecast price increase will amount to 1.0% on average. The expectations of the National Bank of Poland relating to accelerating the revival and gradual increase in inflation will prevent the Monetary Policy council from changing the interest rates.

The conditions of the Polish banking sector in the second half of 2013 will be shaped by the following phenomena:

- A gradual improvement in the economic position will enable increasing the savings rate and will lead to accelerating the pace of growth of the deposit base. In respect of institutional clients, in the third quarter of 2013 prudence in launching new projects will be observed (which will result in accumulating free cash), and this will be offset against the reduction in funds following from the deteriorating financial conditions of other entities. This relation will stop at the end of the year (in favour of a slow growth in deposits).
- The increase in loans to households will be maintained at a moderate level. Uncertainty in the economic environment will prevent businesses from undertaking new projects; therefore, low lending dynamics in this segment are expected. The revival of the credit market should be gradually noted at the turn of the third and fourth quarter.
- The financial condition of businesses will stabilize, and thus the increase in the cost of risks in the retail and corporate segment should be small, and with the end of the year these costs should gradually decrease.

### Polish economy in the years 2008-2013

	2008	2009	2010	2011	2012	2013 (P)
<b>GDP increase (% y/y)</b>	5.1	1.6	3.9	4.3	1.9	1.3
<b>Unemployment rate (%; end of year)</b>	9.5	12.1	12.4	12.5	13.4	13.6
<b>CPI inflation (% y/y; average during the period)</b>	4.2	3.5	2.6	4.3	3.7	1.0
<b>CPI inflation (% y/y; year end)</b>	3.3	3.5	3.1	4.6	2.4	1.3
<b>EUR/PLN exchange rate (year end)</b>	4.12	4.10	3.96	4.46	4.07	4.05

\*Forecast for 2013 prepared in July 2013

### 3. Conditions in the banking sector

The main factors which had an impact on the results achieved by the banking sector in the first half of 2013 include: weakened economic growth measured with GDP, dropping CPI inflation rate and gradual, slow improvement on the labour market observed since March 2013.

Additionally, the series of continued interest rate reductions which began in November 2012 also had a direct impact on the results of the banking sector in the analyzed six months. In the first half of 2013, the Monetary Policy Council reduced interest rates five times, by a total of 150 b.p. which reduced the reference rate to 2.75%. The reductions were also continued in the second half of the year. On 4 July 2013 the MPC reduced the reference rate to the lowest level in history – 2.5%.

In accordance with the data published by the Polish Financial Supervision Authority relating to the banking sector for June 2013, the cumulative net profit of the sector amounted to PLN 8,183 billion and was 1,9% higher than the result achieved in the same period of the prior year. The drop in results on banking activities (-6,9% y/y), which resulted mainly from the drop in net interest income (-8,9% y/y) in consequence of the base interest rate reductions described above and low growth of gross amounts of credits and loans (3,2% y/y), and a drop in net fee and commission income (-2,4 y/y) had a negative impact on the results of the sector.

The factors which had a positive impact on the results of the banking sector included:

- the drop in general administrative expenses (-0,8% y/y), which was the result of reducing the overall costs of -4,0%,
- a drop in impairment losses on financial assets (-17,7% y/y).

The effectiveness of the banking sector measured with the cost/income ratio deteriorated (by 2,5 p.p. y/y); the ratio itself amounted to 52,8% at the end of June 2013. However, the capital adequacy of the sector improved. At the end of June 2013, the capital adequacy (solvency) ratio for the whole banking sector amounted to 15,21% (13,61% - June 2012), and the Tier 1 ratio amounted to 13,74% (12,25% - June 2012).

With regard to balance sheet amounts, the banking sector was characterized mainly by a relatively slowing in lending activity caused by the economic slowdown – low demand for loans and the banks' increasingly stringent credit policies, with the simultaneous acceleration of the deposit growth rate.

Total assets of the banking sector as at the end of June 2013 amounted to PLN 1.401,3 billion (an increase of 6,6% y/y). Gross amounts due from the non-financial sector increased by less than 2,9% at the end of June 2013. In respect of gross amounts due from households, an increase of 2,4% y/y was noted and in respect of gross amounts due from businesses there was increased of 3,7%.

In respect of equity and liabilities, the value of non-financial sector on the end of June 2013, increased by 7,3% y/y to PLN 744,1 billion; however, business customer deposits increased by 4,0% y/y, and household deposits increased by 8,5% y/y.

In the opinions of experts, on the assumption that in consecutive months of 2013 the trends characteristic for the key balance sheet and income statement items of the banking sector will be similar to the first half of the year, the results of the banking sector should not be lower than those noted in 2012.

## 4. Financial results of the Alior Bank S.A. Group

### 4.1 Structure of the income statement

The net profit of the Alior Bank S.A. Group for the first half of 2013 amounted to PLN 171 815 thousand and was 29.0% higher than the net profit earned in the same period of the prior year.

The following factors had an impact on such a large increase in Group profits y/y:

- over 28,3% increase of interest result as a consequence of continuously growing loan production (client loan volume grew 43,6% y/y and on June 30th 2013 amounted to PLN 17 654 499 thousand)
- keeping net interest margin at the level of 4.1% in the II quarter 2013 (at approximate level reported in the I quarter 2013 along with decrease of average interest rate of loans by 1.14 p.p. to the level of 7.51% and decrease of the average cost of deposits (by 0.61 p.p.) to the level of 3.12%.
- good results achieved on fees and commissions of PLN 227.018 thousand (an increase of over 4,6% y/y), mainly in consequence of the cash advances offer;
- a drop in the C/I ratio from 58.0% to 51.74%, which reflects effective cost management while maintaining the dynamic growth of the scale of operations, despite the unfavourable economic conditions prevailing in Poland;

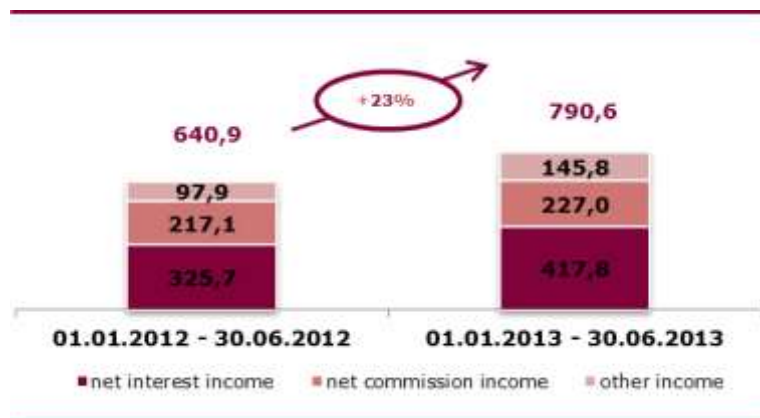
The table below shows the income statement of the Alior Bank Group:

	1.01.2013	1.01.2012
	-	-
	30.06.2013	30.06.2012
Interest income	702 168	582 297
Interest expense	-284 402	-256 564
<b>Net interest income</b>	<b>417 766</b>	<b>325 733</b>
<b>Dividend income</b>	<b>5</b>	<b>18</b>
Fee and commission income	342 382	300 502
Fee and commission expense	-115 364	-83 388
<b>Net fee and commission income</b>	<b>227 018</b>	<b>217 114</b>
<b>Trading result</b>	<b>127 233</b>	<b>81 288</b>
<b>Net gain (realized) on other financial instruments</b>	<b>6 961</b>	<b>3 219</b>
Other operating income	24 820	22 319
Other operating costs	-13 261	-8 901
<b>Net other operating income</b>	<b>11 559</b>	<b>13 418</b>
<b>General administrative expenses</b>	<b>-409 061</b>	<b>-371 471</b>
share-based payments – equity component	-6 561	-2 100
<b>Impairment losses</b>	<b>-166 354</b>	<b>-119 309</b>
<b>Gross profit</b>	<b>215 127</b>	<b>150 010</b>
Income tax	-43 312	-16 837
<b>Net profit</b>	<b>171 815</b>	<b>133 173</b>
Net profit attributable to equity holders of the parent	171 815	133 173

<b>Net profit</b>	<b>171 815</b>	<b>133 173</b>
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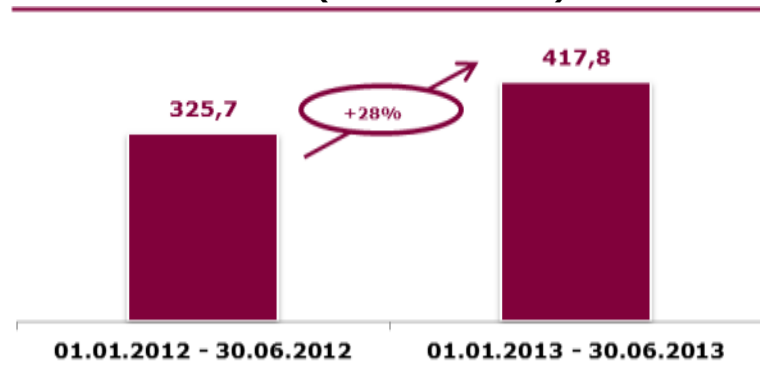
In the first half of 2013, the Alior Bank Group noted a significant increase in operating income. As at the end of June 2013 total income amounted to PLN 790,537 thousand, which is PLN 149,765 thousand more than at the end of June 2012. Almost 52% of the income related to the Group's net interest income.

### Total income



The main component of the Group's income in the first half of 2013 was net interest income of PLN 417,766 thousand w during the reporting period which is 28.3% higher than in the same period of the prior year.

### Net interest income (in PLN millions)



### Average interest rate

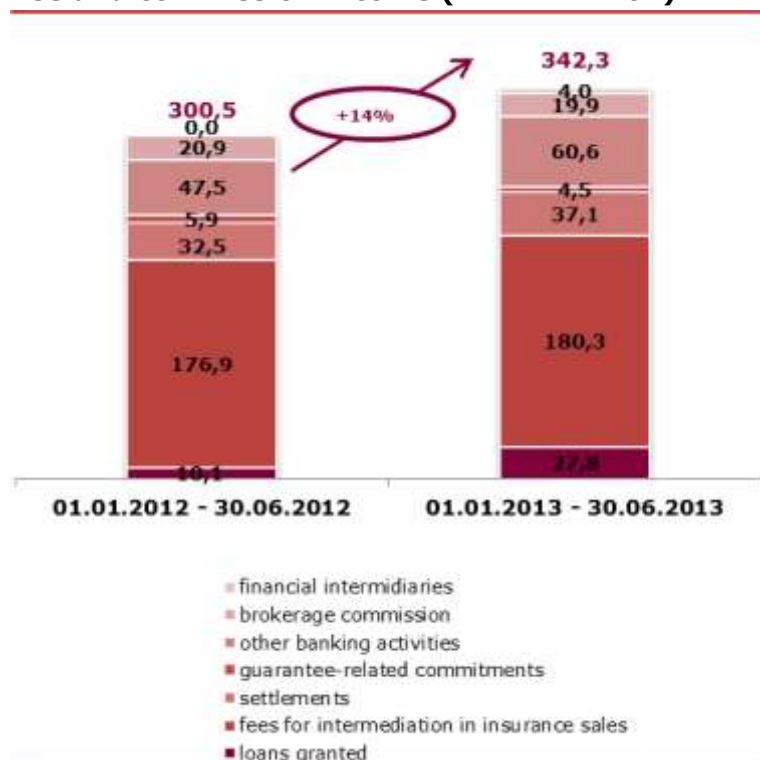
	01.01.2013 - 30.06.2013 (%)	01.01.2013 - 30.06.2013 (%)	01.01.2012 - 30.06.2012 (%)	01.01.2012 - 30.06.2012 (%)
<b>LOANS/ WIBOR 3m</b>	7.51	3,37	8.65	5,00
<b>Retail segment, including:</b>	8.34		9.32	
<b>Consumer loans</b>	10.69		12.48	
<b>Housing loans</b>	4.58		5.46	
<b>Business segment, including:</b>	6.32		7.68	
<b>Investment loans</b>	6.20		7.73	
<b>Operating loans</b>	6.11		7.51	
<b>Car loans</b>	9.89		11.12	



DEPOSITS/ WIBID 3m	3.12	3.17	3.73	4.80
<b>Retail segment</b>	3.35		3.99	
<b>Current deposits</b>	1.50		1.37	
<b>Term deposits</b>	4.10		4.77	
<b>Business segment</b>	2.60		3.07	
<b>Current deposits</b>	0.16		0.22	
<b>Term deposits</b>	2.71		3.71	

Net fee and commission income increased by 4.6% to PLN 227,018 thousand. The result comprised PLN 342,382 thousand of commission income (an increase of 13.9%) and PLN 115,364 thousand of commission expense (an increase of 38.3%). The Group noted increases in all key fee and commission income categories. The main component of fee and commission income was remuneration on intermediation in sales of insurance. As at the end of June 2013 they amounted to PLN 180,267 thousand and increased by 1.9% compared with the end of June 2012.

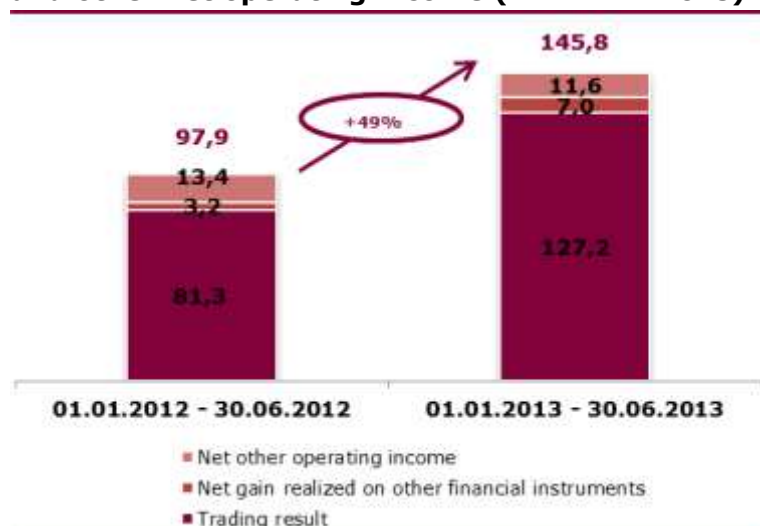
### Fee and commission income (in PLN million)



The trading result, the result realized on other financial instruments and other components of operating profit increased by 48.8% to PLN 145,758 thousand. In respect of the trading result the Group noted an increase of 56.5%, to PLN 127,233 thousand. In the first half of 2013 net other operating income resulted to PLN 11,559 thousand and is lower of 13,9% in comparison to the results in the corresponding period in the previous year.



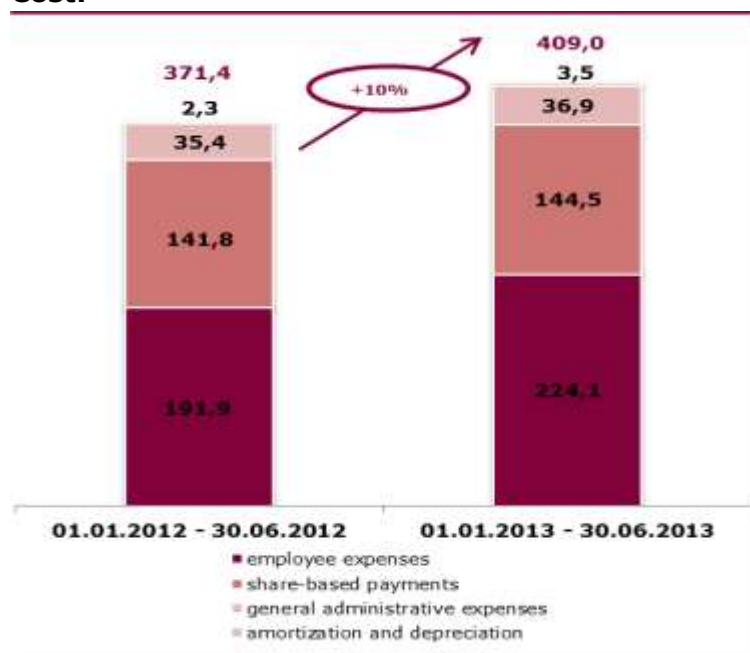
### Net trading income realized on other financial instruments and other net operating income (in PLN millions)



In the first half of 2013 the Group incurred operating expenses of PLN 409,061 thousand. These costs increased by 10.1% compared with the same period of the prior year. The increase in costs was related to further expansion of the distribution channels, including the continued project for the establishment of a network of mini-branches (*Alior Bank Express*), the project for the Internet bank Alior Sync and expanding Consumer Finance operations.

The C/I ratio amounted to 51.74% - a drop of 6.23 pp. The material improvement in the C/I ratio is the effect of an increase in the Bank's scale of operations and consistent cost management policy, pursued since the Bank's establishment.

### Cost:



Net impairment losses increased by 39.4%, to PLN 166,354 thousand. At the same time, amounts due from customers increased by 43.6%. Effective lending decisions, monitoring and debt collection processes enabled reducing the net result on provisions calculated with reference to the average amounts due from customers from 2,05% to 1,99%.<sup>3</sup>

#### Net impairment write-downs (in PLN million)



## 4.2 Financial forecasts

Alior Bank S.A. did not publish forecasts relating to its financial results.

## 5. Balance sheet

As at the end of June 2013 total assets of the Alior Bank Group amounted to PLN 23,032,700 thousand, and was 39.5% higher than at the end of June 2012.

#### in PLN thousand

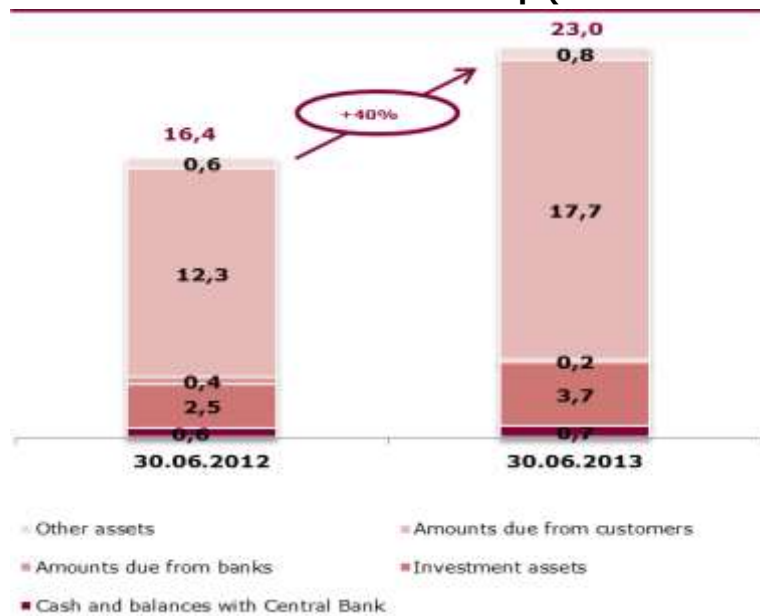
ASSETS	Stan 30.06.2013	Stan 31.12.2012	Stan 30.06.2012
Cash and balances with the Central Bank	721 980	1 029 968	590 173
Financial assets held for trading	265 384	173 706	204 629
Financial assets available for sale	3 446 706	4 320 747	2 344 583
Hedging derivatives	476	0	0
Amounts due from banks	170 021	413 528	433 464
Loans and advances to customers	17 654 499	14 535 432	12 297 431
Property, plant and equipment	206 866	214 887	217 407
Intangible assets	167 406	157 940	136 816
Investments in subsidiaries	0	0	0
Non-current asset held for sale	62 298	62 298	0
Income tax asset	54 724	78 755	63 055
Current	4 120	0	2 784

<sup>3</sup> The risk cost ratio – calculated as impairment write-downs divided by the average amounts due from customers (calculated as the arithmetical mean of gross amounts due from customers as at the end of the last reporting period and current reporting period).

Deferred	50 604	78 755	60 271
Other assets	282 340	365 087	220 171
<b>TOTAL ASSETS</b>	<b>23 032 700</b>	<b>21 352 348</b>	<b>16 507 729</b>
<b>LIABILITIES AND EQUITY</b>	<b>Stan 30.06.2013</b>	<b>Stan 31.12.2012</b>	<b>Stan 30.06.2012</b>
Financial liabilities held for trading	156 717	129 107	167 135
Financial liabilities measured at amortized cost	19 590 714	18 092 194	14 181 944
Hedging derivatives	11 300	0	0
Provisions	5 251	12 549	10 896
Other liabilities	531 298	490 105	430 911
Income tax liabilities	2 761	31 463	0
Current	2 761	31 463	0
Subordinated loans	352 403	350 578	352 885
<b>Total liabilities</b>	<b>20 650 444</b>	<b>19 105 996</b>	<b>15 143 771</b>
<b>Equity</b>	<b>2 382 256</b>	<b>2 246 352</b>	<b>1 363 958</b>
Share capital	635 830	635 830	512 500
Own shares (negative value)	0	0	0
Supplementary capital	1 434 713	1 276 611	714 631
Revaluation reserve	-31 694	10 776	3 259
Other capital	169 938	163 377	14 700
Share-based payments – equity component	169 938	163 377	14 700
Undistributed result from previous years	1 654	-14 305	-14 305
Current year profit/loss	171 815	174 063	133 173
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>23 032 700</b>	<b>21 352 348</b>	<b>16 507 729</b>

The basic portion of assets are amounts due from the Group's customers. Their share in total assets amounted to 76.6% as at the end of the June 2013 and increased by 2.2 p.p. compared with the same period of the prior year.

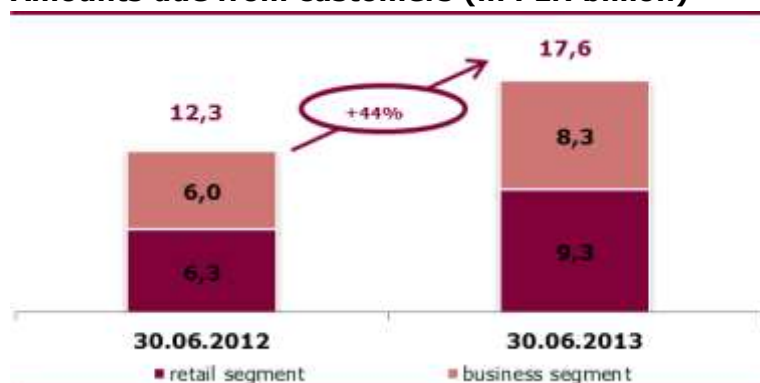
### Assets of the Alior Bank S.A. Group (in PLN billion)



The over 43-percent increase in amounts due from customers resulted both from the increase in the volume of loans and advances granted in the retail segment of 48.1%, and the increase in the volume of loans to the business segment of 38.8%.

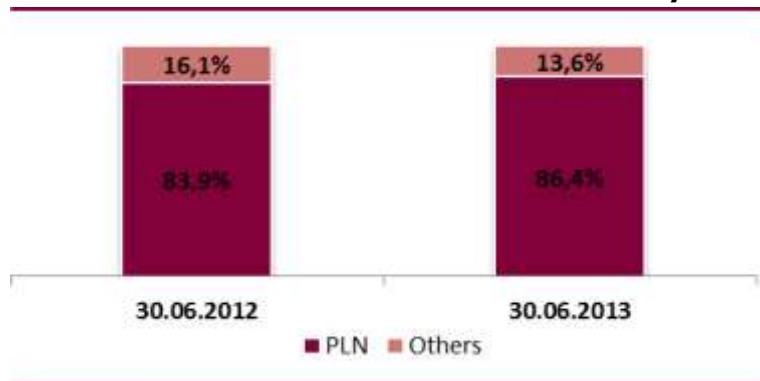
As an effect receivables share in retail segment was marginally widened in total receivables (from 51.3% to 52.9%), i.e. by 1.6. p.p.

### Amounts due from customers (in PLN billion)



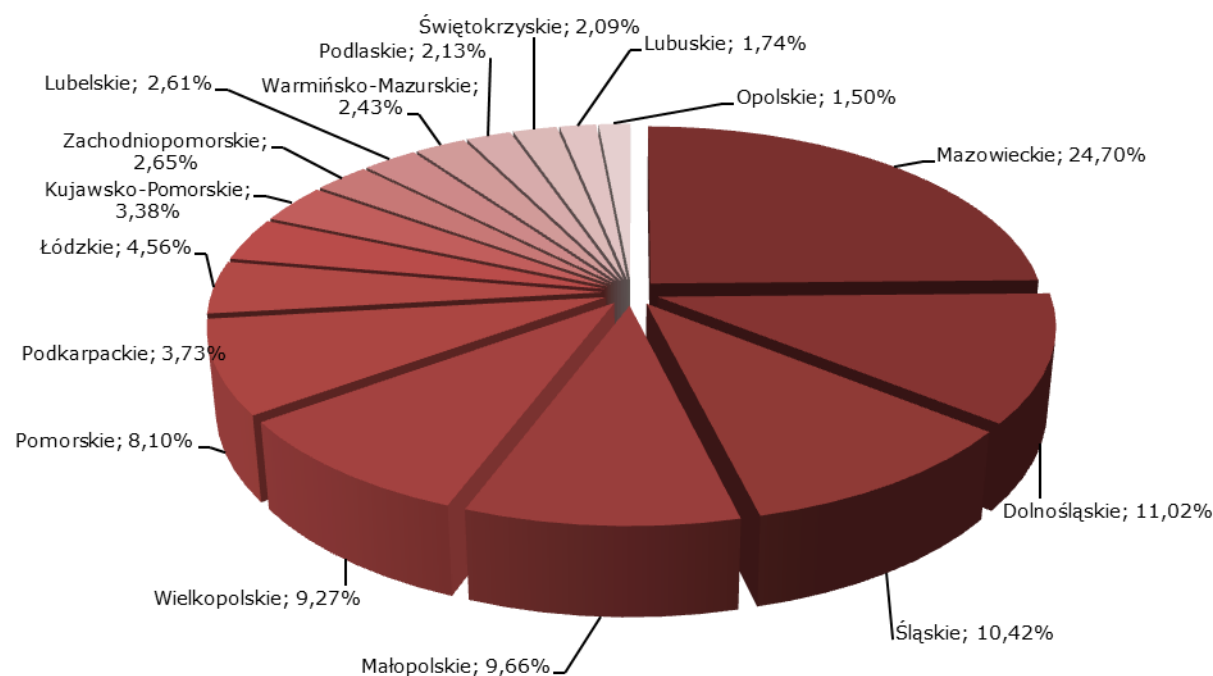
The main component of the loan portfolio for the retail segment were consumer loans with a volume exceeding PLN 5,194,838 thousand. These loans comprised over one-half of all loans and advances provided to retail customers. The second largest component of the retail loan portfolio were housing loans with a volume of PLN 2,846,861 thousand as at the end of June 2013. At the same time operating loans (56% of the total portfolio of business customers) and investment loans (32% of the total portfolio of business customers) were the main items in credit portfolio in segment of business customers.

### Structure of amounts due from customers by currency



Compared with the structure of amounts due from customers by currency as at 30 June 2012, the share of loans denominated in zloties increased; currently their share in the total loan portfolio is 86.4%, which is an increase of 2.5 p.p. As at the end of June 2013 the volume of foreign currency loans amounted to PLN 2,392,291 thousand, which is an increase of 20.6% compared with the end of June 2012.

### Amounts due from customers by geographical area (as at 30.06.2013)



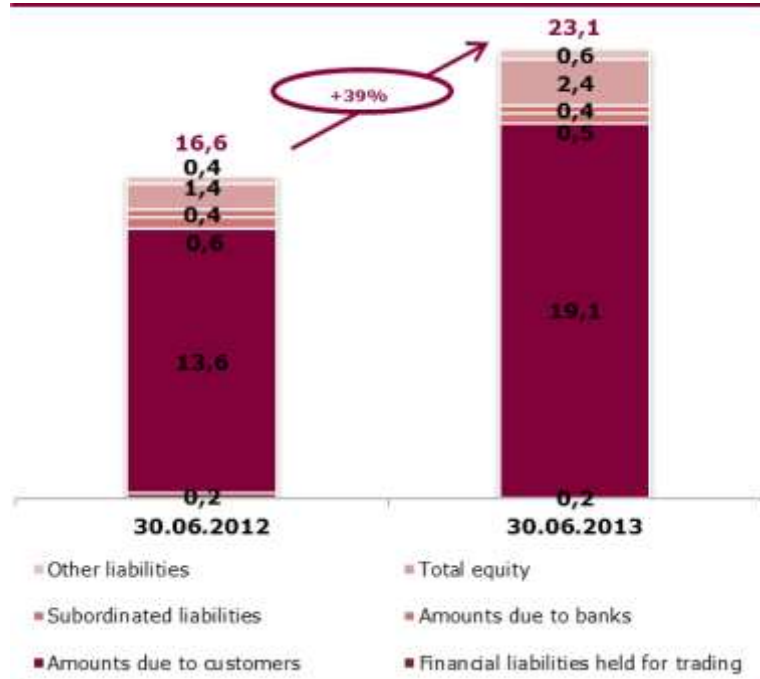
Almost 1/4 of all loans granted by the Bank constitutes loans granted to Mazowieckie voivodeship residents. Over 20% of all loans are loans granted to customers from Śląsk. Shares of particular voivodeships: Pomorskie, Małopolskie and Wielkopolskie in the Bank's loan structure are similar and oscillate around 9%.

Amounts due from residents of other, smaller voivodeships comprise ca. 30% of the Bank's total loan portfolio.

The source of financing of the Group's operations are mainly customer funds deposited with the Bank.

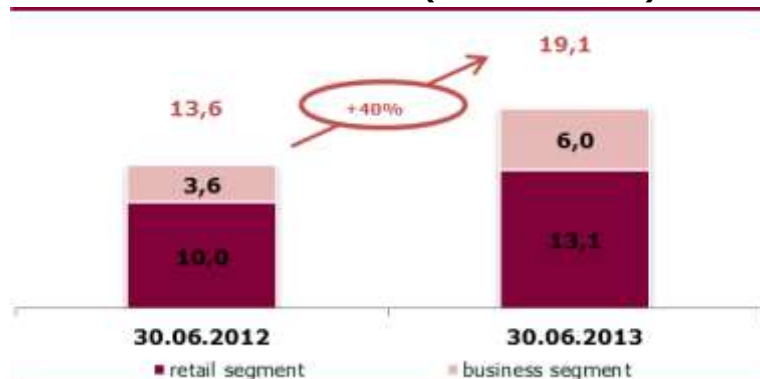
As at the end of June 2013 their share in total liabilities and equity amounted to 82.7%. The value of equity as at 30 June 2013 amounted to PLN 2 382 256 thousand. Such a large increase compared to June 2012 (of 74.7%) is mainly the result of additional capital resulting from the Group's listing on the stock exchange and an increase in equity by the net profit earned in the current year.

#### Equity and liabilities of the Alior Bank S.A. Group (in PLN billion)



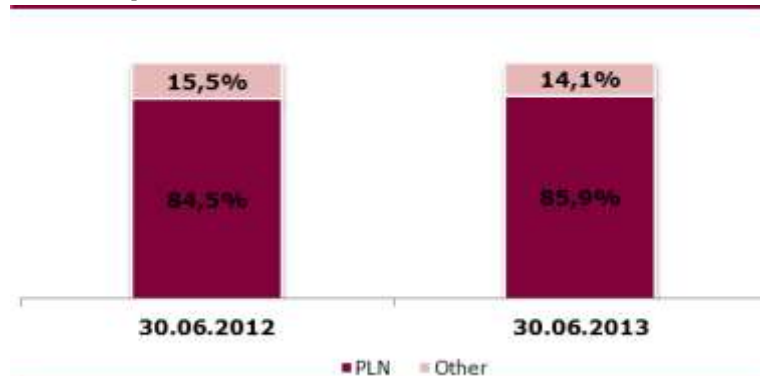
In the structure of amounts due to customers by segment the key item comprised amounts due to the retail segment which at the end of June 2013 amounted to 68.6% of the customer deposit portfolio.

#### Amounts due to customers (in PLN million)



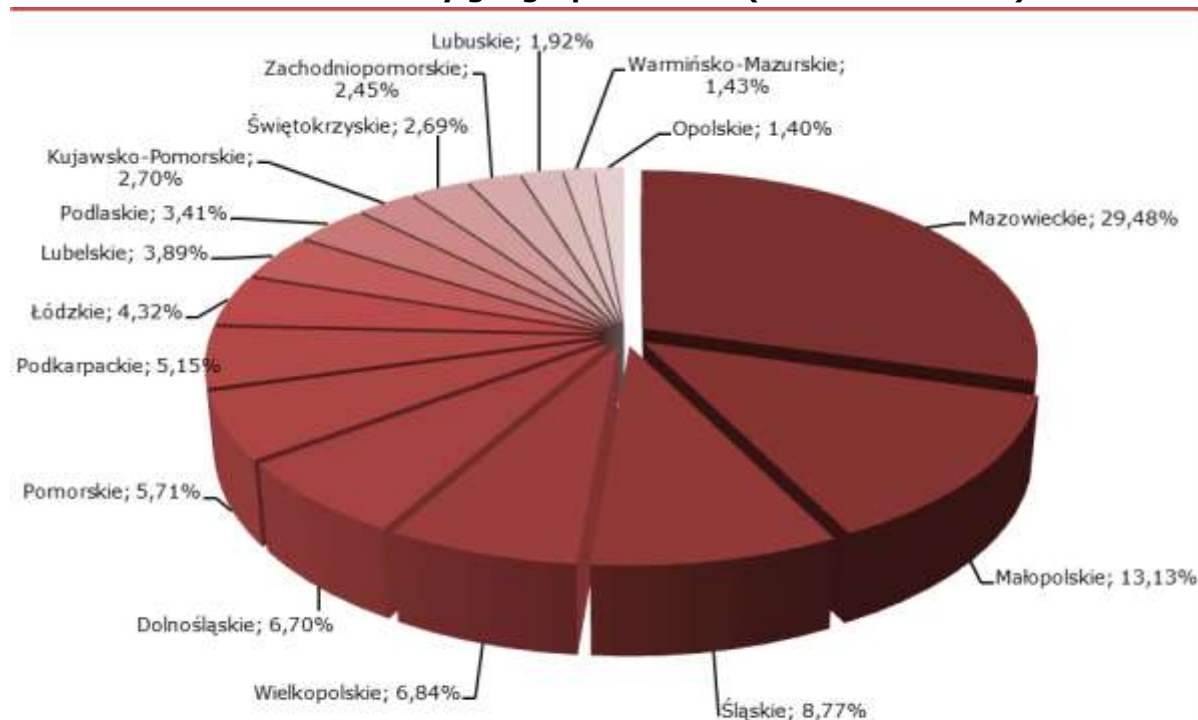
Total amounts due to the ten largest depositaries constitute 4,9% of all customer deposits which proves that the Bank's deposit base is strongly diversified.

## Currency structure of amounts due to customers



As at the end of June 2013, the currency structure of deposits was similar to the structure of the deposit base as at the end of June 2012. The share of PLN deposits only increased slightly (1.4 p.p) in disadvantage of funds in other currencies.

## Amounts due to customers by geographical area (as at 30.06.2013)



Funds deposited in the Bank are mainly derived from customers from Mazowsze (30%), Małopolska (13%) and Śląsk (15%). Customers from other voivodeships deposited funds comprising 58% of the Bank's total deposit base.

## 6. Operations of Alior Bank S.A.

### 6.1 Distribution network

In the 1st half of 2013 Alior Bank continued developing its distribution network and constitutes one of the largest distribution networks in Poland.

As at 30 June 2013 the Bank's customers could avail themselves of the Bank's products and services in a network of 795 outlets.

### Distribution network



## 6.2 Branches

As at 30 June 2013 the Bank serviced retail and business customers via 203 universal branches, 6 Private Banking outlets and one department specializing in servicing large companies.

## 6.3 Alior Bank Express

In 2012 the Bank increased its distribution network by launching mini-branches under the business name "Alior Bank Express"; as at 30 June 2013 there were 142 such mini-branches. Alior Express outlets are located mainly in malls and commercial centres. Most of the outlets are open throughout the week, also at weekends, and work longer business hours. In these outlets customers may avail themselves of the Bank's basic services comfortably and with ease. Customers may – among other things - take out advances, pay their bills without commission, open free-of-charge personal accounts and pay in a term deposit.

## 6.4 Partner outlets

As at 30 June 2013, the Bank cooperated with 444 partner outlets which offered a wide range of the Bank's products and services to their customers, and specifically term deposits and checking accounts to retail and business customers, savings accounts, debit cards, credit cards, cash advances, consolidation loans, housing loans, business loans and bank overdrafts.

## 6.5 Financial intermediaries

Alior Bank offers the following credit products: cash advances and housing loans, also via financial intermediaries. In June 2013 Alior Bank products were available in almost 3 thousand intermediary outlets throughout Poland.



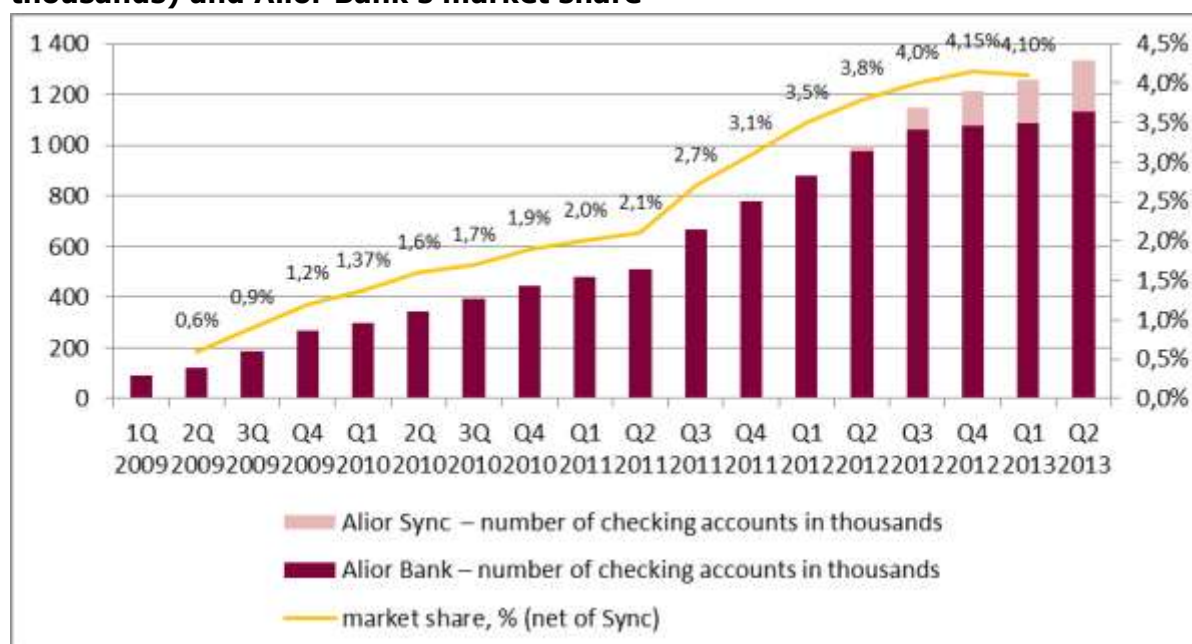
## 6.6 Retail banking

### Current accounts of retail customers (KI)

In the first half of 2013 the number of checking accounts increased by nearly 120.9 thousand – including 57.1 thousand accounts under the Alior Bank offer and 63.7 thousand accounts in the Alior Sync. Offer. High sales of Alior Bank accounts are mainly the result of popularity of the Alior Rachunki bez Oplat accounts (Bills Free-of-Charge).

On 6 April 2013 a new option of the checking account was opened – Konto Rozsądne (Reasonable Account) with sales supported by a TV campaign. As at the end of June 2013 there were 24 thousand such accounts.

#### Number of PLN checking accounts as at the end of a given quarter (in thousands) and Alior Bank's market share



In the first half of 2013, the Bank introduced the following changes to its offer:

- It made available a new type of checking account – Konto Rozsądne (Reasonable Account) which offers a 5% refund of amounts paid in grocery shops using the card issued to the account and charges very low periodic fees to active customers (i.e. customers who receive remuneration, pension, disability pension or scholarship grants on their account);
- It simplified the offer by withdrawing selected currencies and types of checking accounts from sales;
- It introduced offers encouraging customers to transfer their remuneration, pension, disability pension or scholarship grants covering:
  - dedicated terms and conditions for deposit and credit products, and increased interest rates on the account Alior Rachunki bez Oplat (Bills Free-of-Charge) – under the Alior Bank offer;

- It conditioned the possibility of receiving refunds of part or all of the amounts for Internet purchases paid with a debit card through the "Płać z Alior Sync" (Paid with Alior Sync) service – under the Alior Sync offer;

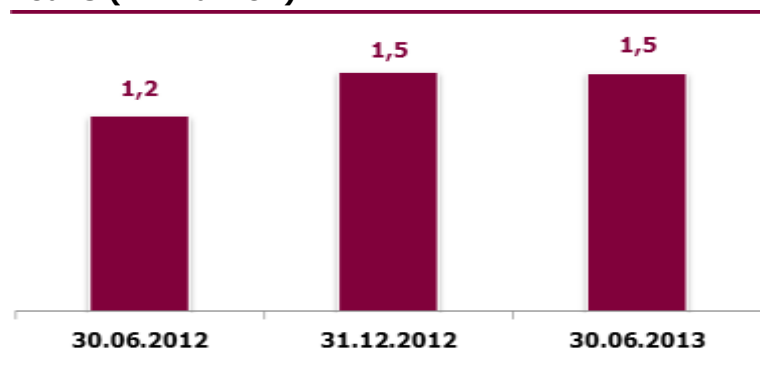
The above changes constitute continuation of actions aimed at the further activation of customers and awarding those who are the most loyal.

## Advances and consolidation loans

The key product from the Bank's non-secured lending products for individual customers is the cash advance which may be used for any purpose whatsoever, including the consolidation of financial liabilities (consolidation loan).

In the first half of the year the Bank granted almost 55 thousand of loans for a total amount of PLN 1.5 billion.

### Loans (PLN billion)



In the first half of 2013:

- The Bank continued developing its product through current price policy management which guaranteed maintaining the return on the product at an acceptable level, taking into consideration the market changes and the competitiveness of the product on the market vis-à-vis other offers. The Bank also continued the previous campaign under the motto "Lowest instalment guaranteed";
- Former customers who already are in a relationship with the Bank were offered many new special offers in the first half of 2013, mainly based on simplified lending processes;
- The Bank further developed its distribution network through the so-called mini-branches, under the Alior Bank Express brand. Dynamic development of the network allowed achieving a 10% share in the total volume of sold loans in June 2013;
- Partner outlets also continued to develop dynamically. The share of this channel in the total volume of sales increased to 27%.

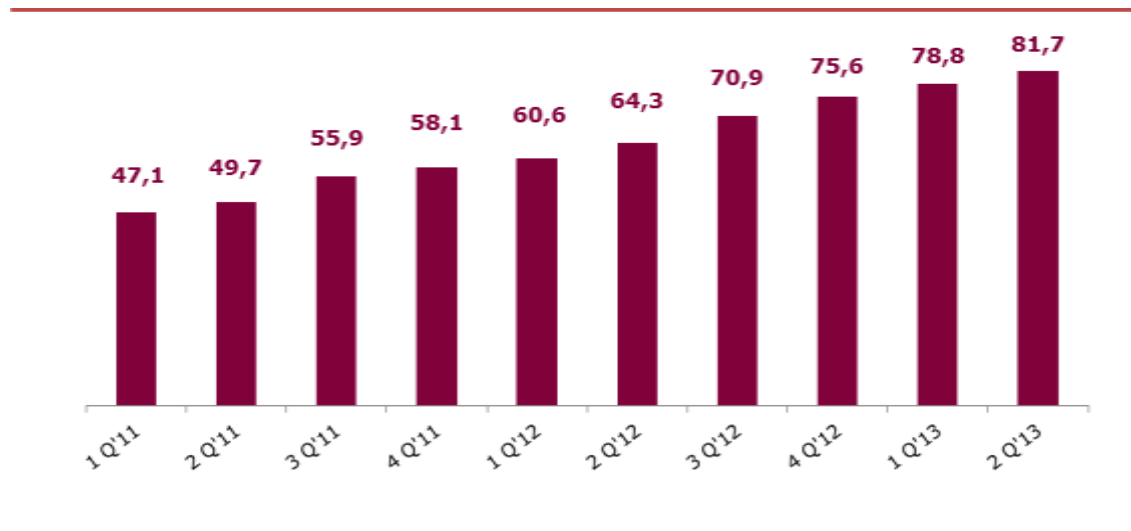
## Credit cards and renewable overdraft limits (LOR)

In the first quarter of 2013, Alior Bank S.A. limited its offer of credit cards for individual customers. Currently, two types of cards are available in the offer.

Both cards are secured both with a magnetic strip and with a chip, and also enable making paypass transactions.

By the end of June 2013 Alior Bank S.A. opened 80.1 thousand credit card accounts, whereas at the end of June 2012 only 64.3 thousand had been opened, which means that the increase in credit card accounts amounted to 25%.

#### Number of credit cards for retail customers



As at the end of June 2013 the Bank maintained 37.5 thousand accounts with granted renewable overdraft limit (LOR), which is a 55-percent increase compared with the end of June 2012.

The key change in respect of the renewable overdraft limit in 2013 is the introduction of a special price offer in the second quarter, which contributed to a material increase in sales of the renewable overdraft limit.

#### Deposits and investment products

In respect of deposits, in the first half of 2013 the deposit base continued to increase. In the analyzed period the Bank noted a 3.7-percent increase in the volume of deposits, including a 33.2% increase in current deposits.

#### Volume of deposits for individual customers (in PLN million)



In the first half of 2013, the Bank introduced the following changes to its offer:

- the program "Lokata z inwestycją" (Investment-linked Deposit) was introduced – customers actively using investment products are entitled to open promotional term deposits for a period of 4 or 10 months;
- a savings account for new Alior Bank customers was launched at the promotional interest rate in force over the first three months of maintaining the account;
- interest on the savings account was marked to market and its interest was linked to WIBID1M;
- terms and currencies unpopular among customers, and the Program Razem Zyskujesz (Earning together) were withdrawn from the deposit offer;
- moreover, the Bank conducted promotional offers of term deposits:
  - in Alior Bank: 4-month deposit for new funds and 180-day deposit for customers who have their remuneration transferred to their account;
  - in Alior Sync: 4-month deposit for new funds and 90-day deposit for old customers.

In respect of investment products for individual customers in the first half of 2013 significant increases in premiums offered in subscription periods paid to unit-linked insurance funds were noted. Six subscriptions were conducted for a total nominal amount of PLN 273 million. The acquired volume increased by 125% compared with the second half of 2012. The products have a 100-percent capital guarantee at maturity, and earnings depend on fluctuations in the indices on which they are based. In the first half of 2013 five products ended their life cycles, of which the best brought 37.36% profit to investors.

Under the first program for the issue of bank securities in the first half of 2013 Alior Bank issued 20 series of securities with a total nominal value of PLN 289 million. The securities were offered in a public offering to corporate customers and to individual customers.

Under an open model of cooperation with insurers customers may invest in long-term regular savings programs.

## Mortgage banking

In 2013 Alior Bank continued to actively participate in the real estate financing market.

In the first half of 2013, Alior Bank granted 2926 mortgage loans for a total of PLN 623 598.11 million, noting an over 30% increase in sales compared with the same period of 2012. In 2013, 98% of sales comprises loans in Polish zloties. According to the Association of Polish Banks during five months of 2013 (January – May) Alior Bank achieved a 3.7% share in sales of mortgage loans to individual customers.

The Bank systematically introduces activities aimed at increasing availability of mortgage loans to customers and making them more attractive. In the second quarter of 2013 – among other things – the price offer was changed which translated into an almost 10% increase in sales in the last quarter.

## Brokerage activities

The first half of 2013 was a period of intense development activities for the Brokerage Office. Key actions related to tailoring the IT systems of the Brokerage Office to the new exchange system of the Warsaw Stock Exchange - UTP (Universal Trading Platform).

In the first half of 2013 functional changes were introduced to the Alior Trader service area. The process for opening an Alior Trader account totally on-line was implemented, which enabled an investor on the FOREX market to commence investing during one day without the need to visit a branch or wait for the courier. The Algo Trading functionality was implemented, which enables investors algorithmic trading on the Alior Trader platform. A solution was implemented for this service which groups individual customer orders into large bundles of orders; this solution will allow reducing transaction costs incurred by the Brokerage Office.

In the first half of 2013 further works related to developing functionalities, the stability and efficiency of the NOL-3 application were conducted. The number of instruments presented in individual folders was increased, as well as the number of possible alerts and the number of ticker instruments. The possibility of placing orders with a new price type (PEG), new types of validities and additional Fibonacci levels was enabled. A diagram module was implemented, enabling presentation of archival quotations for all instruments as of their first quotation, and the period of presentation of intraday diagrams was extended from 30 to 45 days.

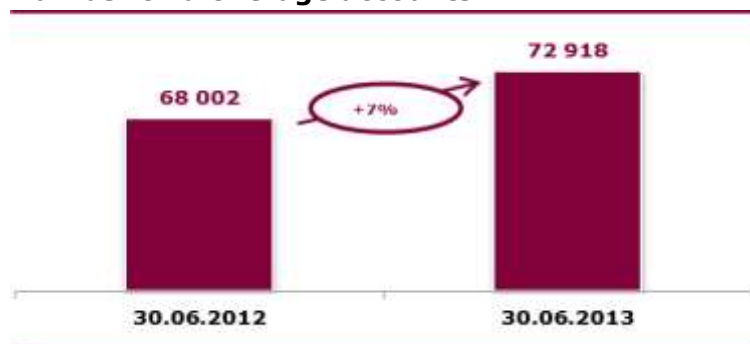
In the 1st half of 2013, the Brokerage Office, in its market maker role, concluded contracts for the provision of market maker services with nine new issuers. As at 30 June 2013 the Brokerage Office provides market maker services to 44 issuers quoted on the Warsaw Stock Exchange and engages as market maker of 55 financial instruments.

In the first half of 2013 investment advisory services based on model strategies further developed. The pursued investment strategies use the concept of active allocation and are constructed based on various types of assets (shares, bonds, commodities, precious metals, and monetary instruments); they allowed acquiring 8.7 million assets to the service.

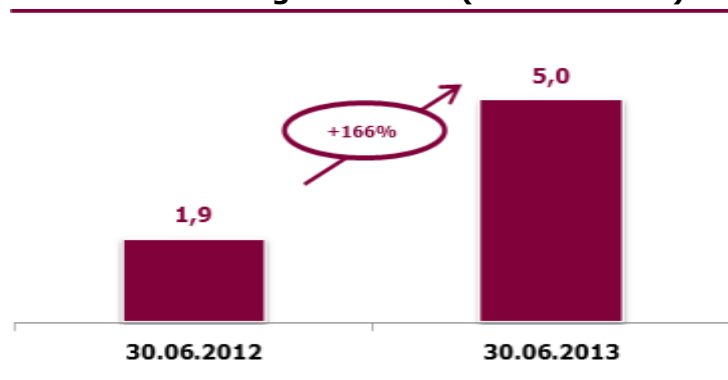
In the first half of 2013, the Brokerage Office expanded its open investment fund offer by another management company - Eques Investment TFI. Thus, Alior Bank S.A. currently cooperates with twelve investment fund management companies (TFI) and offers a total of 389 open investment funds. This is one of the most investment extensive fund offers on the Polish market. The offer of closed investment funds developed very rapidly. Only in the first half of 2013 the Brokerage Office conducted 25 issues of closed investment fund (FIZ) investment certificates, compared with 24 issues throughout 2012. Total assets accumulated in FIZ products via Alior Bank exceeded PLN 105 million as at the end of June 2013 which is an increase of 90% compared with the balance at the end of December 2012.

As at 30 June 2013 the Brokerage Office of Alior Bank maintained nearly 73 thousand brokerage accounts (a 7% increase compared with 30.06.2012). customer assets accumulated in the brokerage accounts as at 30.06.2013 amounted to PLN 5.0 billion and increased more than twice since the first half of 2012.

### Number of brokerage accounts



### Assets in brokerage accounts (in PLN billion)



The average share of the Brokerage Office of Alior Bank in the cash market turnover in the period from January to June 2013 amounted to 0.62%, and on the forward contracts market it amounted to 2.32%.

## Capital investments

The table below shows the capital investments 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 issuers, quoted on the WSE, acquired in connection with the Bank's functions of market maker.
3. Derivative financial instruments – futures contracts for shares listed on the WSE, purchased/sold in connection with the Bank's market maker function.

### Capital investments

	As at 30.06.2013		As at 31.12.2012		As at 30.06.2012	
	Number	market/nominal value in PLN	Number	market/nominal value in PLN	Number	market/nominal value in PLN
<b>Shares</b>	<b>7 912 597</b>	<b>1 995 623</b>	<b>1 256 157</b>	<b>1 393 137</b>	<b>760 068</b>	<b>1 048 979</b>
Quoted	7 908 797	1 988 343	1 249 517	1 338 577	759 068	1 039 979

Not quoted	3 800	7 280	6 640	54 560	1 000	9 000
<b>Bonds</b>	<b>924</b>	<b>852 913</b>	<b>110</b>	<b>115 751</b>	<b>76</b>	<b>80 931</b>
<b>Derivative instruments<sup>4</sup></b>	<b>18</b>	<b>61 119</b>	<b>15</b>	<b>55 065</b>	<b>25</b>	<b>77 399</b>

As at 30 June 2013 Alior Bank was shareholder in a joint venture constituting a contractual relationship based on which the Group and other entities have undertaken business activities under joint control, where strategic and operational decisions require the unanimous agreement of all parties which exercise joint control. The shares held in POLBITA - Sp. z o.o. are not consolidated because they are classified as held for sale, and they are recognized in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations".

## Private Banking

The Private Banking program is addressed to the most affluent individual customers who are inclined 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 serviced by six specialist Private Banking branches: in Warsaw, Katowice, Poznań, Kraków, Gdańsk and Wrocław.

The Private Banking team is made up of professionals with many years of experience, with backgrounds from different financial institutions. On 30 June 2013 Private Banking employed 58 people. The branches develop financial solutions tailored to customer needs basing on a wide range of investment and credit products.

The Bank's offer relating to investment products includes: funds, bank securities, asset management, investment-linked insurance, commercial bonds and comprehensive services in the area of capital markets, with added-value investment advisory services. They are unique on the market due to the availability of FOREX market products and the possibility of using the services of a dedicated broker.

The credit offer for customers using Private Banking services is prepared individually for each customer. Flexibility in adapting the construction of the product to customer expectations, proposed ultimate solutions and time to take lending decisions are very competitive compared with other market offers. These are, among others: credit cards, advances, mortgage loans, consolidation loans broker's credit line, and treasury limit.

## 6.7 Corporate banking

### Accounts, deposits, settlements with business customers

Alior Bank has a comprehensive deposit and transaction offer addressed to the smallest business customers, and to large business entities and use technologically advanced deposit and transaction solutions.

Separate business account offers are addressed to the respective customer segments. For micro-enterprises we propose: Rachunek Zarabiający (earning account), Rachunek

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<sup>4</sup> Futures for shares quoted on the WSE, purchased/sold in connection with the Bank's market maker function



Gotówkowy (cash account), Rachunek Inwestycyjny (investment account) and Rachunek Wspólnota (community account).

For customers who maintain full books of account we propose a variety of accounting products reflecting the individual needs of the respective businesses. To companies which are in the start-up phase we offer the Biznes Premiera (Business Premiere) account. To importers and exporters we offer the FX account. Rachunek Optymalny (optimal account) enables adapting the price offer to the needs of a given customer, and Biznes Komfort (business comfort) enables purchasing a batch of specific services at a lower price.

The amount of corporate customers deposits, including issues of own banking securities as well as other liabilities was equal to PLN 5,987,541 ths. as of June 2013 and it was by 68.2% higher vs. the same period last year. The amount of acquired current deposits increased on a yearly basis by 39.9% to PLN 1,817,220 and the amount of term deposits raised by 91.4% up to PLN 3,154.553.

As at the end of June 2013 Alior Bank maintained 163.942 company accounts (in PLN and in foreign currencies), of which 109.795 comprised micro-business accounts.

#### Number of company accounts (in thousands)



## Settlements

Business customers have access to many settlement products which facilitate the execution of cash and non-cash transactions. Cash transactions may be executed in over 200 Alior Bank branches, and in the event of closed deposits – in several dozen night depositories. The Bank also offers direct servicing of both cash withdrawals and deposits. In respect of non-cash settlements they comprise: execution of domestic transfers (under the ELIXIR and SORBNET systems, irrespective of the amount, and immediate transfers launched in May 2013, Expres Elixir, foreign transfers executed via KIR S.A. and cheap cross-border transfers/SEPA in euros.

The Bank offers mass processing of transactions to customers receiving large amounts of incoming payments, which allows easy identification of payments for goods or services purchased made by counterparties. Analytical reports prepared by the Bank enable customers to fully integrate the solution with their financial and accounting or billing system.



In the first half of 2013 in respect of its deposit and transaction offer, Alior Bank mainly developed the offer and services addressed to the largest business customers with a corporate profile. New services and new functionalities were made available, such as:

- Auxiliary Account with the possibility of executing payroll batches enables customers to easily and safely execute mass transfers of payroll for the company's employees through the Internet according to highest confidentiality standards.
- Expanding the scope of servicing cash disbursements in a closed form in the outlets of the Bank's subcontractors.
- Using mass processing services to identify cash payments made both in open and closed form in all customer service channels. The service enables customers to automatically reconcile cash payments realized on a mass scale.
- Making available information on customer account balances via SWIFT in the form of reports in the MT940 and MT942 format.

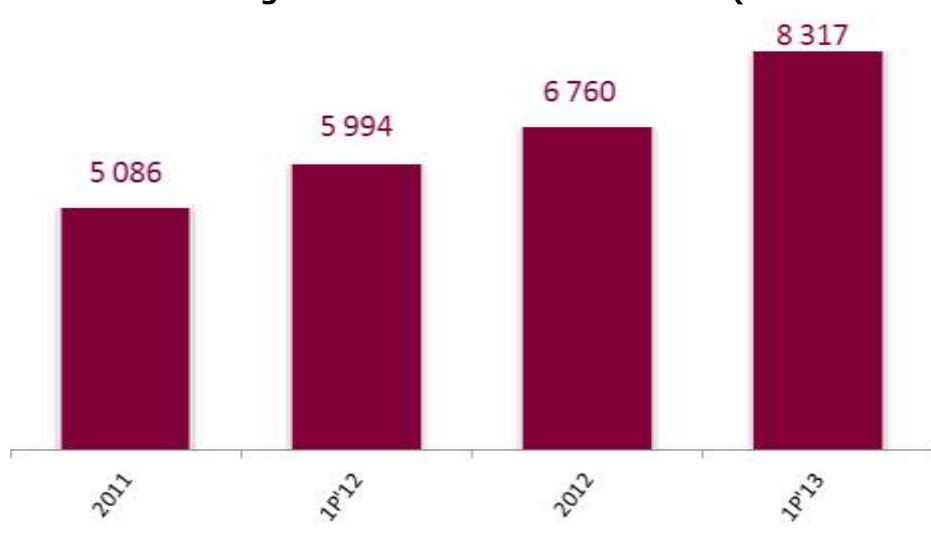
## Loans to business customers

Alior Bank has an additional credit offer for its business customers for current and investment financing, addressed to companies of customers from all segments, for micro businesses, SMEs and large corporations. For customers from the micro segment the Bank has a credit offer based on a simplified lending process. SMEs and large corporations have a more specialized product offer to choose from, enabling more flexibility in structuring optimum financing.

In the first half of 2013, Alior Bank actively advised companies on acquiring EU funds, organized conferences, training and actively promoted available programs.

The diagram below shows the volume of loans granted to business customers over the last years:

**Volume of loans granted to business customers (in PLN million)**



In the first half of 2013 the credit offer for business customers developed as follows:

- Simplifying the principles for processing loan requests in respect of document requirements and assessing the Bank's old customers with a positive cooperation

history. A dedicated offer was also prepared for selected freelance professional groups.

- Making available the portfolio offer for a BGK warranty line to companies, with de minimis public aid. This solution allowed the Bank to increase access to finance to business customers who do not have sufficient material collateral to secure working capital loans. Portfelowa Linia Poręczeńiowa BGK PLD de minimis (portfolio warranty BGK PLD de minimis facility) may constitute exclusive security in respect of working capital loans.
- Extending cooperation with local warranty funds such as Dolnośląski Fundusz Gospodarczy Poręczeń Kredytowych, or Zachodniopomorski Regionalny Fundusz Poręczeń Kredytowych, which give customers the additional option of securing repayment of the requested loans.

## 6.8 Treasury Activities

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;
- transactions hedging the interest rate which ensure stabilization of financing costs for customers;
- transactions hedging commodity price fluctuations – in accordance with Alior Bank's assumptions, which wants to offer products which had been reserved for selected, largest corporate customers, to all customers;
- starting educational activities to increase customer awareness.

In 2012, the Bank introduced a new sales channel for Forex transactions – the eFX Trader platform. The platform enables exchanging 72 currency pairs and ensures competitive exchange rates. It also guarantees immediate execution of the orders placed, 24 hours a day, five days a week. In 2013 turnover of currencies realized on electronic trading platforms (eFX Trader, Kantor Walutowy, Autodealing) comprised over 50% of total turnover realized with the Bank's customers.

## 6.9 Internet banking system

Alior Bank's internet banking system operates based on the virtual bank Alior Sync and the Internet access channel Alior Internet Banking.

Both the proposed fully virtual servicing in Alior Sync, and Alior Internet Banking (AIB) are modern and comprehensive tools for managing personal finance, and in respect of AIB – also company finance. They deliver many useful solutions, such as: signing agreements for opening new accounts and cards via the Internet using the SMS code, executing transfers on Facebook, an excellently designed and configurable control panel, an advanced tool for analyzing expenses (Menedżer Finansów (finance manager) with an integrated account importer enabling importing accounts and payment forms from other banks) and sending transaction confirmations to the indicated e-mail address.

The "Płacę z Alior Sync" (I pay with Alior Sync) is an important functionality which meets customer expectations and enables making payments on Allegro, in public offices and on other e-commerce platforms quickly and easily. The twin service "Płacę z Alior Bank" is also very popular with customers.

To meet customer expectations, both Alior Sync and AIB are constantly being developed.

In respect of Alior Sync, in the first half of 2013:

- Tax Office payments transfer handling was added;
- a modern and refreshed logging and unlogging page was implemented;
- a new Widget enhancing payments was made available;
- the fastest process for opening checking accounts in Poland upon signing the respective agreement, PayByLink, was implemented.
- new, refreshed mobile applications were developed, operating on the three most popular platforms: IOS, WP and Android.

On the other hand, in respect of Alior Internet Banking, in the first half of 2013 the development of mobile access channels was much emphasized. A new application for Windows Phone was prepared and the light service version was redesigned. Further development of applications for iPhone, Android and tablets were continued. The applications referred to above were created and are being enhanced with a view to satisfying the more exacting users and their requirements related to banking services. An individual approach to specific features of particular systems allowed the applications to maximize the ease of using mobile banking and accessing accounts anywhere and at any time.

The number of customers of Alior Sync, which was launched in mid 2012, amounted to 281 thousand as at the end of June 2013. On the other hand, the number of Alior Bank customers using Alior Internet Banking increased by 211 thousand year on year and as at 30 June 2013 amounted to 978 thousand.

As at the end of December 2012, 1.4 million unique users used the Alior Sync portal and 18 million used the Alior Bank portal. As at 30 June 2013, 2.5 million and 24 million users respectively used the above portals.

Alior Sync customers make excessively more Internet transfers: in December 2012, 400 thousand such transactions were executed, and in June 2013 the number of transactions increased to 1.1 million.

The transaction activity of Alior Bank customers is also increasing. In December 2012 the monthly number of Internet transfers was 2.66 million, and in June 2013 there were over 2.82 such transfers.

## 7. Events and agreements significant to the operations of the Bank's Group

### 7.1 Significant events

1. As part of preparing the Initial Public Offering, Alior Bank committed itself, vis-à-vis the Polish Financial Supervision Authority, to immediately undertake actions aimed at acquiring a rating from a renowned international rating agency at the beginning of 2013. The Bank expects to obtain such rating by the end of the third quarter of 2013. The Bank took action to obtain such rating.
2. The start-up meeting on the planned sale of 34% of the Bank's shares held by the Carlo Tassara Group was held in the second half of March 2013.

Carlo Tassara is endeavoring to sell the block of shares it holds to a regulated entity (a bank or insurance company) which meets the criteria specified in art. 25h of the Banking Law. Carlo Tassara was informed by PFSA that PFSA will evaluate such an entity, among other things, in terms of its financial standing and stability, as well as long-term credit rating, both of the investor and of its country of origin.

Ultimately, Carlo Tassara's exit from investment in the Bank will take into consideration the timeframe necessary to find a new investor and gaining its approval by PFSA. Carlo Tassara will make every effort to sell the shares to an appropriate investor before the end of 2013.

However, should the sale of the Bank's shares before the end of 2013 require that Carlo Tassara take action which is non-compliant with the statutory obligation of members of the Carlo Tassara authorities to act in the interests of the company, or if concluding such transaction before the end of 2013 prove impossible for other objective reasons (e.g. non-completion of the procedure before PFSA related to the intention to purchase a significant block of shares and exceeding the threshold specified at the General Meeting), Carlo Tassara will immediately take action to develop, in consultation with PFSA, an alternative solution and the time schedule for its completion. Also, Carlo Tassara will resume actions aimed at selling the remaining block of shares immediately after such obstacles are tackled, and PFSA may make the solution conditional on the assessed financial position of Carlo Tassara, including Carlo Tassara's ability to support the Bank financially if necessary. The Carlo Tassara Group is aware of the fact that if the sale is not concluded before the end of 2013, PFSA may take the supervisory measures specified in art. 25h of the Banking Law.

3. After receiving a positive opinion from the Supervisory Board on 18 March 2013, the Management Board of Alior Bank decided to recommend to the General Shareholders' Meeting appropriating the profit for 2012 to offset prior year losses and to transfer the rest of the profit to the Bank's supplementary capital.
4. On 18 March 2013 the Supervisory Board of Alior Bank S.A. gave its consent to the Management Board to establish the Issue Scheme of Alior Bank S.A. bonds denominated in PLN and to incur multiple financial liabilities by way of issuing, under the Issue Scheme, unsecured bearer bonds with the following key parameters:
  - the amount of the Issue Scheme will not exceed: PLN 2,000,000,000 (two billion zloties);
  - maximum maturities of debt securities issued under the Issue Scheme: 10 years;
  - the debt securities issued under the Issue Scheme will not be secured;
  - the bonds will be issued on the basis of art. 9.1 (public offering) or art. 9.2 (public offering) or art. 9.3 (private offering) of the Act on bonds;
  - In accordance with art. 5a of the Act on bonds, the Bonds will not have a documentary form;
  - the terms and conditions of issuance of each series of the Bonds may include provisions relating to introducing the Bonds to the CATALYST market run as an alternative trading system by Giełda Papierów Wartościowych S.A. or 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 determine the detailed terms and conditions of issuance of particular Bond series issued under the Issue Scheme, allotting the

bonds to investors and taking all other necessary actions aimed at carrying out the Issue Scheme.

The Management Board of Alior Bank S.A. does not intend to acquire funds for financing the further organic development of the Bank from bonds issuance. To pursue the adopted strategy aimed at doubling the Bank's share in the market, the organic development of the Bank will be financed with customer deposits.

On 28 June 2013, under the Bond Issue Program, Alior Bank issued 146,700 D-series unsecured, dematerialized coupon bearer bonds with a nominal value of PLN 1,000 (one thousand) each, in the total nominal amount of PLN 146,700,000. The bonds were issued in accordance with the respective legal regulations and provisions in force in the Republic of Poland. The Bonds bear an interest rate of WIBOR 6M plus a fixed margin of 1.3%, and interest will be payable semi-annually. The Bonds will be redeemed at par, on 29 June 2015. In accordance with Resolution No. 149/13 of the Management Board of BondSpot S.A. dated 19 July 2013 the said bonds were admitted to trading in the alternative trading system on the Catalyst market.

5. On 16 April 2013, the European Commission issued a decision enabling taking over joint control by Alior Bank S.A. and Erste Group Bank AG over POLBITA - Sp. z o.o.
6. On 18 April 2013, The General Meeting of Investors in the Fund called "PAGO Pierwszy Fundusz Inwestycyjny Zamknięty Niestandaryzowany Fundusz Sekurytyzacyjny" with its registered office in Wrocław ("the Fund") passed a resolution on dissolving the Fund according to the procedures and on the terms and conditions specified by the Fund's Memorandum of Association, the Act of 27 May 2004 on investment funds and the Decree of the Council of Ministers dated 21 June 2005 on the procedures for liquidating investment funds.
7. On 24 May 2013 the Bank's subsidiary - Obrót Wierzytelnościami Alior Polska Spółka z ograniczoną odpowiedzialnością S.K.A. purchased 440 367 of its shares from Alior Bank for redemption, as a result of signing the agreement for the repurchase of its shares in order to redeem them, for a total price of PLN 4 355 229.63.
8. On 19 June 2013, the Bank's Ordinary General Shareholders' Meeting took place. apart from regulatory issues, the ordinary General Shareholders' Meeting passed resolutions relating to closing the financial year ended 31 December 2012 and approved: the financial statements, the Bank Directors' Reports, the Supervisory Board report, the manner of appropriating the profit, earmarking part of the profit to cover prior year losses and part to be transferred to the Bank's supplementary capital. The actions of all Members of the Bank's Management Board and Supervisory Board for 2012 were approved. Moreover, the ordinary General Shareholders' Meeting decided to expand the composition of the Supervisory Board and appointed Ms Lucyna Stańczak-Wuczyńska a member of the Board. The ordinary General Shareholders' Meeting also passed a resolution on amending the Bank's Articles of Association, at the same time authorizing the Bank's Supervisory Board to adopt the consolidated text, which took place on 27 June 2013. The ordinary General Shareholders' Meeting adopted the Regulations of the Bank's General Shareholders' Meeting, which will be in force as of the following General Shareholders' Meeting. The amendments to the Articles of Association were registered by the Court on 18 July 2013.

## 7.2 Significant agreements

1. On 15 January 2013, in its current report No. 8/2013 the Management Board of Alior Bank S.A. informed that during the last 12 months it concluded contracts with Echo Investment S.A. and the subsidiaries of Echo Investment S.A. with a total value of PLN 187.4 million, which meets the terms of a significant contract as it exceeds 10% of the Bank's equity. On 6 June 2012, the Bank and a Customer signed an investment loan contract (the largest in terms of value among all contracts with that entity). The value of the said contract as at 6 June 2012 was PLN 134 million. The contract is binding until 30 June 2014. The terms and conditions of the contracts referred to above, and specifically the financial terms and conditions, were standard for this type of contract.
2. On 22 February 2013, Alior Bank concluded a transfer and accession contract with Bank Polska Kasa Opieki S.A. with its registered office in Warsaw. The subject matter of the contract was the transfer and accession to a loan contract in respect of a commercial company and the transfer of collateral and pledges in the portion securing the acquired loan. The value of the said contract was EUR 57.3 million (PLN 238.7 million). The terms and conditions of the contract, and specifically its financial terms and conditions, were standard for this type of contract. On 27 February 2013, the Management Board of Alior Bank S.A. informed of these transactions in its current report No. 12/2013 (adjusted on 1 March 2013) on obtaining information on the conclusion of the said contract.
3. On 28 March 2013 an annex to a loan contract dated 19 October 2012 was signed with one of the Bank's customers, with a value of PLN 130,000,000. As a result of signing the Annex, the value of the Bank's total exposure to the customer in respect of the loan increased to PLN 395,000,000. the Management Board informed of the contract in its current report 18/2013. In accordance with the contract, the investment loan will be repaid in 12 equal quarterly instalments, after a 2-year grace period. Particular tranches of the loan bear an interest rate based on 3M WIBOR plus the Bank's margin. The amount due in respect of the financing granted was secured, among other things, by setting up registered pledges, mortgages, bank account and asset pledges. The remaining terms and conditions of the contract were standard for this type of contract.
4. In its current report 20/2013 the Bank's Management Board informed of bonds issued by one of the Bank's customers being allotted to it on 9 May 2013. The Bank acquired 1,500 7-year bonds with a nominal value of PLN 100,000 each, totalling PLN 150,000,000. As a result of the said acquisition, the bank's total exposure to the customer's Group increased to PLN 285,000,000 and thus the significant agreement threshold was passed. The bonds were issued in accordance with art. 9 clause 1 of the Act on Bonds and art. 7 clause 4 item 2) of the Act on offerings. The bonds are bearer bonds bearing fluctuating interest of 6M WIBOR plus margin and do not have a documentary form. They are fully transferable.



5. On 10 May 2013 annexes were signed to the agreements concluded with one of the Bank's customers. In the last 12 months the Bank's total exposure in respect of the customer amounted to PLN 254 000 000 and EUR 2 000 000 (a total of ca. PLN 262 240 000), thus exceeding the threshold of a significant agreement. The Bank's Management Board informed of the fact in its current report 20/2013. The agreement with the largest value was the agreement concluded on 18 May 2012 on the current account overdraft and guarantee sublimit. The agreement was concluded for 12 months with an option to extend it. Interest was determined at 3M WIBOR plus the Bank's margin. Amounts due in respect of the financing granted were secured, among other things, by a mortgage, a pledge on inventories, global assignment of receivables and assignment of asset insurance. The remaining terms and conditions of the contract were standard for this type of contract.
6. On 25 June 2013 a Transfer Agreement was signed with one of the Bank's customers, according to which all dues in respect of the Bank's customers were assigned to the Bank, of which the Bank's Management Board informed in its current report 31/2013. As a result of agreements which had been concluded before, within 12 months until the date of publication of this report, the Bank's total exposure to this customer was ca. PLN 270 553 487.70 and exceeded the threshold value of a significant agreement. The agreement with the largest value was the Agreement for Cooperation in Entering into the Rights of the Creditor – Reverse Factoring concluded on 27 April 2012. The agreement was concluded for 12 months with an option to extend it. Interest was determined at 1M WIBOR plus the Bank's margin. The receivables in respect of the financing granted were secured, among other things, by a second mortgage, a pledge on inventories, subordinating the ownership of bonds and assignment of insurance on assets. The remaining terms and conditions of the contract were standard for this type of contract.
7. On 25 June 2013 a non-revolving loan agreement was signed with one of the Bank's customers to finance current operations, of PLN 112 250 000, of which the Bank's Management Board informed in its current report 33/2013. As a result of the signed agreement which is the largest value agreement, the Bank's total exposure to the customer in respect of loans increased to PLN 282 250 000 thus exceeding the threshold value of a significant agreement. The non-revolving loan will be repaid in seven instalments, after a five-month grace period, by 31.05.2014. The amount of the loan will be made available and will be gradually increased to the stipulated amount of the loan. Particular tranches of the loan bear an interest rate based on 3M WIBOR plus the Bank's margin. The receivables in respect of the financing granted were secured, among other things, by a mortgage, a registered pledge and a power of attorney to bank accounts. The remaining terms and conditions of the contract were standard for this type of contract.
8. On 27 June 2013 a debt limit of PLN 250 000 000 was signed with one of the Bank's customers, of which the Bank's Management Board informed in its current report 35/2013. As a result of the signed agreement which is the largest value agreement, the Bank's total exposure to the customer and its group entities increased to PLN 257 560 290 thus exceeding the threshold value of a significant agreement. The debt limit is revolving and may be made available under: a treasury limit of PLN 50 000 000 to be used in FX transactions, and an overdraft to finance the customer's current operations, and guarantees granted totaling PLN 200 000 000.

The overdraft is ultimately repayable on 26 June 2016 and the treasury limit is ultimately repayable by 26 June 2018. The date of ultimate repayment of the debt limit and guarantees is 26 September 2019. The receivables in respect of the financing granted were secured by a power of attorney to bank accounts, repossession of fixed assets and transfer of dues from the insurance contract. Interest and other terms and conditions of the agreement do not depart from the terms and conditions universally used in this type of agreement.

## 8. Significant events and agreements after the balance sheet date

1. On 18 July 2013, the District Court for the Capital City of Warsaw in Warsaw, 12<sup>th</sup> Business Department of the National Court Register, issued a resolution on registering amendments to the Bank's Articles of Association passed by the ordinary General Shareholders' Meeting on 19 June 2013 and on registering the consolidated text of the Articles of Association as adopted by the Bank's Supervisory Board in resolution No. 52/2013, on the basis of the authorization included in Resolution No. 24/2013 of the Bank's ordinary General Shareholders' Meeting. The amendments to the Articles of Association consisted of adding point 10) to § 7 clause 2, in the following wording "10) performing the function of a settlement agent."  
Moreover, the Court registered the change in the Bank's registered office address in force as of 1 July 2013, in accordance with the Resolution of the Bank's Management Board No. 204/2013 dated 29 May 2013. As of 1 July 2013 Alior Bank S.A.'s registered office is in Warsaw, 02-232, ul. Łopuszańska 38D.
2. Audit Committee was adopted by a resolution 60/2013 of the Supervisory Board on July 30, 2013 consisting on: Mrs Helene Zaleski, Mrs Małgorzata Iwanicz – Drozdowska and Mrs Lucyna Stańczak. Supervisory Board of the Bank adopted as well Regulations of the Audit Committee of Supervisory Board of Alior Bank S.A.
3. On 30 July 2013 r. an annexes were signed to overdraft facility concluded on 20 October 2010 r. increasing the value of the contract amounts to 40,000,000 PLN and to the guarantee facility agreement concluded on 12 July 2010 r. increasing the value of the contract amounts to 196,000,000 PLN with one of the Bank's customers, of which Bank's Management Board informed in its current report 37/2013. As a result of the said acquisition, the Bank's total exposure to the customer increased to PLN 236,000,000 and thus the significant agreement threshold was passed. The largest agreement concluded on 12 June 2010, annexes on 30 June 2013 constitutes the amount of the limit is made up of three sublimit, used by the costumer in connection with its current activities. The maximum period of validity of the guarantee granted within the limit is 72 months. Commissions of the limits established are found under market conditions. Claim of the financing was secured through the establishment, among: cash deposit, transfer contracts carried out by the clients and the power of attorney to dispose of funds on the customer's Bank accounts in a Bank. The remaining terms and conditions of the contract were standard for this type of contract.



## 9. Disputed claims

In respect of retail customers, in the reporting period the Bank issued 5 830 banking enforcement titles and filed suits for payment for a total amount of PLN 218 413 thousand.

In cases relating to business customers, the number of enforcement titles issued by the Bank in the first half of 2013 amounted to 505 and related to debt with a total value of PLN 94 053 thousand.

The value of proceedings relating to liabilities or receivables of Alior Bank as at the end of the reporting period did not exceed 10% of Alior Bank's equity. In the Bank's opinion, neither single court, arbitration court or public administration body proceedings in progress in the first half of 2013, or all the proceedings jointly could threaten the Bank's financial liquidity.

## 10. Operation of companies belonging to the Alior Bank S.A. Group

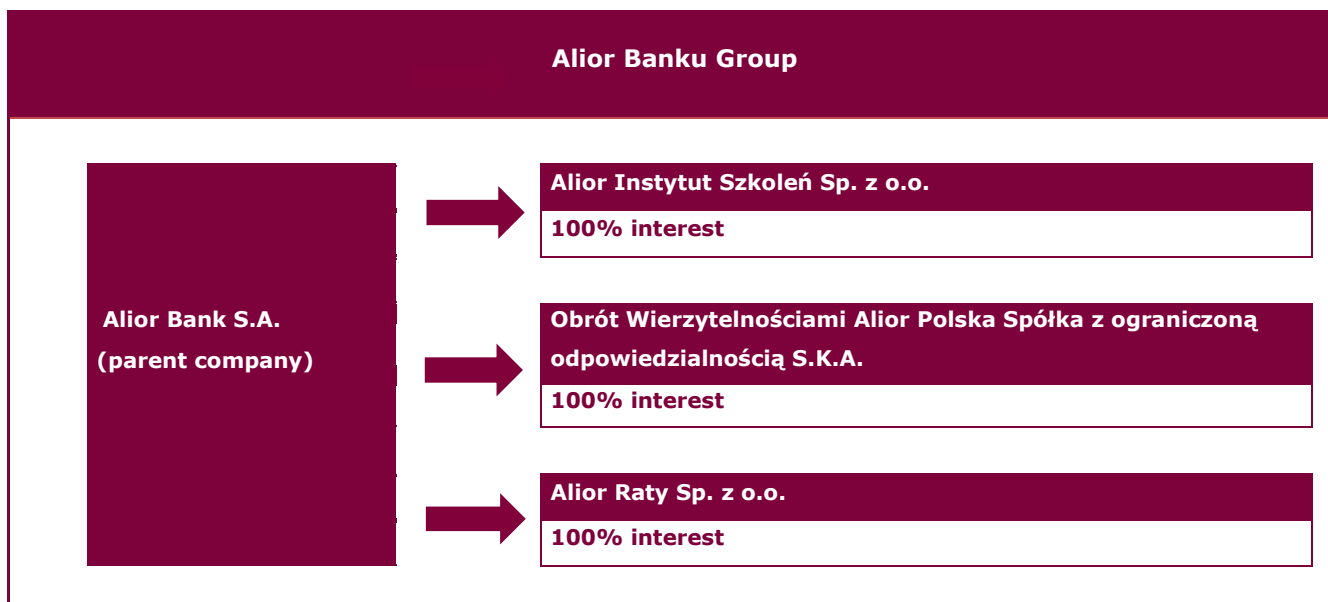
The Alior Bank S.A. Group is made up of: Alior Bank S.A., the parent, and three subsidiaries in which Alior Bank holds majority interest.

During the reporting period, the Alior Bank S.A. Group's structure changed. In the prior periods Alior Bank consolidated the results of the fund PAGO Pierwszy Fundusz Inwestycyjny Zamknięty Niestandaryzowany Fundusz Sekurytyzacyjny, in which it held 100% certificates. On the basis of a resolution passed by the General Meeting of Investors on 18 April 2013 on dissolving the Fund, the liquidator is currently in charge of the Fund. As at 30 June 2013 this entity is no longer part of the Bank's Group and has been eliminated from consolidation.

As at 30 June 2013, the Bank is the sole shareholder of the company engaged in retail sales - POLBITA – Spółka z ograniczoną odpowiedzialnością (limited liability company). The shares held by the Bank – due to their classification as held-for-sale assets – are eliminated from consolidation and recognized in accordance with IFRS 5 "Non-current assets held for sale and discontinued activities".

The consolidated financial statements cover the financial statements of the Bank and the financial statements of the three companies listed below:

- Alior Instytut Szkoleń Sp. z o.o.
  - as at 30.06.2013 a loss of: PLN -86.6 thousand
  - equity at 30.06.2013: PLN 87 thousand
- Obrót Wierzytelnościami Alior Polska Spółka z ograniczoną odpowiedzialnością S.K.A.,
  - as at 30.06.2013 a loss of: PLN -32 thousand
  - equity at 30.06.2013: PLN 67 thousand
- Alior Raty Sp. z o.o.,
  - net profit as at 30.06.2013: PLN 14 878 thousand,
  - equity at 30.06.2013: PLN 15 878 thousand



## Alior Instytut Szkoleń

Alior Instytut Szkoleń sp. z o.o. is a subsidiary which was established on the grounds of experience gained in establishing and building Alior Bank. The offer of Alior Instytut Szkoleń comprises several areas:

- dedicated training – i.e. training programs tailored specifically to customer needs;
- coaching – a process aimed mainly at consolidating and supporting making independent changes – based on the coachee's own discoveries, his/her conclusions and resources;
- open training – to meet our Customers' expectations, the company prepared a special open training catalogue to which interested parties may sign in through our website. The scope of the proposed training topics comprises management and general development training.
- international conferences – Alior Instytut Szkoleń is the strategic partner in the organization of conferences with celebrities from the business world. Via the Company's website interested parties may buy entrance to a given conference.

## Obrót Wierzytelnościami

Obrót Wierzytelnościami Alior Polska spółka z ograniczoną odpowiedzialnością S.K.A. is a Company whose main aim is to trade in receivables purchased from the Bank. The Company was established to optimize the process of selling the Bank's receivables.

## Alior Raty

Alior Raty Sp. z o.o. was established on 03 February 2012. The Company is the result of a strategy of quick reaction to changes on the contemporary market at the same time

maintaining safety of the operations aimed at financing goods and services of the smallest market entities.

Alior Raty Sp. z o.o. was established to provide intermediation services in respect of extending borrowings in the Consumer Finance segment.

Scope of the Company's operations:

- acquiring Trade Partners offering purchases with an instalment borrowings option in the following segments:
  - internet sales;
  - direct and mobile sales;
  - POS sales;
- providing financial intermediation services to Credit Partners (lenders);
- maintaining and operating the IT system which supports the loan application process;
- conducting settlements with Trade Partners, credit Partners, the Insurer, Service Providers;
- acquiring customers who wish to purchase Alior Bank products (in a cross-selling process).

## 11. Report on the risk exposure of Alior Bank

### 11.1 Market risk and liquidity risk management

#### Market and liquidity risk management objectives and policies

The Bank's 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 behaviours (early deposit withdrawals, early loan repayments).

The process of managing market and liquidity risks is based on achieving several 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 potential impact on economic value;
- providing customers with core treasury products in order to help them manage the risk underlying their operations (i.e. hedging);
- guaranteeing solvency and the 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 at 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. Moreover, it also pertains to control of treasury

transactions by determining and verifying the principles on which they are concluded, organized and assessed.

There is a clear segregation of duties and responsibilities, and principles specified by internal regulations. The key role in this respect is played by the Financial Risk Management Department 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 Financial Risk Management Department include, among other things: defining the risk management principles, analyzing and reporting the Bank's risk profile, indicating the amount of economic capital to cover the market and liquidity risk, supporting and handling ALCO activities.

The Treasury Product Sales 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 to maintain open trading book positions, and conclude 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 Settlement Department is responsible for the independence of ad hoc controls of internal treasury operations, including transaction settlements. The Settlement Department operates as an entity fully independent of the Treasury Product Sales Department. The leak-proof and accurate supervision conducted by the Settlement 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. In addition to the above-mentioned organizational units, the Management Board, the Supervisory Board and the ALCO take an active role in managing market risks.

The Assets and Liabilities Committee (ALCO, the ALCO Committee) controls market risk, including liquidity risk on a current basis. It takes all the respective decisions, unless these were previously qualified as being under 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 finance for the Bank's operations and supervising the financing plan;
- issuing decisions on managing the model portfolios.

The Bank's basic market risk management strategy assumptions as stipulated for a given budget period take the form of Asset and Liability Management Policy developed by the Financial Risk Management Department and submitted by the Management Board to the Supervisory Board for acceptance. This Policy is submitted to the Supervisory Board as

part of the annual budget acceptance process. 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 by 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 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 identifications 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, their 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 role 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 in the Bank related to the risk management process (internal control system, implementation of new products, analysis of legal risk, analysis of operating risk).

## 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 the Bank's 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 currency 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. Additionally, the Bank conducts periodical analyses of potential scenarios which are aimed at providing information on the Bank's exposure to risk in the event of foreign exchange fluctuation shocks.

Apart from managing current foreign exchange risks, 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%.

To conclude, the key foreign exchange risk tools in 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 used by 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 assumed probability (confidence level) and time horizons (holding period). The Bank determines VaR using the variance-covariance method, using 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 June 2013, the maximum loss specified in accordance with the VaR Model with a 250-day holding period could amount to PLN 490 032.69, assuming a confidence level of 99%

Time horizon (in days)	<b>250</b>
<b>VaR (in PLN)</b>	490 032.69

VaR statistics for the currency portfolio in the first half of 2013, assuming a 250-day holding period were as follows: (in PLN thousand).

Minimum	Average	Maximum
<b>37.03</b>	<b>392.74</b>	<b>2 375.47</b>

Alior Bank's currency position and the utilization of currency limits as at 28 June 2013 are presented in the table below.

#### Utilization of limits (in millions in the given currency)

Currencies	Limit	Utilization
<b>PLN (gross)</b>	14.0	2.7
<b>PLN (net)</b>	7.0	1.1

<b>Group A</b>		
<b>EUR</b>	1.0	0.4
<b>USD</b>	1.5	-0.1
<b>CHF</b>	0.7	-0.1
<b>GBP</b>	0.7	0.0
<b>Group B</b>		
<b>PLN (net)</b>	2.0	0.0
<b>AUD</b>	0.3	0.0
<b>CAD</b>	0.3	0.0
<b>CZK</b>	2.0	0.0
<b>DKK</b>	1.5	0.0
<b>NOK</b>	1.5	-0.0
<b>RUB</b>	3.0	-0.7
<b>SEK</b>	1.5	0.0
<b>Other</b>	1.5	0.0
<b>Goods for resale</b>	1.5	0.1

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 have been incurred within at least the last four years, totalled, as at the end of June 2013, PLN 53 392.48. Statistics of the stress-test of the currency position in the first half of 2013 were as follows (in PLN thousand).

Minimum	Average	Maximum
<b>6.24</b>	41.83	130.93

## Interest rate risk

Interest rate risk is defined as the risk of the negative impact of changes in 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 a 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 the end of June 2013 (in PLN thousand) are presented in the table below.

Currency	up to 6 months	6 months - 1 year	1 year - 3 years	3-5 years	5 - 10 years	5 - 10 years	Total
<b>PLN</b>	-44.2	-7.7	-53.6	-73.6	2.8	0.0	-176.4
<b>EUR</b>	-0.2	-3.8	-2.8	-12.2	7.5	0.0	-11.5
<b>USD</b>	10.2	4.8	0.2	0.0	0.0	0.0	15.2

<b>CHF</b>	1.4	0.2	-2.8	-0.9	0.0	0.0	-2.1
<b>GBP</b>	1.9	0.6	0.1	0.0	0.0	0.0	2.6
<b>OTHER</b>	-0.4	-1.5	-0.2	0.0	0.0	0.0	-2.0
<b>Total</b>	<b>-31.3</b>	<b>-7.4</b>	<b>-59.0</b>	<b>-86.7</b>	<b>10.3</b>	<b>0.0</b>	<b>-174.2</b>

BPV statistics for the first half of 2013 (in PLN thousand).

Book	Minimum	Average	Maximum
<b>Banking book</b>	-235.26	-95.28	100.38
<b>Trading book</b>	-31.99	-3.85	22.44
<b>Total</b>	<b>-251.56</b>	<b>-99.13</b>	<b>116.74</b>

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 the first half of 2013 is shown in the table below (99% VaR assuming a holding period of 250 days, in PLN thousand).

Book	VaR
<b>Banking book</b>	33 371
<b>Trading book<sup>5</sup></b>	9 537
<b>Total<sup>6</sup></b>	<b>26 808</b>

VaR statistics for the currency portfolio in the first half of 2013, assuming a 250-day holding period, were as follows (in PLN thousand).

Book	Minimum	Average	Maximum
<b>Banking book</b>	15 452	28 884	47 692
<b>Trading book</b>	3 197	8 267	14 457
<b>Total</b>	14 313	29 268	45 450

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, loans, deposits and derivative transactions used to hedge 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 economic value of capital. As part of these scenarios the Bank implements internal limits, the utilization of which is measured in monthly intervals. 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 June 2013 (in PLN thousand) is shown below.

Scenario (1M/10Y)	Change in the economic value of capital
<b>+400 / +100</b>	-41 463
<b>+100 / +400</b>	-26 226
<b>+200 / +200</b>	-27 539
<b>- 200 / - 200</b>	33 502

<sup>5</sup>The trading book VaR includes the VaR in respect of currency risk shown above.

<sup>6</sup>As above.



- 100 / - 400	30 658
- 400 / - 100	46 726

## Liquidity risk

The Bank defines liquidity risk as the risk of the potential inability to fulfil its obligations, on conditions favourable for the Bank and at an acceptable cost, from all the balance sheet and off-balance sheet positions of the Bank. Therefore, the Bank's liquidity risk management policy consists of maintaining its own liquidity in such 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 a capacity to settle all obligations in a timely manner;
- maintaining basic liquidity provisions, in case the liquidity situation suddenly deteriorates;
- minimizing the risk of exceeding the defined liquidity limits;
- monitoring liquidity, paying special attention to potential emergencies, so that the Bank is able to activate a relevant emergency plan when necessary;
- ensuring that the processes applied at the Bank comply with the regulatory requirements regarding liquidity risk management.

The goals set out above are realized independently by appropriate organizational units, the competencies and responsibilities of which are clearly defined in 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 the Bank's emergency plans with regard to liquidity;
- monitors liquidity limits;
- periodically conducts analyses of the categories and factors which impact the current and future liquidity levels in the form of reports.

Among liquidity management measurements, the Bank takes into account the following ratios and 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 capability of discharging all monetary liabilities which mature within 30 consecutive days;
- medium-term liquidity understood as the capability of discharging all liabilities which mature within 6 months;
- long-term liquidity defined as the capability of discharging 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 the 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, deposits withdrawals and renewals, level of their concentration);
- option to shorten maturities of specific asset items (such as mortgage loans with an early repayment option);
- option to sell assets (liquid portfolio)

and are accepted at the level of the ALCO or the Bank's Management Board.

The maturity analysis of realigned assets and liabilities is presented in the table below (amounts in PLN million):

6/30/2013	1D	1M	3M	6M	1Y	2Y	5Y	10Y+	TOTAL
<b>ASSETS</b>	<b>625</b>	<b>3.223</b>	<b>1.238</b>	<b>1.244</b>	<b>2.251</b>	<b>1.895</b>	<b>3.985</b>	<b>8,575</b>	<b>23,036</b>
Cash and Nostro	10	45	38	35	47	59	98	363	695
Amounts due from banks	118	1	0	0	0	77	0	0	196
Amounts due from customers	347	472	1.006	1.205	2.164	1.661	3.821	7.508	18.184
Securities	150	2.705	194	4	40	98	66	150	3.407
Other assets	0	0	0	0	0	0	0	554	554
<b>EQUITY AND LIABILITIES</b>	<b>-318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-11,282</b>	<b>-23,036</b>
Amounts due to banks	-161	-301	0	0	0	-12	-108	0	-582
Amounts due to customers	-157	-1.436	-1.920	-1.102	-1.451	-1.737	-2.510	-7.719	-18.032
Own issues	0	-29	-98	-4	-172	-490	-66	-299	-1.158
Other liabilities	0	0	0	0	0	0	0	-3,264	-3,264
Balance-sheet gap	<b>307</b>	<b>1.457</b>	<b>-780</b>	<b>138</b>	<b>628</b>	<b>-344</b>	<b>1.301</b>	<b>-2.707</b>	<b>0</b>
Accumulated balance-sheet gap	<b>307</b>	<b>1.764</b>	<b>984</b>	<b>1.122</b>	<b>1.750</b>	<b>1.406</b>	<b>2.707</b>	<b>0</b>	<b>0</b>
Derivative instruments - inflows	188	1.831	864	370	367	215	488	14	4.337
Derivative instruments - outflows	-188	-1.824	-851	-365	-365	-213	-491	-14	-4.311
Derivative instruments - net	0	7	13	5	2	2	-3	0	26
Guarantee and financial lines	0	-646	-646	0	323	969	0	0	0
Off-balance sheet gap	0	-639	-633	5	325	971	-3	0	26
Total gap	<b>307</b>	<b>818</b>	<b>-</b>	<b>143</b>	<b>953</b>	<b>627</b>	<b>1.298</b>	<b>-2.707</b>	<b>26</b>
		<b>1.413</b>							
Total accumulated gap	<b>307</b>	<b>1.125</b>	<b>-288</b>	<b>-145</b>	<b>808</b>	<b>1.435</b>	<b>2.733</b>	<b>26</b>	

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 30 June 2013 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 total of the base and supplementary liquidity reserve as at the reporting date, and the value of unstable external funds. As at the end of June 2013, the excess amounted to PLN 1 051 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 ratio of the total of the base and supplementary liquidity reserve as at the reporting date to the value of unstable external funds.

The values of the ratios as at the end of June 2013 were as follows: 5,17; 1,11; 1,43.

## 11.2 Operational risk management

### Operational risk management objectives and policies

When managing its operational risks, Alior Bank uses definitions put forward by the Basel Committee on Banking Supervision, whereby operational risks refer to possible losses resulting from failure to deploy internal processes, staff, systems or to external threats. Operational risk includes certain legal and compliance risk but does not include any strategic, business or reputation risk. The Bank applies the standardized approach to calculate the capital adequacy in respect of operational risk.

The Bank's policy is to minimize exposure to operational risk, which is managed by counteracting operational events and incidents and by limiting losses in the event that the risk materializes. The principles and structure of operational risk management in Alior Bank are based on the provisions of the Banking Law, the provisions of resolutions No. 76/2010 and 258/2011 of the Polish Financial Supervision Authority, and Alior Bank's Operational Risk Management Policy (latest update Resolution 243/2013 of the Bank's Management Board). The document specifies the objectives and policies of operational risk management and the control structure.

The Management Board, which participates in the Bank's operational risk management process, is responsible for the correct functioning of the operational risk management and control processes, and specifically supports the process: it accepts the operational risk principles and system (Policy); specifies the competencies and segregation of duties in this process; periodically assesses the process; appoints and approves the composition of the Operational Risk Committee; approves the level of internal annual operational risk limits; presents information on the approach to operational risk management in the Bank to the market environment.

The Supervisory Board supervises the adopted operational risk strategy, which, among other things, approves the Policy specifying the general operational risk management principles; assesses the pursuit of the Policy, and if necessary, orders revision of the Policy; periodically assesses the risk level on the basis of information given by the Bank's

Management Board; recommends action to mitigate or change the Bank's operational risk profile.

The Operational Risk Committee, which supports the Management Board in effective risk management, is part of the Bank's organizational structure. The 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 issues necessary recommendations and decisions to reduce the probability of operational risk events occurring and limit the effects of operational events and incidents. In the first half of 2013, the Operational Risk Committee held 8 meetings and issued 48 recommendations limiting the Bank's exposure to operational risk.

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. On the basis of 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 discontinuing operations which are exposed to operational risk. The Management Board may decide to insure the identified operational risk.

The Operational Risk Office is responsible for on-going control and monitoring of operational risk. This entity is also responsible for: developing and implementing appropriate methodologies and operational risk control instruments; giving opinions on and assessing the operational risk in the projects in which the Bank engages and in its products (new and modified); accumulating and monitoring information on internal and external events and on the values of the KRI; developing cyclic reports on the level of the Bank's operational risk.

The duty to account for operational risks in everyday work relates to entities at all levels of the organization and to all the Bank's employees. The Bank's employees control the risk level on a current basis in the area of the processes they are responsible for and actively minimize the risk exposure to avoid/minimize operating losses.

## Recording events/incidents and operating losses

The Bank records the events, incidents and operating losses, which enable it to effectively analyze and monitor operational risks in accordance with the internal instruction specifying the recording principles. The records are maintained using the IT system which supports operational risk management and which enables registering, analyzing and monitoring data.

In the first half of 2013 a total of 454 operating losses were recorded totalling PLN 2 974 651.54. Compared with the first half of 2012, operating losses increased by PLN 1 952 251.39.

## Methodology for monitoring operational risk based on key risk ratios

To monitor the status and profile of the Bank's operational risk on an on-going basis the Bank uses the Key Risk Indicators – KRI methodology. With its use the Bank monitors changes in operating risk factors and the trends for changes in risk exposure, and ensures early discovery of increased operational risk exposure in all areas of its operations. Monitoring is conducted on a monthly basis and KRI are analyzed and

discussed at Operational Risk Committee meetings and forwarded to the Bank's Management Board.

## 11.3 Credit risk management

### Credit risk management objectives and policies

The overall goal of credit risk management in Alior Bank S.A. is to maintain a stable, high quality credit portfolio, at a level enabling maximizing returns on equity. The Bank strives to maintain its asset quality at a level adequate to the assessed risk covered by standard risk costs (SRC).

The Bank consistently implements best credit risk management practices aimed at compliance with regulatory recommendations, which ensure a high level of predictiveness of loan loss ratios for different credit products, industries, types of collateral, customer groups and distribution channels at all stages of the lending process.

The Management Board of the Bank is responsible for the Bank's credit policy; for the purpose of integrating the management of various risk types the Management Board appointed the Risk Management Committee and ICAAP.

The purpose of the Committee is – among other things – to form the Bank's lending policy, supervise the ICAAP process and coordinate integrated business and ICAAP stress-tests. The Committee also performs advisory functions for the Bank's Management Board in respect of regulations which require the latter's approval.

The regulations in force at the Bank, and specifically the credit policy and detailed lending methodologies developed for particular customer segments, sales channels, types of products and transactions, determine the risk appetite, the boundary conditions in respect of verification criteria, and approval principles.

In forming the lending policy, the Bank – among other things – takes the following into account:

- macroeconomic conditions;
- current and planned customer structure;
- expected financial results realized by the Bank in particular periods;
- current and planned portfolio volume, broken down by particular sales channels;
- product structure of the portfolio;
- current market trends.

The Bank defined and consistently pursues common risk management policies. These policies include:

1. Adaptation of the structures responsible for developing credit policies, assessing and accepting credit risk, monitoring and measuring portfolio credit risk to the scale of the Bank's operations.
2. Independence of the sales and credit risk acceptance and monitoring, and debt collection functions.
3. Adaptation of the system of credit competencies to the risk level correlated to the amount of exposure.

Appropriate structure of credit competencies ensures acceptance of risk by the relevant level of decision-takers, adequate to the amount of risk to which the Bank is exposed. Decisions are taken individually or jointly, up to the level of competency limit in respect of the Bank's total exposure to a customer and to its related customers (entities). The quality of credit decisions taken are subject to various verification criteria.

The quality of the credit portfolio resulting from the decisions taken on respective decision-making levels are checked constantly. Additionally, the correctness of using competencies in taking credit decisions is checked as part of functional controls.

The correctness of using credit competencies is controlled by authorized persons. The control results may translate into changes in competence levels. If irregularities are discovered in individual decisions, the respective competencies may be withdrawn.

4. The limits system, both in respect of limits following from external regulations and from internal principles determined by the Bank, based on analyses of the portfolio quality and market environment.

To ensure the appropriate quality, diversification of assets and liabilities and to maintain an adequate capital level, the Bank identifies concentrations in different areas of its operations. Excessive concentration of particular assets or liabilities vis-à-vis the credit or liquidity risk is believed to have a negative impact on the Bank's position.

Concentration risk management (which relates to loans) refers among other things to the risk following from: obligations in respect of one entity or group of related entities, liabilities to entities representing the same sector, exposure to entities from the same region and particular countries or groups of countries, exposures secured with the same type of collateral, exposures to the same currency or indexed to the same currency, exposures to the same type of interest rates (fixed or fluctuating) and interest rate index, exposures to entities described in art. 71 of the Banking Law.

5. The use of IT systems which support the credit risk assessment both in the Bank's retail and business segment.

The IT systems which operate in the Bank enable effective completion of credit processes using the data derived from integrated internal and external databases, using embedded tools which support the assessment of credit risk.

6. Periodical monitoring of credit exposures in the course of which the Bank updates its information on the financial and economic condition of the borrowers based on their current financial statements.

The updated information is used to calculate the current rating, which is one of the elements taken into consideration in the decision concluding the monitoring process. The frequency of updates depends on the amount of credit exposure, the risk class and customer segment.

7. Systematic measurement of the credit risk at portfolio and individual level both for management purposes and for external reporting purposes.

To measure the loss ratio on the portfolio on a current basis, the Bank uses internal ratings and identified objective impairment premises in accordance with International Financial Reporting Standards. The Bank assesses all balance sheet credit exposures (balance sheet groups of credit exposures) in terms of objective premises for impairment, in accordance with the data current as at the revaluation date. Impairment is identified daily and automatically in the Bank's central system.

Premises for impairment of the carrying value of a credit exposure (balance sheet groups of credit exposures) are recorded in the system at the customer and account level. Recorded premises for 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 recording premises for impairment at customer level, the impairment is propagated to all the customer's accounts in the portfolio. The propagation each time relates to all the accounts in respect of which the customer is owner/co-owner or borrower/co-borrower. For balance sheet credit exposures that have become impaired, the Bank records an impairment charge in order to decrease their book value down to the present value of the expected future cash flows. Individual assessment is necessary for all exposures exceeding the predetermined



thresholds depending on the customer segment. Group valuation is based on the time in default of a given exposure and accounts for the specific nature of the given group in terms of the expected recoveries. Collateral is taken into consideration at account level. Exposures in respect of which no premises for impairment have been identified are grouped into homogenous groups in terms of the risk profile, and a provision is set up for the group exposure used to cover the losses incurred but not reported. Losses incurred but not reported (IBNR) are measured in accordance with the concept of predicted losses and standard models of cost of risk with an accuracy to the PD parameter which is scaled to the period of loss identification (LIP).

8. Conducting stress tests (ST) in respect of credit risk which are conducted at least once a year and cover the whole of the Bank's credit portfolio.

Stress tests are conducted to assess the sensitivity of the credit portfolio to changes in foreign currency rates, market interest rates and value of collateral (in accordance with the recommendations of PFSA) and other scenarios of deterioration of the market conditions. The requests and recommendations formed on the basis of ST are used to shape and update the Bank's credit policy. The methodology and results of stress tests are used in the process of setting internal concentration limits and are one of the pillars of the early warning system.

9. The developed early warning system (EWS) aimed at identifying irregularities and enabling undertaking preventive actions both at the portfolio and individual exposure levels.

The purpose of the EWS system used by the Bank is to:

- immediately identify potential events which may lead to deterioration in the quality of the credit portfolio;
- limit the negative impact of external shocks on the quality of the credit portfolio;
- limit the Bank's losses on the credit portfolio;
- create a platform for direct cooperation between the business department and risk management department in crisis situations.

The basis for the EWS system is internal and external data, including data relating to:

- best market practices;
- unfavourable changes in the debtor's current position;
- current economic conditions;
- historical, current and forecast quality indices for the credit portfolio.

If specified thresholds are exceeded, appropriate action is taken aimed at eliminating the identified irregularities.

10. Documenting credit risk management policies and systematic reporting of the quality of the credit portfolio.

Undertaking corrective and repair actions in the event of determining an increase in the credit risk level. The Bank has full documentation specifying the principles for credit risk management, among other things in the form of credit policies adopted by the Bank's Management Board and the Risk Management Committee and ICAAP of credit policies, detailed crediting policies specifying credit risk assessment principles with the scope of necessary credit documentation and the credit tools used to support its measurement and all instructions specifying credit risk identification and measurement principles. These principles are regularly reviewed and updated. In the event of increased credit risk, as a result of regular credit portfolio quality reviews in respect of particular products or product groups, the Bank adjusts the adopted risk management principles introducing changes enabling it to minimize the identified risks.

The Bank uses a centralized data source to prepare credit risk reports – all information on processes, credit exposures and credit risk levels is derived from the Data Warehouse

(DW). This enables consistency of the information presented in particular reports and analyses. Cyclic reports are generated at the Bank's Data Warehouse level, and published automatically on the Bank's report portal.

11. Verification of the operation of the system using functional controls and actions performed by the Internal Audit Department.

The risk management principles implemented by the Bank are subject to periodic control, the main aim of which is to determine whether the manner of conducting credit activities complies with the internal procedures and external legal regulations and whether the effects of the activities comply with the purposes specified in the Bank's credit policies. Controls are conducted by specialized entities, and their results are regularly reviewed.

## Operations completed in the first half of 2013

In the first half of 2013, as part of its development work, the Bank implemented further new solutions and enhancements:

1. action was taken to adapt the retail credit exposures management policy to Recommendation T;
2. in accordance with the provisions of the amended recommendation T, the levels of DTI for unsecured products in individual customer segment were determined, adapted to the Bank's risk appetite;
3. lending policy restrictions were implemented for retail debt sub-portfolios, which were correlated with scoring classes;
4. development of the SMART system was continued to process business customers' credit requests, which ensures greater control over credit and operational risk, simultaneously ensuring the higher effectiveness of processes and flexibility of assessment;
5. new, streamlined credit processes were implemented to service micro customers under the standardized assessment approach;
6. additional extraordinary monitoring of construction industry firms with was implemented with an assessment of the impact of the industry condition on the loss ratio of Alior Bank's portfolio;
7. time and effectiveness of credit processes in respect of individual and business customers were improved;
8. efficiency and automation of the verification of the process for registering premises for impairment and the impairment status were enhanced and automated by implementing dedicated reports in the Data Warehouse;
9. a system for calculating internal capital in accordance with the CR+ methodology was implemented;
10. a new methodology for assessing write-downs using the group method was developed – implementation Q3 2013;
11. development of the Collateral Module enabling identification, registration and monitoring of collateral in the Bank, was continued, detailed monitoring of correctness of registration of collateral in the Bank's systems for the material exposures portfolio was conducted;
12. efficiency of the system used to record related groups and constant was enhanced and control over the quality of data with reference to identifying customer relationships was improved;
13. the scope of internal concentration limits based on multi-dimensional analysis of portfolio quality broken down into particular characteristics, macroeconomic data and data from the Polish banking sector was expanded; a variety of quantitative tools are



used in the analysis, adequate for the scope of the test, among others: multi-equation linear econometric models, stochastic variability models, GARCH class models;

14. scoring and rating models were significantly developed in response to the Bank's business needs, to objectivize and enhance the credit decision making process using the account history, and specifically correct assessment of the probability of the Bank customer's default; as a result, the predictive power of the models used for the customer's credit assessment improved and a more balanced dispersion was achieved; in respect of scoring models for individual customers, application modules for non-secured products were implemented and a new application model for mortgage-secured products; in respect of business customers, models were implemented which, apart from an absolute analysis of particular ratios, additionally account for the firm's condition vis-à-vis the business environment;

15. an independent internal validation of scoring and rating models was conducted whose results confirmed the grounds for using the models and their compliance with market practices;

16. a model risk management policy was implemented at Bank level and decentralized model risk control tools were implemented;

17. quantitative tools used in cyclic analyses of portfolio sensitivity to macroeconomic conditions were significantly developed, enabling integration of the stress tests used by the Bank, concentration limits and tools used to assess the creditworthiness/credit standing of the Bank's customers;

18. the methodology for assessing financial entities was developed to enable fuller assessment of risk related to granting treasury limits to particular banks;

19. the effectiveness of monitoring and debt collection processes was increased by:

- implementing the process of insuring portfolio real estate which secure the loans granted;
- establishing the Local Debt Collection Team in the Bank's structures;
- optimizing the refinancing and consolidation monitoring process;
- proactive approach to the restructuring offer based on cooperation with the customers to-date – restructuring process initiated by the Bank in respect of selected groups of customers and acceptance of collateral;
- modifying and optimizing the reconciliation agreements after the respective agreement is cancelled;
- directly relating the criteria for legal methods of claiming debts to costs (enforcement-warrant proceedings, writ of payment proceedings, e – court);
- permanently including the sales of dues in debt collection processes.

## 11.4 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 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.

<b>Material risks as at 30.06.2013</b>
1.Credit risk – insolvency
2.Credit risk - industry concentration
3. Credit risk – counterparty concentration
4.Credit risk – currency concentration
5.Operational risk
6.Liquidity risk
7.Interest rate risk in respect of the banking book
8.Market risk
9.Model risk

The Bank assesses internal capital to offset particular risks identified as material using internal risk assessment models. Internal capital is estimated for:

- credit 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 model accounting for the rate of return on assets in the banking sector.

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.

<b>Capital ratios of the Alior Bank Group as at 30.06.2013</b>		
<b>Capital adequacy</b>	<b>Tier1 ratio</b>	<b>Ratio of offsetting internal capital by available capital</b>
14.43%	12.49%	1.72

Taking into consideration the need to secure the 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 – lately – also listing 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.

## 12. Contingent liabilities

The Group grants contingent liabilities to its 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 in respect of credit cards are granted to individual customers for a period of three years.

The Group grants contingent liabilities to customers in respect of:

- overdraft limits for a period of 12 months;
- guarantees, mainly for a period of 6 years;
- credit cards for a period of up to 3 years;
- 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 or part of their liabilities.

As at 30.06.2013 the number of active guarantees granted by Alior Bank was 1 826, amounting to PLN 1 136 779 thousand. During the first half of 2013 the Bank issued 618 guarantees totalling PLN 354 353 thousand.

The Bank takes care to maintain a correct timing structure of the guarantees issued. Active guarantees which mature in a period shorter than two years (of 689) amount to PLN 497 265 thousand. Guarantees which mature by the end of 2013 (of 513) amount to PLN 271 654 thousand.

### Off-balance sheet liabilities granted in PLN thousand

Off-balance sheet contingent liabilities granted to customers	As at 30.06.2013	As at 31.12.2012	As at 30.06.2012
<b>Off-balance sheet liabilities granted</b>	6 452 529	5 608 201	3 911 455
<b>Relating to financing</b>	5 315 750	4 398 412	2 971 039
<b>Guarantees</b>	1 136 779	1 209 789	940 416

### Off-balance sheet contingent liabilities granted to customers – by customer

By customer	As at 30.06.2013
entity 1	249 995
entity 2	232 630
entity 3	189 987
entity 4	150 000
entity 5	147 798
entity 6	141 434
entity 7	115 000
entity 8	100 000
entity 9	96 914
entity 10	96 637

<b>other</b>	4 932 134
<b>Total</b>	<b>6 452 529</b>

### Off-balance sheet contingent liabilities granted to customers – by type

By type	As at 30.06.2013
<b>Credit lines</b>	4 729 302
<b>import letters of credit</b>	48 356
<b>Loan promises</b>	538 092
<b>Guarantees</b>	1 136 779
<b>Total</b>	<b>6 452 529</b>

The Bank was not a warrantor or guarantor of any bonds in the first half of 2013 (there were no off-balance sheet liabilities in respect of bonds).

## 13. Internal control system

Alior Bank S.A. has an internal control system which comprises all control processes which support management. The system is designed to support decision-making processes and thus to contribute to ensuring the achievement of the Bank's strategic objectives, operational effectiveness and efficiency, reliability of financial reporting, maintaining risks at acceptable levels, the safeguarding of assets, compliance with the law, internal regulations and good banking practices set out in the recommendations of the banking supervision, control over all units and areas of operation, efficient communication in cases of operational risks, quick identification and elimination of irregularities, mismanagement and fraud. The internal control system includes solutions relating to:

- internal procedures (policies, instructions, professional methodologies);
- controls (such as: the four-eyes principle, the system of limits, second review, segregation of duties);
- organizational structure (e.g. segregation of roles and responsibilities, decision-making policies).

The internal control system at Alior Bank S.A. comprises institutional controls and functional controls. Institutional controls are conducted by employees of the Internal Audit Department and consultants, both internal and external, after obtaining the relevant authorization from the Director of a given Department or the President of the Bank's Management Board. The Internal Audit Department is responsible for providing objective, independent evaluations of the areas audited, supporting the Bank's management processes by identifying and assessing significant risks and contributing to improving the risk management and control systems, compliance of audit findings with the applicable law and the Bank's internal regulations, proper safeguarding of the audit documentation against unauthorized access.

The functional controls cover all management levels and every employee, all organizational units and all areas of the Bank's operations. They consist in everyday analysis of the course and results of work of specific employees and teams. The main tasks of the functional controls include:

- checking whether the processes at the Bank are conducted as designed;
- analyzing whether the procedures are performed by employees with relevant

competencies and professional qualifications and whether there is a conflict of interests;

- monitoring the accuracy and correctness of records and financial reporting;
- checking compliance with internal regulations, including limits, physical access security measures, scopes of authorizations.

The functional controls are performed in the form of self-control, vertical and horizontal functional control and automatic performance of processes executed by the IT systems.

In accordance with the provisions of Article 86 clause 3 of the Act of 7 May 2009 on registered auditors and their self-government, registered audit companies and public supervision, the tasks of an audit committee are executed at Alior Bank S.A. by the Bank's Supervisory Board which consists of five members. Based on the said Act, the Supervisory Board is obliged, among others, to monitor the effectiveness of internal controls, internal audit and risk management. On 19 June 2013, the Bank's ordinary General Shareholders' Meeting appointed a sixth member of the Supervisory Board. On July 30, 2013, Audit Committee was appointed by resolution of the Supervisory Board of the Bank.

## 14. Corporate social responsibility

### 14.1 Relations with customers

From the beginning of its existence Alior Bank plays a key role on the market, maintaining high service quality standards, as confirmed by many prizes and awards. The Bank cares for its customers at each stage - both when developing its product offer and when creating the network of outlets and employing staff. The Bank's success is based on its organizational strategy aimed at addressing customer requirements through advisory services based on benefits and tailoring products to expectations.

The Bank's care to maintain high commitment is reflected in regularly monitoring the work of its employees and reviewing customer satisfaction by conducting telephone and internet surveys. By conducting regular training and tests, the Bank maintains a high level of factual preparedness for work.

The Bank also analyzes customer claims which enables immediate reaction and – if necessary – remedial action. As of the beginning of 2011, the Bank enabled its customers to ask questions and file claims electronically through internet banking. It is a convenient and easily available communication channel between the customers and the Bank.

### 14.2 Relationship with employees

Innovations in Alior Bank have always played a key role, as reflected in implementations of innovative products and services, such as Alior Sync.

The Bank implemented a series of programs enabling all employees to report and realize their own innovative ideas, which include:

- the initiative "Innovative Mondays" in the form of working meetings where apart from the ideas proposed by employees themselves the latter may acquaint themselves with the newest trends in the banking sector and innovative actions of domestic competitors and international leaders.
- the iAlior portal – an innovative platform where more than 1000 threads were published relating to product and system innovations, and improvements in

existing processes and services. The platform is also used to share knowledge and experience submitted by customers. The Bank recruited people to test new products and solutions from among iAlior platform users.

- the ZineINC communication platform – Alior Bank as the first firm in Poland implemented an innovative multi-layer communication platform - ZineINC. The tool is used in the Bank's internal communications ensuring constant access to information to the Bank's employees at any place and time. This is enabled by mobile applications available for the iOS (iPhone + iPad) systems and Android (telephone + tablet) and on www pages. The use of functions known from social media enable the Bank's employees to actively use topical channels by monitoring information which is published there, adding comments, discussing and participating in competitions. They also are able to participate in creating particular channels and perform editorial functions.

Several trainings are also organized for the Bank's employees. Each newly-employed person in a branch starts his/her work with introductory training. Such training is conducted in the Bank's especially adapted training centre and may last for up to three weeks. New employees have a chance to better acquaint themselves with the organization, integrate into the firm and make new relationships. After beginning work each employee has a coach in the branch and a dedicated internal trainer. Alior Bank employees may participate in various types of training programs conducted both by internal and external trainers. The Bank conducts a wide range of training courses – product, sales, general and many others. In the first six months of 2013 employees participated in training which lasted more than 132 500 hours.

### 14.3 Educational, cultural and charity activities

Alior Bank is a socially responsible corporation. From the beginning of its operations it supports local communities and undertakes many charity and sponsoring initiatives.

In January 2013 during the 21<sup>st</sup> Final of Wielka Orkiestra Świątecznej Pomocy (Great Orchestra of Christmas Charity) Alior Bank together with the Siepomaga.pl portal joined in collecting money and enabled customers and the Bank's employees quick and easy transfers of funds. In effect, over 600 of the Bank's customers and employees participated in the collection of funds on the Siepomaga.pl portal and managed to collect PLN 18 762, which was earmarked for saving children's lives and providing medical care for senior citizens.

In March 2013, Alior Bank became partner in the Inspiring Solutions conference on IT applications in business. During the three days of the conference, students of the Warsaw School of Economics and other economic universities learned about the significant role played by IT in companies' operations. Students also could meet with Alior Bank specialists and find out about possibilities of employment in the Bank.

On the occasion of Children's Day, Alior Bank once again organized a cruise on the Warmia lakes for 70 children from Olsztyn and its vicinity. The group included children chronically ill with leukemia, children from the Olsztyn Orphanage and a group of youth from the Voluntary Labour Corps.

The Bank also engages in actions which promote high culture. In June it sponsored the Charity Maltese Knights Concert where works of Paganini, Mozart, jazz standards and

other works were presented by such stars as Gary Guthman, Stanisław Drzewiecki and Konstanty Wileński. The Lviv National Chamber Orchestra also participated in the concert. The concert, to which customers of Alior Bank were invited, took place on 5 June 2013 at the National Philharmonic Hall in Warsaw.

Moreover, Alior Bank together with Alior Instytut Szkoleń, prepared a series of training sessions on psychology in business, management competencies and personal development for its customers. Lectures were held by such international experts as Prof. Robert Cialdini, or the world class authority on personal finance management – Harv Eker.

## 15. Controls applied in the process of preparing financial statements

The financial statements are prepared by the Finance Sector, in accordance with the accounting policy adopted by the Bank's Management Board and organization of accounting which specifies the principles for recording the Bank's business transactions thus reflecting the Bank's asset and financial position and its results in a true, fair and clear manner.

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

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

- risk of incorrect entry data;
- risk of incorrect presentation of data in the financial statements;
- risk of using incorrect estimates;
- risk of lack of integration of the IT systems 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 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 mandatory 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 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 entry data, supported by the data control applications; a series of principles for ensuring the correctness of are defined in the applications, as well as the error correction path and strict monitoring of the quality of data;



- controlling mapping of the data from source systems to the financial statements, which ensures correct presentation of data;
- performing analytical reviews basing on specialist knowledge, aimed mainly at confronting the business knowledge held with the financial data and discovering potential signals about incorrect presentation of data or incorrect entry data.

A description of the estimates adopted by the Bank, in accordance with IAS/IFRS, is described in the accounting policies. 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 enable verifying the models' functional assumptions, adequacy of parameters and correctness of implementation;
- to measure financial instruments 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 units;
- to measure financial instruments which are not quoted on active markets valuation models were implemented which had been independently checked beforehand and had been 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 forecast of the Bank's 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, 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 and in terms of corporate governance.

## 16. Shareholders of Alior Bank S.A.

### 16.1 Significant shareholders

The following are the shareholders of Alior Bank who hold more than 5% of the share capital as at 08.08.2013:

- Alior Lux S.a r. l. & Co S.C.A.;
- European Bank for Reconstruction and Development
- Genesis AssetManagers, LLP;

## Shareholders with interest exceeding 5% of the Bank's shares as at 09.05.2013

Shareholder	Number of shares /votes	Par value of shares	Interest in share capital	% share in total number of votes
Alior Lux S.a r.l. & Co. S.C.A. (including Alior Polska sp. z o.o.)	22 918 382	229 183 820	36.045%	36.045%
European Bank for Reconstruction and Development	5 614 035	56 140 350	8.829%	8.829%
Genesis Asset Managers, LLP	3 874 561	38 745 610	6.094%	6.094%
Other shares	31 175 987	311 759 970	49.032%	49.032%
<b>Total</b>	<b>63 582 965</b>	<b>635 829 650</b>	<b>100%</b>	<b>100%</b>

## Shareholders with interest exceeding 5% of the Bank's shares as at 08.08.2013

Shareholder	Number of shares /votes	Par value of shares	Interest in share capital	% share in total number of votes
Alior Lux S.a r.l. & Co. S.C.A. (including Alior Polska sp. z o.o.)	22 918 382	229 183 820	36.045%	36.045%
European Bank for Reconstruction and Development	5 614 035	56 140 350	8.829%	8.829%
Genesis Asset Managers, LLP	3 874 561	38 745 610	6.094%	6.094%
Other shares	31 175 987	311 759 970	49.032%	49.032%
<b>Total</b>	<b>63 582 965</b>	<b>635 829 650</b>	<b>100%</b>	<b>100%</b>

In accordance with the best knowledge of the Bank's Management Board data relating to shareholders with interest exceeding 5% of Alior Bank S.A.'s shares has not changed since the publication of the last periodic report.

## 16.2 Shares held by members of supervisory and management bodies

### Shareholders who were members of the Bank's Management Board as at 09.05.2013

Shareholder	Number of shares /votes	Par value of shares	Interest in share capital	% share in total number of votes
Niels Lunderff	83 021	830 210	0.13%	0.13%
Wojciech Sobieraj	70 865	708 650	0.11%	0.11%
Artur Maliszewski	3 042	30 420	0.00%	0.00%
Katarzyna Sułkowska	2 851	28 510	0.00%	0.00%
Krzysztof Czuba	168	1 680	0.00%	0.00%
Witold Skrok	168	1 680	0.00%	0.00%
Michał Hucal	70	700	0.00%	0.00%

### Shareholders who were members of the Bank's Management Board as at 08.08.2013

Shareholder	Number of shares /votes	Par value of shares	Interest in share capital	% share in total number of
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	votes			
Niels Lundorff	83 021	830 210	0.13%	0.13%
Wojciech Sobieraj	71 322	713 220	0.11%	0.11%
Artur Maliszewski	3 042	30 420	0.00%	0.00%
Katarzyna Sułkowska	2 851	28 510	0.00%	0.00%
Krzysztof Czuba	168	1 680	0.00%	0.00%
Witold Skrok	168	1 680	0.00%	0.00%
Michał Hucal	70	700	0.00%	0.00%

On 14 May 2013 Mr Wojciech Sobieraj, who is President of the Bank's Management Board, acquired 457 of the Bank's shares at PLN 73.40 per share. The above transaction was concluded during a session on the Warsaw Stock Exchange. The Management Board of Alior Bank S.A. informed of the transaction in its current report No. 22/2013, in accordance with art. 160 of the Act on trading in financial instruments of 29 July 2005.

#### Shareholders who were members of the Bank's Supervisory Board as at 09.05.2013

Shareholder	Number of shares /votes	Par value of shares	Interest in share capital	% share in total number of votes
Helene Zaleski	206 159	2 061 590	0.32%	0.32%
Małgorzata Iwanicz - Drozdowska	1 465	14 650	0.00%	0.00%
Józef Wancer	53	530	0.00%	0.00%

#### Shareholders who were members of the Bank's Supervisory Board as at 08.08.2013

Shareholder	Number of shares /votes	Par value of shares	Interest in share capital	% share in total number of votes
Helene Zaleski	186 159	1 861 590	0.29%	0.29%
Małgorzata Iwanicz - Drozdowska	1 465	14 650	0.00%	0.00%
Józef Wancer	53	530	0.00%	0.00%

On 10 June 2013, Ms Helene Zaleski, Chairwoman of the Bank's Supervisory Board, sold 20,000 of the Bank's shares at PLN 91.21 per share. The above transaction was concluded during a session on the Warsaw Stock Exchange. The Management Board of Alior Bank S.A. informed of the transaction in its current report No. 27/2013, in accordance with art. 160 of the Act on trading in financial instruments of 29 July 2005.

## Management option plan

As at December 13, 2012 based on mandate included in the Resolution of the Supervisory Board of Alior Bank S.A. as at December 10, 2012, an initial allocation of subscription warranties of A, B, and C series with rights to acquire shares of the Bank was made, according to the Resolution no 28/2012 of the Extraordinary General Meeting of the Shareholder of Alior Bank S.A. as at October 19, 2012, regarding conditional capital increase of the Bank and issue of the subscription warranties, with the following order:

- Wojciech Sobieraj – 666.257 of warranties
- Niels Lundorff – 366.437 of warranties

- Krzysztof Czuba – 266.500 of warranties
- Artur Maliszewski – 266.500 of warranties
- Katarzyna Sułkowska – 266.500 of warranties
- Witold Skrok – 266.500 of warranties

The assumption of the new Option Program it is to be addressed as well to a group of non-Management Board Members - key Senior Managers of the Bank.

The assumptions of the new Option program provide three tranches of subscription warrants (A, B and C series) will be issued free of charge and corresponding three tranches of the Banknts (D, E and F series) will be i with a total nominal value not exceeding PLN 33,312,500, including:

- up to 1,110,417 series A subscription warrants which will entitle their holders to subscribe for no more than 1,110,417 series D shares of the Bank in the five-year period starting on the first anniversary of the date of the first listing of the Bankthe Bank in the five-
- up to 1,110,416 series B subscription warrants which will entitle their holders to subscribe for no more than 1,110,416 series E shares of the Bank in the five-year period starting on the second anniversary of the date of the first listing of the Bank Bank in the five-yea
- up to 1,110,417 series C subscription warrants which will entitle their holders to subscribe for no more than 1,110,417 series F shares of the Bank in the five-year period starting on the third anniversary of the date of the first listing of the Bankofe Bank in the five-

The Eligible Persons will be able to exercise the right to subscribe for the Bank's shares upon the fulfilment of specific terms, including in particular that exercise of the rights from subscription warrants will be possible, provided that the change of the Bank's share price on the WSE in the reference period, calculated as the difference between the Final Price of the Offered Shares and the average closing quote for the 30 trading session days preceding, respectively, the first anniversary (with respect to the series A subscription warrants), the second anniversary (with respect to the series B subscription warrants) or the third anniversary (with respect to the series C subscription warrants) of the first listing of the Bank's shares on the WSE) will exceed the change in the WIG-Banki index in the same period (calculated as the difference between the WIG-Banki index on the date of the first listing of the Bank's shares on the WSE and the average closing value of the WIG-Banki index for the 30 trading session days preceding, respectively, the first, the second or the third anniversary of the first listing of the Bank's shares on the WSE). The issue price of the shares will be equal to the average price of the Bank's shares in the Public Offering calculated through the division of the net proceeds from the Public Offering by the total number of the Offered Shares allocated in the Public Offering, increased, respectively, by 10% with respect to the series D shares, by 15% with respect to the series E shares and by 17.5% with respect to the series F shares.

The settlement of the new Option Plan will be made by analogy to the exsisting Option Plan, which means it will have impact on the financial result of the Bank as an element of employee costs and will be shown as the same item as increase of the own equity value to the remaining capital – share base benefits – content of the capital. Alior Bank expects half of the total costs resulting from settlement of the new Option Plan to be made in 2013, and the remaining part in 2014 and 2015. As at the date of the Financial Report it is not possible to determine a final amount of the total costs to be incurred by the Bank due to the settlement of the New Option Plan

Details of the program will be determined in the Option Program Regulations which is to be adopted by the Supervisory Board.

### **Original management option plan**

As a result of settling the original management option plan (established on the basis of the Agreement of 25 August 2008) on 14 December 2012, 105 Alior Bank managers, including Members of the Bank's Management Board received (indirectly, through LuxCo 82 s.a.r.l.) 2,414,118 shares of Alior Bank. The remaining 1,299,909 of the Bank's shares resulting from settling the previous management option plan will be transferred by the Carlo Tassara Group to LuxCo 82 s.a.r.l. at the earlier of the sale of at least 30% of the Bank's shares by the Carlo Tassara Group, or on 30 June 2014. LuxCo 82 S.a.r.l. is a company operating under Luxembourg law, controlled by the management of Alior Bank and representing the interests of participants of the management incentive plan.

Members of the Management Board of Alior Bank S.A. are bound by a contractual lock-up in respect of up to 30% of the incentive shares over a period of 9 months, and in respect of 70% of the incentive shares by contractual lock-up over a period of 24 months as of 14 December 2012. Incentive shares vested in other plan participants who are not members of the Management Board, were subject to contractual lock-up, in respect of up to 30% of the incentive shares, until the end of January 2013, and to contractual lock-up over a period of 24 months as of 14 December 2012 in respect of up to 70% of the incentive shares.

Due to the partial expiry of the lock-ups, on 14 May 2013 LuxCo 82 s.a.r.l. sold 405 683 of the Bank's shares. The remaining portion of the shares held by LuxCo 82 S.a.r.l is still under the lock-up clause. Specifically, the longest lock-up periods relate to shares vested to Members of the Alior Bank Management Board as at 14 December 2012. The Bank's Management Board informed of the transaction in its current report No. 22/2013.

## **17. Alior Bank S.A.'s bodies**

### **17.1 Management Board**

The Management Board is the managing body of the Bank.

#### **Composition of the Management Board**

In accordance with the Articles of Association, the Management Board consists of at least three members. Members of the Management Board are appointed for a joint three-year term of office. The Supervisory Board appoints and dismisses members of the Management Board by secret ballot. At the request of the President of the Management Board, the Supervisory Board appoints Vice-Presidents of the Management Board. The appointment of two Members of the Management Board, including the President of the Board, requires the consent of PFSA. The Supervisory Board applies to the Polish Financial Supervision Authority for granting consent to appoint those two Members of the Management Board. Moreover, the Supervisory Board informs 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 Polish Financial

Supervision Authority of members of the Management Board who are responsible specifically for credit risk management and internal audit. Currently, by consent of PFSA, the President of the Management Board is Wojciech Sobieraj and the Vice-President is Katarzyna Sułkowska. The Supervisory Board is authorized to suspend particular 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 issues and represents the Bank. The Management Board is authorized in all issues 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 long-term operating plans and strategic goals of the Bank;
- it determines the short- and long-term financial plans of the Bank 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 the establishment and liquidation of the Bank's branches;
- it takes decisions as to paying out interim dividend to the shareholders, after obtaining 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 may 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 the participants of the Incentive Plan 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 Alior Doradztwo Prawne) was granted competencies to:

- offer and issue subscription warrants to participants of the Incentive Plan other than members of the Bank's Management Board (with reference to members of the Management Board, the competencies lie with the Supervisory Board);
- undertake all 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;
- concluding an agreement with KDPW on registering the newly-issued shares and, immediately after issuance, to undertake all other actions related to their dematerialization.

The Regulations of the Incentive Plan and Policy for variable compensation components for people at managerial positions in Alior Bank S.A. were adopted by Resolutions of the Bank's Supervisory Board on 27.03.2013. The list of persons covered by the said Policy was accepted on 22.03.2013 by the Remuneration Committee which operates within the Supervisory Board.

### **Competencies of the President of the Management Board**

Competencies of the President of the Management Board include specifically:

- managing the work of the Management Board;
- convening Management Board meetings and chairing 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.

### **Composition of the Management Board**

As at 31 January 2013:



<b>Wojciech Sobieraj</b>	- President of the Board
<b>Krzysztof Czuba</b>	- Vice President
<b>Niels Lundorff</b>	- Vice President
<b>Artur Maliszewski</b>	- Vice President
<b>Witold Skrok</b>	- Vice President
<b>Cezary Smorszczewski</b>	- Vice President
<b>Katarzyna Sułkowska</b>	- Vice President

On 10 February 2013 Cezary Smorszczewski resigned as Vice President and Member of the Bank's Management Board. On the same day, the Supervisory Board appointed Mr Michał Hucal Member of the Management Board and entrusted him with the function of Vice President of the Management Board.

Composition of the Management Board as at 30.06.2013:

<b>Wojciech Sobieraj</b>	- President of the Board
<b>Krzysztof Czuba</b>	- Vice President
<b>Michał Hucal</b>	- Vice President
<b>Niels Lundorff</b>	- Vice President
<b>Artur Maliszewski</b>	- Vice President
<b>Witold Skrok</b>	- Vice President
<b>Katarzyna Sułkowska</b>	- Vice President

#### **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. Management Board resolutions are passed by an absolute majority of votes of members of the Management Board present at Management Board meetings, with the exception of the resolution on appointing the proxy, which requires the unanimity of all members of the Management Board. As a rule, resolutions are passed in an open vote. However, the person chairing 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 decision rests with the vote of the President of the Management Board. In accordance with the Regulations of the Management Board, in order for the resolutions passed by the said 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 be 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 operations in 2013**

In the 1st half of 2013 The Management Board conducted 20 meetings and passed 245 resolutions relating, among other things, to: adopting reports and requests for 2012 and accepting documents for the General Shareholders' Meeting, adopting the Management Board Operating Plan for 2013, accepting the Bank's and Group's financial plan for 2013, adopting the Bank's Strategy for the years 2013-2016, acceptance of the Assets and Liabilities Management Policy for the years 2013-2015, amending the Organizational Regulations of the Head Office, changing Bank branch data and changing model organizational regulations for the Bank's business units, changing the composition of the

Operational Risk Committee and the Operational Risk Management Policy, implementing Principles for stress-testing in respect of operational risks, amending the Principles of Market Risk Management and the Principles of Liquidity Risk Management, amending the Operating Regulations of the Bank's Credit Committee and Risk Management Committee and ICAAP, updating the Counterparty Risk Management Principles, approving positions subject to the Variable Compensation Components Policy for persons holding managerial positions at the Bank, amendments to Bank Employees Working Regulations, introducing changes to the Program for Counteracting Money Laundering and Financing Terrorism, adopting the Instruction for improving irregularities arising in processes executed in the Bank's systems, changes in the Due Diligence procedure, changing the Instruction Principles for conducting the following periodic functional inspection, issuing bank securities and opening the Own Bonds Issue Plan and approving its documentation and issuing D-series bonds under the Plan, changing the address of the Bank's registered office, including products and services in the Bank's offer, determining and cancelling transaction limits and concentration limits, accepting requests for granting or changing financing terms and conditions, and introducing new products to the Bank's offer.

## 17.2 Supervisory Board

### Composition of the Supervisory Board

As at 1 January 2013, the composition of the Bank's Supervisory Board was as follows:

<b>Helene Zaleski</b>	- Chair of the Supervisory Board
<b>Józef Wancer</b>	- Deputy Chairman of the Supervisory Board
<b>Małgorzata Iwanicz-Drozdowska</b>	- Member of the Supervisory Board
<b>Marek Michalski</b>	- Member of the Supervisory Board
<b>Krzysztof Obłój</b>	- Member of the Supervisory Board

On 19.06.2013 The ordinary General Shareholders' Meeting of the Bank decided that the Supervisory Board would be composed of six Members and appointed Ms Lucyna Stańczak-Wuczyńska Member of the Supervisory Board. As at 30.06.2013, the composition of the Bank's Supervisory Board was as follows:

<b>Helene Zaleski</b>	- Chair of the Supervisory Board
<b>Józef Wancer</b>	- Deputy Chairman of the Supervisory Board
<b>Małgorzata Iwanicz-Drozdowska</b>	- Member of the Supervisory Board
<b>Marek Michalski</b>	- Member of the Supervisory Board
<b>Krzysztof Obłój</b>	- Member of the Supervisory Board
<b>Lucyna Stańczak-Wuczyńska</b>	- Member of the Supervisory Board

### 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 the annual report on the results of this assessment to the General Shareholders' Meeting. The Supervisory Board represents the Bank in concluding agreements with the 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 removing Management Board members;
- applying to the Polish Financial Supervision Authority for granting consent to appoint two Members of the Management Board, including the President of the Board;
- concluding and amending 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, for valid reasons, individual or all members of the Bank's Management Board;
- delegating members of the Supervisory Board – for a period of no more than three months – to 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;
- 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 multi-year 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 requests 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 assessment of 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 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 the 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 if the legal regulations or the Articles of Association do not stipulate otherwise, by open 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 decision rests with the vote of the Chairman of the Supervisory Board. For resolutions to be valid, at least one-half of the members of the Supervisory Board has 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 2013**

In the 1st half of 2013 the Supervisory Board held four meetings and passed 53 resolutions relating, among other things, to: assessing the financial statements of the Bank and the Group, and the Group and Bank's Directors' Report for 2012, requests relating to the appropriation of profit and granting a vote of approval to members of the Bank's Management Board for 2012, approving the Supervisory Board's report on its activities in 2012, approving the Bank's and Group's financial plan for 2013, accepting the Bank's strategy for the years 2013-2016, adopting amendments to the Supervisory Board Regulations, appointing Members of the Bank's Management Board, accepting the Asset and Liability Management policy for the years 2013-2015, accepting amendments of certain regulations and procedures in the Bank, giving consent to financing entities in instances stipulated in the Articles of Association and following from the credit competence principles in force at the Bank, accepting the decisions of the Management Board on opening the Bank's Own Bonds Issue Plan, accepting amendments to the Articles of Association and determining the consolidated text of the Articles, giving consent to incurring liabilities and managing assets whose value exceeds 5% of the Bank's equity in respect of one entity, adopting the Incentive Plan Regulations and the Policy of Variable Compensation components for persons holding managerial positions at the Bank, and accepting Management Board requests addressed to the General Shareholders' Meeting.

### **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 instance, the Supervisory Board determines the regulations of such committee, its composition and objectives.

The Remuneration Committee was appointed based on a resolution of the Supervisory Board on 07.12.2011 to apply principles for determining variable compensation components of persons in managerial positions with the Bank, adopted by PFSA resolution No. 258/2011 dated 04.10.2011 which came into force on 31.12.2011.

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**

**Józef Wancer**

In the 1st half of 2013 The Remuneration Committee held one meeting at which the expanded list of persons covered by the variable compensation policy in respect of persons holding managerial positions at Alior Bank S.A. was determined and the status of implementing recommendations of the Internal Audit Department resulting from an analysis of the said regulations in the context of the provisions of Resolution No. 258/2011 of PFSA and the following PFSA interpretations was approved. Current actions ensuring compliance of the operation of the new Incentive Plan (options) with Resolution No. 258/2011 of PFSA were also presented.

In accordance with art. 86 clause 3 of the Act of 07.05.2009 on registered auditors and their self-government, registered audit companies and public supervision of, the functions of the audit committee were performed by the Supervisory Board, composed of five members.

The tasks of the audit committee relating to monitoring the financial reporting process, efficiency of internal control systems, internal audit and risk management were executed by the Supervisory Board on a current basis, by analyzing and discussing reports and presentations presented by the Management Board at the Supervisory Board meetings and semi-annually in the event of managing operating risk or compliance risk. In respect of monitoring financial audits and monitoring the independence of the registered auditor, the Supervisory Board met periodically and discussed the matters with the registered auditor who audited the Bank's financial statements.

Audit Committee was created on July 30, 2013, by resolution of the Supervisory Board of the Bank in connection with establish of the sixth member of the Supervisory Board.

## 17.3 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 a resolution by the General Shareholders' Meeting and entry to the register by the court. The resolution of the General Shareholders' Meeting on amending the Articles of Association is passed with three-quarters of all votes.

The Regulations of the General Shareholders' Meeting were passed by the Bank's ordinary General Shareholders' Meeting on 19.06.2013. The manner of operation of the General Shareholders' Meeting and its basic rights, as well as the shareholders' rights and the manner of their exercising follow directly from the legal regulations, including the Commercial Companies Code, the Banking Law, and from the Bank's Articles of Association and Regulations of the General Shareholders' Meeting.

### **General Shareholders' Meetings in 2013**

In the first half of 2013, one Ordinary General Shareholders' Meeting of the Bank took place.

Apart from regulatory issues, the ordinary General Shareholders' Meeting passed resolutions relating to closing the financial year ended 31 December 2012 and approved: the Bank's financial statements, the Group's financial statements, the Bank Directors' Report, the Group Directors' Report, the Report on operations of the Supervisory Board, the manner for appropriation of profit and granting vote of approval to all Members of the Bank's Management Board and Supervisory Board for 2012.

The ordinary General Shareholders' Meeting also decided that the Supervisory Board would be composed of six Members and appointed Ms Lucyna Stańczak-Wuczyńska Member of the Supervisory Board.

The ordinary General Shareholders' Meeting also passed a resolution on amending the Bank's Articles of Association in respect of expanding the subject matter of the Bank's operations by the functions of a settlement agent, to which the Polish Financial Supervision Authority agreed in its decision dated 19.04.2013. Until 30.06.2013 the amendments to the Bank's Articles of Association have not been registered with the National Court Register.

The ordinary General Shareholders' Meeting also adopted the Regulations of the Bank's General Shareholders' Meeting, which will be in force as of the following General Shareholders' Meeting.

## 18. Registered audit company

In respect of the review of the condensed semi-annual financial statements for the period from 1 January to 30 June 2013 and the audit of the annual financial statements for 2013 the Alior Bank Group uses the services of Ernst & Young Audit sp. z o.o. with which it signed the respective contract on 13.06.2013. The contract was concluded for the period of performing the services related to auditing the financial statements for 2013.

## 19. The main risks and threats connected with the Alior Bank Group activity

The main risks and threats connected with the Alior Bank Group activity are as follows:

- Uncertainty as far as the scale of the expected economic recovery in the world is concerned and in particular of the euro zone countries standing, which economic condition have a significant impact on the level of Polish export,
- Persisting uncertainty as to the level of the expected economic recovery in Poland and its impact on demand for banking products and services of both retail and business customers,
- Low level of the interest rates, on the one hand favourable to the increase of demand on the bank loans but on the other encouraging customers to seek alternative, to the bank deposits, forms of savings, creating through pricing competition the pressure on the costs of banks activity funding,
- Lack of prospects for a significant decline in unemployment in the second half of 2013. The ongoing uncertainty among entrepreneurs may prevent them from making new investments, which would result in the creation of new jobs,



- A decrease of the public sector investments scale in the construction sector, which has a negative impact on both construction sector companies and its suppliers,
- The risk connected with the introduction of the new regulations by the banking sector supervisory authorities, which can increase pressure on the banks financial results,
- the planned changes in the area of Open Pension Funds activity, which are likely to materially affect the trends and liquidity on the Polish equity and debt securities markets.

## 20. Management representations

### 20.1 Appointing the registered auditor

The registered audit company reviewing the semi-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 financial statements, in accordance with the respective legal regulations in force in Poland.

### 20.2 Policies adopted in the preparation of financial statements

The Management Board of the Bank represents that to its best knowledge, the consolidated financial statements for the first half of 2013 and the condensed separate financial statements for the first half of 2013, and the comparative figures have been prepared in accordance with the binding accounting policies and reflect in a true, fair and clear manner the Alior Bank Group's asset and financial position, and its results of operations. 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 the first half of 2013.

### 20.3 Material contracts

During the reporting period, Alior Bank had contractual commitments following from debt securities issued, including specifically subordinated Bank Securities and other financial instruments.

In the 1st half of 2013 Alior Bank did not conclude or terminate any loan or borrowing contracts outside the normal scope of its business activities.

In the reporting period no material transactions with related entities were concluded within the Alior Bank Group other than on an arm's length basis. The Bank did not grant any borrowings or guarantees to related entities.

The Bank Group entities did not grant any loan warranties or guarantees to one entity or subsidiary of that entity, which would jointly exceed 10% of the Bank's equity.





*Signatures of all Members of the Management Board*

7.08.2013	<i>Wojciech Sobieraj</i> <i>President of the</i> <i>Management Board</i>	.....	<i>Signature</i>
7.08.2013	<i>Krzysztof Czuba</i> <i>Vice President of the Board</i>	.....	<i>Signature</i>
7.08.2013	<i>Michał Hucal</i> <i>Vice President of the Board</i>	.....	<i>Signature</i>
7.08.2013	<i>Niels Lundorff</i> <i>Vice President of the Board</i>	.....	<i>Signature</i>
7.08.2013	<i>Artur Maliszewski</i> <i>Vice President of the Board</i>	.....	<i>Signature</i>
7.08.2013	<i>Witold Skrok</i> <i>Vice President of the Board</i>	.....	<i>Signature</i>
7.08.2013	<i>Katarzyna Sułkowska</i> <i>Vice President of the Board</i>	.....	<i>Signature</i>