ALIOR BANK S.A.

1H 2015 Results Presentation

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Edited transcript

Corporate Participants:

- Wojciech Sobieraj, Alior Bank S.A., CEO
- Michal Hucał, Alior Bank S.A., Deputy CEO, Head of Development Division
- Witold Skrok, Alior Bank S.A., CFO

Good morning, everyone, and welcome to Alior Bank's 1H 2015 results presentation. Our speakers today will be Wojciech Sobieraj, CEO; Michal Hucał, Deputy CEO, Head of Development Division, and Witold Skrok, our CFO.

Wojciech Sobieraj: [Thank you] Welcome to our quarterly results presentation. I will begin with page 3.

Summarising the results and developments in Q2 2015, there are positive results on our risk side on the loan portfolio across the mortgage and corporate segments. The cost of risk is down even now, with the sale of NPL. The sale of NPL we were performing in Q2 2015, was, on the one hand, a one-off sale because it is for the first time on such a big scale in the history of Alior. We are not planning any comparable sales in the not too distant future. I think, it will happen but maybe in second part of next year, not definitely this year.

On the liquidity side, we have achieved another quarter of self-financing with the L/D ratio at 95% on the safe side. For deposits, we are very happy with the quarter-to-quarter growth. On the loan side, it was not as good as we expected. This growth is a little bit below our expectations. There are two segments. In mortgages and corporate lending, I think, we are on track. Even on corporate lending for SMEs we feel better with the strong pipeline for Q3 and Q4 2015, so there is nothing to worry about. What was more challenging is the personal lending – consumer finance and personal loans. This quarter was the first quarter in Alior's history when we faced a really strong price competition in the segment which resulted in lower sales than we expected. Good performance on the deposits side, good performance on the loans side in the corporate sector and mortgages and a little bit disappointing performance on the personal lending side due to price competition. In Q2 2015, one player launched a very serious and powerful campaign that resulted in earlier repayments for our loans and a little bit disappointing sales of our new cash loans. Obviously we did not engage ourselves in the price competition in Q2 2015 and we are not willing to do that in Q3 and Q4 2015 but we are taking measures to protect the our client base and be active again more efficiently in this field in Q3 2015.

The NIM performance, I think, is in line with our expectations: a decline on the Alior side in line with our expectations then offset with the Meritum portfolio. All in all, we are at the 4.5% level and this is the aspect that we look positively for in Q3 and Q4 2015. We know that we are going to defend this level and in our plans we are even planning to move it to 4.7% at the end of the year.

The last thing on this slide is Meritum integration which is in progress according to the plan (the details are on the next page). We tend to believe that we are going to present and show to the market what we can call the best practice in M&A because it took one year from the signing of the deal which was in late October 2014 to the operational merger that we are planing for 24 October 2015. To sign the deal, to discuss the contract, to get regulatory approvals, to go through the legal merger and to finish with the operational merger in one year is really the best-in-class performance. On top of that, we are confirming all the costs and synergies from the merger.

The synergies will be at the minimum PLN 33 m level and the costs will be at the maximum PLN 50 m level. I would like to confirm my promise of Q1 2015 that these two numbers will be equal at the end of this year. You will see either a positive result of the merger, even this year, or zero. There will be no negative result. Why am I so certain? First of all, thanks to the progress so far and also the well-advanced plans for 24 October 2015. We were pleasantly surprised with the level of cooperation between our IT platforms and engineers in Gdansk and Krakow. I think after 24 October 2015 we are ready for the next challenge, if happens, on the merger side. This side will become even stronger with our experience and the team that performed the merger with Meritum. We have re-allocated and re-organised our operations as we planned. Gdansk is becoming the second hub for IT services and the centre of our operations for consumer lending and personal lending for the whole bank. We have Joanna Krzyżanowska joining us, the Management Board of Alior Bank, responsible for Consumer Finance, intermidiaries and agencies business.

On page 6 you can see our financial performance highlights. On the positive side, I can draw your attention to net interest income. It comes from all areas of our business, both corporate and retail. I forgot to mention that earlier we did a really good job in converting Alior’s clients into Alior’s active clients. 56% of our client base already treat Alior as the bank of first choice, which reduces our funding costs and helps us to achieve net interest income even above our expectations. That was a good half of the year and a good quarter. Net fee and commission results were a little bit disappointing for only one component. We are very happy with all other components of fees and commissions but the decline came from the sale of insurance. There are two things. First, we are reshuffling our investment products from unit-links to our own TFI products and SCD products. This is one movement and it was responsible for a small fraction of the decline from bancassurance. The other was linked only to Alior repayments of our cash loans, which we suffered from in Q2 2015. Although we believe this will not repeat in Q3 and Q4 2015, according to the principle of prudence we had to change the repayment factor in our bancassurance income. This is one thing on the negative side. All in all, if I look at the results, PLN 94 m profit before the merger effect translating into PLN 87 m net profit after the merger is more or less in line with our annual targets that I will try to come back to at the end of this presentation. And now the details. Please, Witold. Page 7.

Witold Skrok: On page 7 you can see that in the corporate business we are growing faster than in the previous quarters, especially with factoring contributing positively to this growth. What is slightly below our expectation is cash loans. It is not new production which is slightly below what we recorded in the past quarters, but this attack competition that we observed in Q2 2015 when customers gave up with us and got cash loans from our competitors, especially one of them. So what we did we already launched some measures to be on track in Q2 2015 and to limit this repayment number of customers which contributed also to the volumes.

If you look at the mortgage portfolio, it is growing quarter-to-quarter at the rate we are pretty satisfied with. We believe that we will be able to keep this pace of growth in the next quarter.

The next slide, slide 8. The L/D ratio is 95%. It gives us a 5% buffer for liquidity purposes and our goal will be in the range of 95–98%. Our target is to below 100%, of course. It will convert into a bit higher net interest expense, however, will give us much more flexibility for the next quarters.

If you look at the contribution, retail and corporate contribute more or less at the same rate. What is more important is that, please bear in mind, our term deposit was adjusted to the ROE rate in Q2 2015. I expect that in Q3 2015 the interest expense will stabilise and will even be lower. We are still looking for the opportunities. The corporate deposits are still cheaper. So we are looking for them and we are offering and this is a part of the way to get the business customer to our bank. However, we will be much wider opened for retail deposits and term deposits in the next quarters.

On the next slide, Credit Risk Overview, we see satisfactory trends in the NPL developments, especially in the corporate business, 10 bp below Q-o-Q and the same for the mortgage business. If you look at what happened – Wojtek already mentioned the sale of the NPL portfolio – now we are back and we should perceive us as a regular bank who managed the NPL to getting them up for a certain period and after when they matured, when the collection process is done, sell them to the hard-collection companies. And this was for the first time we did it on this scale in Q2 2015. Of course, this also contributed to the better coverage ratio and in all aspects the coverage ratio is better than in the previous quarters.

If you look at the next slide 10 with the net interest margin development, on the Alior side the drop was 20 bp explained by the term deposit which has not been re-priced fully in the course of Q2 2015. I expect that the Q3 will be achieve our momentum. But if you look at the contribution of Meritum, it contributed and improved the net interest margin and the drop is smaller, less than 10 bp. Overall, 4.5%, almost two times higher than the market average. What is important is that in the next quarter we expect a slight improvement of NIM.

Next slide, slide 11, Fee and Commission. If you look at what is the core of the fee and commission business, this gray area affilialates to C/A, loans and transfers and the measures, which we took at the beginning of 2015 contributed positively quarter by quarter and helped us to offset the gap in bancassurance income. The reason for it, one of the two, is shifting from the bancassurance products into investment products. The second one is the additional provision which we created for the early repayment. We have a quarterly model and we observe customer behaviour. The tough price competition which we observed in Q2 2015 was the reason to increase the provision for early repayment because, looking at the behaviour of our customers, we should be on the safe side. We created this safety provision which will help in future. If you look at the stock which we have alredy collected, it is an almost PLN 80 m buffer for the future resignation. And we expect that the measures which we have taken will improve and the gap that we observed in Q2 2015 will be filled up. I expect the standarised net fee and commission income for the next quarter to be PLN 85–90 m.

Next slide, Capital Position. I think that this is just the base and the capital level which we experienced so far is sufficient for the growth which we expect this and the next year.

The next slide, slide 13, which deals with the costs, explains the increase in 1H 2015 costs vs 1H 2014. However, if you look at the quarterly development and substract the integration costs from the Q2 2015, the standarised costs for Q2 2015 are lower than the first one. Of course, the integration costs of almost PLN 10 m are included and this is the first quarter when we present this significant number.

Witold Skrok: Thank you. Now Michał [please].

Michal Hucał: Slide 14. The acquisition of Q2 2015 was driven by the T-Mobile development. However, it was the only growing segment of our customers and on page 15 you can find the answer why. After seven years of the highest acquisition of customers on the Polish market we decided to make some cleanup and to drop down the contracts or raise the price up for the customers which had low ROE or even negative ROE for us. It was the first huge action in our bank based on that and it is a part of our strategy that we accepted last year to increase the number of current accounts with the salary inflow. You can find on the chart below of slide 15 that the percent of the customers with the salary inflow in new sales goes up to 56%.

Wojciech Sobieraj: It is worth mentioning here that we are maintaining all the benefits that Alior was known on the market – free ATMs, free transfers, free current accounts for those who treat us as the bank of first choice. We gave the client a choice either to pay more or to transfer the salary and maintain all the benefits. Obviously, some of the clients decided to leave, that is why you see the number of the closed accounts at the bottom of page 15. All in all, it allowed us to achieve two things – more of our clients are loyal to us and at the same time we increased the fees from the current account that Witold was referring to.

Michal Hucał: On slide 16 you can find information about our footprints. As we announced in March, we closed 60 branches, however, all together with the T-Mobile outlets, we still have one of the largest retail network in Poland even outside of the banking industry.

On slide 18 there is current information about the T-Mobile Poland project. We acquired 226 thousand customers in one year. As we mentioned in the last presentation, we took another step to gain back the cash loan volume. That is why we changed the set-up of cooperation not only when negotiating the agreement but also by introducing our own empolyees in the T-Mobile shops. The T-Mobile marketing support led us to a huge increase in cash loan sales. What is important is that we have this constant growth even now without marketing campaigns. That was the fresh start that we needed to provide for cash loan sales. What, of course, is linked with that is our revenue growth of 53% Q-o-Q and we expect to have a monthly break-even point in September this year.

We have now 144 store-in-store outlets and we want to open another 21 until the end of this quarter. We extended the business lines. Now we have a small enterprises / SOHO offer for customers in T-mobile. We should expect much higher sales of cash loans linked to the Telco device financing in 2H 2015.

Slide 19 presents highlights of our Telekom Romania cooperation. Two weeks ago, Deutsche Telekom accepted us as a partner in the second country, which is an opportunity for us not only to be present on a very promising Romanian market with higher fees and higher margins for the banks but also to leverage the experience and investments that we made in Poland. We expect the CAPEX and time to get to the proper revenue model will be much shorter.

Wojciech Sobieraj: In Poland, there is a big room for companies and private individuals to lay on an FX platform for simple support transactions. We are also thinking about launching the cross-boarder transfer mode in our Romanian venture because again the pricing in Romania is very attractive in this aspect of banking also.

Michal Hucał: Slide 20. In consumer finance project we will simply focus on project profitability. That is why we dropped some of the contracts with large retailers with negative or low ROE but we signed 20 new contracts that should provide an increase in instalment loan sales. On the other hand, we had a constant growth in cross-selling to the instalment loans which is the main factor for profitability of this project.

On slide 21 you can find the information that Tesco, the other partner, confirmed for the next years. The agreement should be signed in September. We agreed on all commercial conditions and it is only the matter of finishing some legal matters behind it. Tesco will not only stay with us. We want to exceed this cooperation in Poland. Meritum Bank had some restrictions due to the low-capital base. We are in a completely different situation. That is why we want to expand the store-in-store concept in Tesco. We will have a larger number of shops where sales people will be present. Tesco will also contribute to the product portfolio that will also be extended. That is why we expect to acquire 250 thousand customers in the next three years and we discussed it with Tesco. What is very important from the profitability point of view is that we have a constant growth of cash loan sales. That is why we reached the break-even point two or three months ago.

Wojciech Sobieraj: As a summary on page 23, there is our outlook for 2H 2015, and the bottomline is that at the end of Q1 the consensus was PLN 353 m and we mentioned at that time that we felt comfortable with this number. I promised to tell you if we do not feel comfortable with the consensus, up or down, you will first get this information from us. Now I would like to say what we said at the end of Q1 2015. We feel comfortable with PLN 353 m. I am not saying that PLN 373 m is impossible but I would like to be on the safe side and PLN 353 m is the consensus that the Management feels comfortable with. There are positive developments, why am I so conservative in this approach? Simply speaking, we do not know if the price attack on the cash loans will be continued in the second part of this year. I have been in this business in Poland for very long and I can assure you that offering the client a cash loan at 4.9% without any extra fees, bancassurance-related or not, is not a good way to make any money in this business. It is below the cost of risk because of cost of capital and cost of operations. I think, Alior will not be engaged in this type of price wars. Assuming that we see a kind of rational behaviour of our competitors, we will feel more comfortable with the numbers that are currently there. To be on the safe side, PLN 353 m. We are okay with this number.

For NIM, are we expecting growth at the end of the year? Looking at the seasonalities, what we have achieved so far, the worst is behind us, we should get to the 4.7% level. All these numbers are obviously together with Meritum. For the C/I ratios, I think, it will be below 48% looking at the level that we are currently at. I feel comfortable with this number. For the CoR, as I mentioned, we see improvements of the credit portfolio quality across the board in all sectors that is why we believe that the CoR will be at the 2.4% level.

And the last but not the least is the loan growth. I try to come back to what we said at the beginning of the year. We will not come to the market for more capital. We will adjust our growth to the capital and retain earnings that we are able to generate. Obviously, all these discussions and presentations, all our strategy so far is based on Alior alone without taking into account and changing our ownership structure. We have all the presentation without a single line that says that on 28 May 25% of Carlo Tassara [shares] were replaced of 25% of PZU. Obviously, we have advanced plans already what we can do jointly. These are the plans probably developed at the PZU side. There are definitely plans developed on the Alior side. But since the transaction is finalised and all the regulatory approvals are granted, we cannot share too much information yet. It will come as soon as legally possible.

Looking at the capital constraints, on the one hand, and also being prudent on the unpredictability of the consumer loan and personal loan growth in 2H 2015, we believe that we will be closer to the net loan growth of PLN 4 bn rather than to PLN 5 bn. It is not a drop from PLN 5 bn to PLN 4 bn. At the end of Q1 2015 we said that it is slightly above PLN 4.8–5 bn, now we are thinking about the level of PLN 4–4.3 bn and this is on the safe side. Again we feel very comfortable in such sectors as corporate and mortgages, and we feel slightly careful on the consumer finance and personal lending side.

With this we are opened for questions.

Before we go to the questions I would like to apologise for the technical difficulties we have experienced here due to power outages. Now we will move to the Q&A session. First, we will take questions from the audience in the room. Is there anyone who would like to ask a question?

Dariusz Górski: I would like to start with a question regarding Q2 2015 results. First of all, what is driving the strength of your FX business because it grew by almost PLN 10 m Q-o-Q? The second question is on your costs: your staff costs were down quite substantially Q-o-Q, but the non-staff or G&As were up. I understand there were some merger-related costs, but they were not as big as […] cost. Could you give us more details on the reasons? Thank you.

Witold Skrok: Regarding the first question, the FX business is mainly driven by the transactions with the corporate business. In Q2 2015, when we started interacting with new business customers and they have got a loan or a permit to get a loan, we started cross-sell them. This is one of the reasons.

The second reason is the FX platform which we developed and our business and private customers started to use much more frequently. Our customers use our platform to convert money on vacation and also for the repayment of FX mortgages.

Dariusz Górski: Do you think that this level is sustainable or we should expect further positive momentum in the line?

Wojciech Sobieraj: If you take a look at our FX income, you can see that there are two factors that influence our revenues: one is the constant growth of the client base that Witold has described and here you can expect solid growth both among individuals and companies. However, on the other side, revenues from FX are closely linked with the volatility of the Polish zloty market. We earn less if zloty is stable. When these two phenomena are combined, the bottom line will be growing. The growth will go faster, when the holiday comes as there is some seasonality involved. On the other hand, it is linked with volatility.

As far as the costs are concerned, we have already mentioned that we have signed agreements with the trade unions – both in Alior and Meritum. After the legal merger on 30 June 2015 and even earlier, some people left and the overall reduction was at the level of 600 people in the combined bank. This explains the drop in the payroll. On the other hand, G&A …

Witold Skrok: We have announced the rebranding programme and are reducing the number of branches in our distribution network. Already 60 of them have been shut down. Because of, the investments were made in these locations, we had to write them down and that is the reason for the growth.

Wojciech Sobieraj: In G&A.

Dariusz Górski: What is the figure? Was it a single or a double digit?

Witold Skrok: This is slightly above PLN 10 m.

Any other questions?

Iza Rokicka: Iza Rokicka [Ipopema Securities] I would like to ask about the insurance fees. You have mentioned that right now you have ca. PLN 80 m of provisions created for these early repayments. What was the extra buffer that you created in Q2? An basically do this PLN 80 m cover an average repayment you have seen in 1H 2015? Taking into account the good and the bad quarter, for how long will it be enough to cover those early repayments?

Witold Skrok: For Q1, we had two ways in which we created the provisions the first one was the new sales, the new production – this percentage is shown in the balance sheet, not in the profit and loss account. It amounts to PLN 30 m. Then there are PLN 21 m created through profit and loss account after additional buffer because, according to IFRS, if you change the parameters in your model, the impact should be shown in the P&L account.

Wojciech Sobieraj: So, all we have is close to 50%.

Witold Skrok: 45% is what we have created.

Iza Rokicka: Ok, but PLN 20 m went through the P&L and the F&C income?

Witold Skrok: Yes.

Iza Rokicka: Will this PLN 80 m is enough for a year to cover those early repayments?

Wojciech Sobieraj: I think what we had previously was enough. If you assume that somebody will come with a 5% flat offer, I believe it will be enough based on the auditor's report for the entire duration of the portfolio. Because this is how we…

Iza Rokicka: Ok, so this PLN 80 m will cover the early repayments based on the Q2 debt scheme or the behaviour of the customer?

Michał Hucał: Looking at the behaviour of the customer in the past and the acceleration of repayment, which we observed in Q2 2015.

Iza Rokicka: So, if the behaviour remains as is in Q2, you will be increasing this amount.

Witold Skrok: Well, if we have the same behaviour and the ratio of customers who decided to repay early, we will not need any additional provisions for the existing portfolio. For the new one, i.e. for the new production – yes.

Iza Rokicka: Ok, my second question will be about the transaction on the sale of NPLs. Could you please explain if it has had any impact on the P&L both through net provisions and other operating income?

Witold Skrok: The impact was PLN 5 m of additional revenue. As you know, we do not create provisions up to 100% for the NPL portfolio as there is a buffer anticipation that we will be able to dispose of a certain part. That is, there is a percentage below 100% and when we signed the deal, we created provision up to 100% and we dissolved it as the revenue that we received. The net effect was PLN 5 m positive.

Iza Rokicka: Ok, and here is my last question for now. Looking at the results of Meritum Bank as you presented in your results since 19 February till the end of June, there was a visible improvement in other operating income. Talking about other operating results, they were probably PLN 4–5 m higher Q-o-Q. Is it because of this PLN 5 m from the sale of NPLs?

Witold Skrok: Correct.

Wojciech Sobieraj: For us they were doing this regularly every year.

Witold Skrok: Also, the improvement was made on the net interest income from Meritum, because they wanted to squeeze net interest expenses as we supported them by the liquidity facility.

Wojciech Sobieraj: There is a guarantee from us to Meritum.

Witold Skrok: So, they do not pay higher interest for the deposit anymore. We provide them with liquidity. It is one of the synergies and the positive effect of the merger.

Iza Rokicka: Ok, sorry one more question then. If we subtract the results of Meritum from the results of the Alior Bank as reported, we will see a drop in net provisions for the old Alior Q-o-Q (Q2 vs. Q1). What was the reason for this drop, if not the sale of NPLs? As we know, the latter were booked by Meritum.

Wojciech Sobieraj: What do you mean? As in any mature bank, we have models and we keep track of the performance of the corporate portfolio and mortgages through regular monitoring. Some provisions created against these two portfolios were resolved in our model. So, this is not the effect of the sale. We see improvement of the quality in other parts of the portfolio.

Iza Rokicka: Ok, thank you.

Witold Skrok: If you look at the NPL ratio, you can see that there is an improvement in the corporate business. However, without this sale, the NPLs of private customers will go up a little bit.

Marcin Jabłczyński: I have a question. You've mentioned that you had difficulties with placing your consumer loans due to a competitive situation in the market, but we haven't seen other banks complaining about it that much. Could you a little bit more precisely describe what really happened? Was there a competitor targeting your clients specifically? Or had it something to do with the bancassurance recommodation because you relied very heavily on the attachment of insurance products to your consumer loans? Do you have distortions from here? You know, we just want to understand better what really happened.

Wojciech Sobieraj: First of all, it has nothing to do with the bancassurance recommendation. It was the 4.9% campaign that we've seen. I think that other banks were hit equally to us, but because cash loans are so important for us, you see this… OK, if the repayment level in our bank was lower, then we would have to create less provisions for early repayment, and the impact would be less visible on the fees and commissions side. So, I think that, to answer your questions... Half a year ago, someone of you asked how certain we feel about maintaining our position in cash loans, especially in the times when everyone, our competitors, would be looking at the higher net interest margins and attacking this market. I feel still very comfortable that we can defend this business, but we were not prepared for someone offering this at 4.9%. If, like you mentioned, our clients were deliberately targeted – I don't think so. But we were hit probably harder than our competitors, because it was not only through the intermediaries, [there was] the biggest GRP campaign on the Polish television also in Q1, in H1 this year. I hope it will not repeat itself in Q3 and Q4. That's all I can say.

Witold Skrok: What is important here is that this margin, which the customers were offered, does not practically cover the cost of risk, so for the entity who used this and wanted to get a market share, there is only one-way direction – they will get their volumes, but there is no profitability behind it. That is not our way of doing business.

Dariusz Górski: This is Dariusz Górski again. We probably still continue to think of you as a consumer lending-focused bank, but if I look at the origination volumes in corporate business, they are very strong. And you provide us with a detailed breakdown as to what type of loans they are, but I assume these are SME loans. But if you could give us more reasons, I mean what makes you so successful. Is it particular sectors? What is driving this business? Because it is very strong.

Wojciech Sobieraj: First of all, there is no sectoral growth here,it comes from across the sectors. We are looking very carefully not to get overexposed, especially for the developer sector. We continue our focus on small and mid-sized rather than large companies. The answer to your question about what is the driving force behind the growth, I think, is two-fold. First, it is change in the investment policies of the Polish companies. We have mentioned this, I guess, in Q3 2014 that for the first time we had seen some improvement of quality and quantity of the loan application, for investment loans especially. I can tell you that, looking at the numbers now, the number and the quality of the investment and working capital financing facilities in July and August are double versus what we saw in the summer period last year. So this is the demand from their side. On the other hand, we changed our organisational structure last year. Probably, it went unnoticed that we now have 17 centres that focus only on small and mid-sized companies. These are the guys who are really focusing on the business. They are above the budget for the first half of the year. We also changed the workflows and the system for the credit side of our business. They work much more efficiently, so "time to cash" and "time to yes" are half of what we had last year. It is not that we were so bad last year, that we didn't know what to do, it is the size of the business that now allows us to invest in some improvement on the IT side and on the workflow programmes. Also, what we implemented two years ago, which was the centralised monitoring system, helps us now, because it helps on the risk side, but also in selling to the good clients. So we have the level contrary to what we've experienced in the cash loan business – we have the level of cross-sell and the level of repayment from corporates much better than we've seen in the past.

Also, refocusing from large corporates to small and mid-sized, I think, now pays off. The only area where […] history was successful – we did some financing of renewable energy projects, but it was two or three transactions, not on the large scale, that are responsible for the growth here. I would say, 80%, 90% comes from the regular business, from these […] industries. Again, focusing on export and import, we definitely have a higher market share in these areas. By the way, I believe that in 2H 2015 this growth will continue.

Dariusz Górski: Can I have a question on your guidance? Because, if you look at the components of the guidance, it is actually all quite good, with the cost of risk flat, NIM improving, a nice growth in terms of volumes. But then the bottom line – you have warned us that PLN 350 m is a comfortable level, higher levels would be risky. So what is the risk?

Wojciech Sobieraj: I tell you, if you tell me now that there will not be any 4.9% campaign in 2H 2015, that would be closer to PLN 370 m. This is the only thing. The merger with Meritum goes ahead, the projects are online. This is the only area that we feel uncomfortable about, and I think that we are trying to be on the conservative side here. I guess it will not repeat, but we cannot exclude. The average net interest margin for Polish banks is 2.8%. If they want to drive this net interest margin up, for temporary reasons, to go into higher margin areas, they can think of launching a big attack. This is our careful statement that we are ready for this attack, but we will not get into price wars, and if it comes to worse, we will come with PLN 353 m.

Dariusz Górski: Just a question that I want to follow up. If I understood well, you said that the fee and commission run rate for 2H 2015, the quarterly run rate, was PLN 85–90 m. Would that also be a normal run rate for Q2, if not for your correction of the model? So if, let us assume, in Q3 the situation comes back to normal, there is no competitor spoiling the market, you will not only have a normal run rate, but, on top of that, you will dissolve some of the provisions you created in Q2, so we should not be surprised to see…

Wojciech Sobieraj: It is not that quick…

Witold Skrok: We have to take into account the full lifetime of the product not just one quarter.

Kamil Stolarski: I have a question about Meritum results in Q2. What is your outlook on how much Meritum adds to your earnings this year? Most of the guidance are the numbers you gave us some time ago.

Wojciech Sobieraj: We mentioned it the last time when we described the acquisition of Meritum. We talked about PLN 50 m of net profit from Meritum alone, and we are confirming this number.

Witold Skrok: These PLN 50 m is according to IFRS, because I remember what we presented in October 2014. In the Meritum management statement, it was PLN 86 m, but that was according to Polish accounting standards and before some regulatory changes, including the drop of interest rates which happened in March this year.

Kamil Stolarski: About T-Mobile. What was the contribution of T-Mobile to your results? I understand it was negative because we are still ahead of the break-even. But what was the number for Q2? Thank you.

Michał Hucał: Altogether this year, it will be a one-digit negative contribution to the Bank results. Basically, that is all I can say. Everything is in line with expectations, in line with budgeting, in line with what we presented in general a year ago.

Wojciech Sobieraj: So, probably, to resolve this puzzle, it was slightly above PLN 10 m for the first… since… from September we will be positive in this corporation with T-Mobile in Poland ending the year with the negative only single-digit.

Any more questions from physical audience? Jade, I kindly ask you to open the lines for remote audience to ask questions.

Operator: Thank you very much. To ask a question over the phone lines, please press "*1" and wait for your name to be announced. Please press "*1" if you wish to ask a question over the phone. And we have a question from Ivan Bokhmat, Barclays. Please, go ahead.

Ivan Bokhmat: Thank you for the call. I have two questions. Firstly, I am sorry, I could not hear on the line regarding the Romanian JV. Could you clarify a little bit on the terms of your corporation? Are they the same as in Poland? What type of financial impact would you expect, if you can disclose these numbers at this stage? And then I will have a couple more questions.

Michał Hucał: OK. So, in general, the business model is similar to the Polish one. However, there are some improvements which are better for the Bank. First of all, we are now focusing on more [actively] engaging our partner to provide proper profitability, and the terms of the contract are more deeply linked to that. That is the first. The second, we want to leverage the capex that was spent last year for the Polish part of this corporation, and, of course, the experience that we have after this one year. Altogether, that should make the path for the project to reach profitability better than it was in Poland. At this point in time, we cannot reveal all the details that are behind that, but I can say that the size will be linked to the 800,000 customers acquired. They should be acquired in five years. The break-even point will be much faster than in Poland.

Ivan Bokhmat: Would you need some regulatory steps to do that? Do you need a banking licence? Would you expect to, you know… Do you have any capex idea in mind?

Michał Hucał: Touching on the regulatory issue, we want it to be based on a passport, a single passport process, which means that all IT operations except for the contact centre will be located in Poland, and will be based on the current IT solutions that we have. Plus, of course, the spending that we have to make to adjust to the national differences in Romania. This means, first of all, a different credit bureau process, different payment schemes and, of course, the Romanian language that is different from Polish, and regulatory issues as well. But still that will be three times less than it was in Poland.

Ivan Bokhmat: Great. The second question I have is on the slide you have put in the back – on the new proposal on the cost of consumer credit. I was wondering if this would apply to any aspect of your business and if you could try to quantify the impact, if the law is signed by the president.

Wojciech Sobieraj: It is on page 27. To cut a long story short, we have looked at our portfolio carefully, and now we can confirm… No, if this is on page 27, it affects mortgage, so the issue does not touch us almost at all. But if it is on page 28, the cost of consumer credit, the new proposal that is to be signed by the president, we have looked at our portfolio carefully, and the outcome is that we will not be affected, which confirms our previous statement that our portfolio, both at the fees and commissions and interest levels, almost totally complies with the new regulations. Some changes will be needed in the process, but not with the level of our income from this product.

Ivan Bokhmat: All right, thank you. And my final question now. We know that there is plenty of uncertainty there, but I would be interested in getting some of your thoughts on the bank tax, and how possible, you think, it would be for you to pass it on to customers and to what degree.

Wojciech Sobieraj: I think, first of all, this is a political issue, and discussing politics in Poland is a dangerous game now. Our view, as the management, is quite simple. We believe that there might be some logic in this taxation. And we believe that now it is the pre-election hassle, and the discussions will calm down and be over, and someone will get the numbers right and see what will be the impact and the logic. We do not see too much logic in taxing banking assets, although with our net interest margin, from a selfish point of view, the impact on us would be lower than on any other player. But, basically, the banks that finance large corporates and large infrastructural projects with the EU or governmental guarantees tend to bear a margin of less than 1%. Taking 0.35 out of this 1% is harsh. So I do not see too much logic in taxation of assets. On the other hand, another proposal on taxation of liabilities minus deposits, which means the more capital you have, the more tax you pay, also sounds a little illogical. I think that of all these proposals that are flying around, the proposal on taxation of banking transactions on the interbank looks more logical then the rest. Regarding the second part of the question – the ability of banks to push this to clients – I believe in the rationality of Polish banks. What was a problem earlier, with the price war in mortgages that was stopped by the movement of PKO and the big players two or three years ago, making this product profitable again, will not be repeated in other areas, like, in our case, in cash loans. But in Poland, there is still huge price competition, and the opportunity for banks to push it to clients will be rather limited. That is my view. Maybe I am staying in a too pessimistic mood, but clients are still very price sensitive, and there will be players that will not follow suit and push everything on clients. But, I guess, althought everyone is focusing on taxation now, what we have yet to see is the massive movement into the electronic channels. Actually, it accelerates in Poland, and I think this will be the major force in driving the economics of the banking sector. I think, it goes unnoticed now. This half of the year, what we have seen is the acceleration of movement into electronics. More clients use them. The frequency of visits to branches is declining month-over-month, so this will change the economics of the entire industry.

Ivan Bokhmat: OK, thank you very much. This was very helpful.

Operator: Thank you very much. To remind you, please press "*1" to ask a question over the phone. Your next question comes from Marta Bałdyga from DM BPS. Please, go ahead.

Marta Bałdyga: Hi. I have a follow-up on the net interest margin guidance. You metioned the lowering of term deposit rates. I just wonder by how much on average the rates dropped and when it happened, and whether we saw already some benefits of that in Q2, or we will see the full benefit in Q3. Thank you.

Witold Skrok: Partly, the effect was shown in Q1 and Q2, but the full picture will be shown in Q3. As the maturity of our term deposits is 5–6 months, the decision of the Monetary Policy Council from the beginning of March could not be fully consumed, and those deposits could not be fully repriced in the course of Q2. And here we are talking about a 10 bps effect for the entire quarter.

Wojciech Sobieraj: Also, it is worth mentioning that we are entering the second half of the year with a sufficient buffer on our deposits. So, I think that we will not be completely gone on price of the deposits, which gives us additional comfort. The net interest margin for 2H 2015 will improve to the 4.7% level at the end of the year.

Operator: We have no further questions over the phone lines.

OK, that concludes our results presentation. Thank you very much for your participation.

Operator: That concludes the call for today. Thank you for particiapting, and you are now free to disconnect.