Alior Bank S.A. 1 Q 2014 Financial Results Announcement Conference Call held on 8 May 2014

Corporate Participants

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Alior Bank S.A. , Deputy CEO

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Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

Presentation

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

Good morning and welcome everyone to our quarterly results presentation of Alior Bank. Here we are with the new whole board picture: Kasia Sułkowska – responsible for risk and Witek Skrok responsible for Finance, Michał Hucał responsible for Development and New Projects, Wojtek Sobieraj - CEO, and Niels Lundorff responsible for investor relationships, and Krzysztof Czuba responsible for business. All of us will be available for questions after the presentation of our results.

Highlights, some information on the recent management changes, which is a hot topic lately, and then operational performance. Niels will cover operational issues, and strategic initiatives will be covered by Michał, outlook - myself, and then we will be open for questions.

Highlights of the Q1: the loan growth with guidance. We would be really happy with the loan growth more in the consumer lending and less in mortgages. We would be happy if there is more on small business and mid-size rather than large corporates and we will be even happier if there is more working capital financing than investment loans. So this is structural. Volume-rise is ok, it is exactly what we have planned structurally and I think in the next quarters we will try to come back to the portfolio structure that was typical for Alior, and it is actually in our strategy focused on retail lending and more business lending.

The deposits, on the other hand, we expected, and it was one of the questions after the annual results: do we expect a price war between the banks on the deposits and, to be on the safe side, we kept 600m extra buffer of the deposits. From this perspective it was unnecessary, there was nothing like a price war among Polish banks, yet it cost us something like PLN 5m of quarterly results.

Client acquisition is on track. Surely, we will get 400k clients by the end of the year, but our goal and target is not just the number of clients, but depth of the relationship with them. On top of the 400k clients, we are counting to have at least 250k clients coming by the end of this year, coming from cooperation with T-Mobile. So this number is not included here, is Alior as it is. On top of that, April was the first month when the clients of Alior had a choice between staying with us and enjoying the payment of their monthly utility bills for free if they are considering Alior as their first bank or they need to pay PLN 2 per bill or they move to our Alior Express branches, which is the low cost channel of Alior distribution. To our surprise, most of the clients.. and we thought that some of them would not be happy with this and they will leave, but clients stay with Alior and we don't see any decrease in the client base based on this repricing.

So, in client acquisition we will have definitely more clients than expected, but also with more of them transferring their salaries to Alior, and our goal is to have at least 36% of clients transferring their salaries to us.

T-Mobile launched yesterday the biggest ever T-Mobile deal, campaign with Mr and Mrs Lewandowski. I'm really proud to announce it. Since yesterday our distribution network is doubled because we have 844 Point of Sales in T-Mobile available to sell Alior products. Michał will cover it later. So it is going to be 10 dedicated branches in the largest cities, but also in every, almost in every outlet of T-Mobile there will be an offer of the financial services provided by Alior to be in line with KNF regulations. The name is awkward – it will be called *T-Mobile Usługi Bankowe* serviced by Alior Bank. But from outside it will be the financial services offered by T-Mobile and we will be the white-labelled producer of financial services there.

NIM. I think here this is one of the issues that we had. For the Q1 it drops to 4.5%. If you look at the last year's performance, we started the year with 4.6%, 4.6%, 4.6%, 4.7%, and this was the quarterly result. This year we are starting from 4.5%. But we believe we will go back to 4.7% at the end of the year and 4.6% even in the two forthcoming quarters. The main reason is that after the Christmas promotion we have seen price pressure on cash loans. All the banks were fighting for this sector and especially within the intermediaries. And since the intermediary channel - they not strong for ATLs and marketing – spending money on marketing was not really a wise thing to do, we tried to match the offers of our competitors. We did. Our gross production of cash loans exceeds our expectations; we have 971 million of new production of cash loans. However, it was at the cost of a decrease in margins; and we believe that currently the issue is totally controlled and from last Monday we have the central price controls in the bank. Not a single person in the entire network is allowed to go for individual price discussions. We think this price leakage too weak to expect and to continue in future.

We hope that the three components of NIM, i.e. the price war on deposits. We believe it is going to be less pressure than we expected. Then the price war of cash loans, and I believe that the worst is behind us. And the third component is a structural change, a structural shift between small and large companies and working capital vs. investment loans. We don’t want to grow our business being part of large consortiums for large corporates. Rather we would like to use our extended distribution network, which is now based on dedicated – we call it – RGB– Centrum Obsługi Biznesu in Polish, to cover small and mid-sized companies.

These are the numbers. Since to grow our attention is not to look at the net profit, which we grew by 80% vs Q4 and 50% vs Q1 last year. The net interest income that was slightly below our expectations because of the NIM pressure and the NPL coverage ratio, that Kasia will cover this issue later. All other aspects of our financial statements are according to our expectations. One positive surprise is that as you know, last year we announced the programme to reduce our costs by 50m, this is with 25m in 2014 and 25m in 2015. We are done with the reorganisation and cost cutting, the majority of it. I think this programme is on the way and we will not wait till 2015 to cut the costs. What we expected to go below the 50% C/I ratio in 2015; I think that we'll achieve the target much earlier. It can be Q3 or Q4 of this year for sure. We will see that the cost is under control.

One issue that basically was a subject of discussion lately is the recent management changes, and I would like to stress here that the current Board structure, and not only the Board structure, also the current top management: 28 people that are running the bank, of this 25–27 are with us for more than five years, so in Alior strategy from the beginning. All the Board members we were working together from Day 1 in Alior. In some of the analytical reports it was written that we shake up the management structure. I think the roles of ours haven't changed at all. The business units responsible for large corporate was shifted to Krzysztof to consolidate, also to reflect that we would like to have the same focus on the large, medium and small companies. The growth areas, including the T-Mobile project, are done by Michał together with the HR function. He will be responsible for the HR function. We are still hiring people, so there are more than 600 people in Alior and they need to have development and development of talent. Then we have all financial functions of the bank in Witek's area and Kasia is responsible for risk and operations. We started the project with Roland Berger last year looking at all our costs, we cut the management layer in Q1 from 77 to 28, and we also streamlined our operation at the Board level. We are really, really happy to announce that Niels will be with us at least till the end of this year managing not only investor relationship activities, but also the guidance on the management of the bank. This is who we are and now the operational performance by Niels.

Niels Lundorff - *Alior Bank S.A. – Executive Management Board Advisor*

Thank you very much Wojciech. Turn to page 9, NIM, as Wojciech mentioned is down at 4.5% mainly driven by price promotion, giving higher competence to the branch networks, and when the competence has been taken into place, we do believe the balance between marketing and price promotion, and we have now relatively modest marketing in Q1, and so finding good balance here is quite necessary to achieve the volume growth. We do believe that we have a relatively easy task to get back to the 4.7% because we know exactly what has led to this reduction. At the same time we see an improvement in the margins on the product side. We see a larger proportion on page 10. Page number 10: you see in the table upper-right corner: retail L/D at 74%, you see retail PLN 6.6bn of current account deposits. We have very strong growth in the number of customers choosing Alior to be their main bank, getting their salaries paid in, and this is helping us to grow total deposits base in line with our loan book, also to get a more balanced cost of funding. On the growth of loans: If you look at the table bar to the left, you see that working capital is now PLN 5.4bn. We have seen a very strong growth in short term loans, where we had very strong quality of monitoring of cash flows, this is meaning we are getting more incoming in [inaudible] the number of mid and small size customers, and we are very pleased with that, as Wojciech mentioned we have seen a very strong concentration of large corporates last year, because we have started with large corporates in 2012 and we are scaling a little bit back without the concentration risk, focusing more on mid-cap.

On fee income, page 11. Nothing revolutionary to report, steady growth. Of all aspects of banks we have seen lower range of interchange fee having this tall but in spite of that we are still seeing a growth in total settlement income and we are pleased with that. Else, it is following the volume growth, on the lending side, it is following the new trends, we have more customers doing transaction investments, and we see growth also in brokerage fees.

Page number 12, we had one surprise here. This jump of 8.4% NPL in corporates, and we have a single large corporate of PLN 150m. 8.4% NPL in corporate and a significant reduction in coverage. This is coming from a single loan of PLN 150m granted to a production company with PLN 15m provisioned, which we believe is sufficient for this customer. We might at the end have it back to normal. There is a discussion between the banks that are financing this company to put it back to its [inaudible]. This is for us one of elements, also considering the size of our total portfolio, that we see that a large corporate, at least in the NPL definition actually means quite a significant jump in NPLs.

On the retail side that we have 10.2% for normal retail loans, 2.3% for in NPL for mortgages, there's a growth roughly 0.1% in the Q1 coming from a model change we've had in a Q2 period. There is no change in the quality of the underlying portfolio. The other growth, which we are seeing in retail, is mainly coming from the fact that we have now PLN 675m of POS consumer finance loans, which are a with a little bit less worst quality than other loans because that is what we get to the customers doing cross-selling afterwards, and that has its impact there.

As we mentioned earlier, also we have a strong focus on setting loans via intermediaries, and that means a certain worsening of the portfolio, we are not nervous about this. As you see, we have 61% coverage ratio, which is for us more than sufficient considering the quality of our collection, which we have shown at earlier times, and we are collecting even more than 57% post default, so we feel quite well with provisions this year. Total cost of risk is 2.2%, as mentioned this is with an existing portfolio structure we believe we'll handle that. If we see further growth opportunities on the higher risk consumer finance on the higher risk intermediaries with a very strong risk/reward consideration, we see no problem seeing an increase, but it's not something we can predict at this very stage.

Page 13: total capital adequacy of 13.5% and 11.9% core Tier 1 capital, enough to manage our strategic growth target of 4% market share by the end of 2016. And we are on a good track, page 14, to capture our forecasted market share. We have managed to grow roughly at 2.5% of the market share annually, over the last five years, and we are not slowing down. As you see in the table, at the lower bottom right, in retail Alior is growing at 3.3%, 2.4%, 2.0%, 2.1%, 1.5%, 1.9% month by month. Over the last six months we have grown 14% where the market has grown just 1.4%. The same on the corporate, we have grown 13% where the whole market has just grown 1.4%. Alior still has a very strong capacity to capture the market share from the other ones, due to the fact that we have set up a very strong distribution channel composition. If you look at page 15, you will see that we are not slowing down in our growth, 116k new customers in Q1 vs. 102k in Q1 2013. We are the leader in current accounts growth in Poland, and we see a very good growth from all of our distribution channels, and the mini-branches – Alior Express 94k customers already acquired in those 200 small - mini branches. In consumer finance that, as you remember, we only started migrating into that at the beginning of last year, we now have 369k of the POS customers already booked in Alior. The capacity to grow further - we have built over the last two years to a very high degree. We have the fourth-largest retail distribution network of 854 Alior-branded locations out there. As Wojtek has mentioned, we've had a doubling of that since two days ago, with all the T-Mobile locations we have almost 200k customers come every month to renew their contracts. But Michał will tell you more about that. So we feel quite comfortable with our global targets growing for more than PLN 400m loans per month, because we have built a very strong distribution network.

Michał Hucał - *Alior Bank S.A. – Deputy CEO*

We are quite happy to announce that our cooperation with T-Mobile has started, so the sell is now open. We have confirmed 2k customers, approximately 100 customer per hour through this new channel, and it's only the beginning because sales in Q2 of T-Mobile should prove now to have more.

What is very important is that this sale is backed with the strongest idea campaign in T-Mobile this year. It's not only that it is backed with the most-known football celebrity in Poland, but it's also packed with a huge marketing budget.

This week we are ready to set up a current account in roughly.. in more than 800 outlets, which means that we have access to more than 2 million contracts, which is highly [inaudible] every year in T-Mobile. But also there is website usage of T-Mobile site, which is our T-Mobile banking services. It is very high. For the last two days, we had 170k using visitors of T-Mobile banking services website. I think that it briefly gives you an idea of how big our project is in terms of acquisition. But not only acquisition, acquisition is not our target; our target is to offer our CF products to these customers. That's why from the beginning we have offered overdrafts, which is all together with these current accounts in the T-Mobile outlets at the same time. It's not that we are selling only current accounts, and that's all for the first day of this customers. Most of these customers will be equipped with this overdraft from the first day, so in one agreement we are selling this both products.

But of course it is not only overdraft but also cash loan, we've have called that with the best margin, so we have plenty of cross-selling actions behind, both in outlets as well as at the contact centre level. In the following months, we would like to acquire 250k customers. We cannot say how many months because T-Mobile don't want to exceed the expectations of the market. However, we can say that in 18 months of Sync we have acquired 250k customers, and we are expecting to acquire these customers much faster with T-Mobile.

Next slide, 19. Why we believe this cooperation is so unique. First of all, and I think we can refer this information to many people in the market, often cooperation is not successful because if there are two parties, it means that one party is more involved and that the second party is not so interested, if at all. In this contract, we are in a considerably different environment. T-Mobile is deeply interested on the board level and B-1, B-2, sales people in the success of this project. We have, which is just very unique in cooperation between the telecom and the bank, every week we had board-level meetings between T-Mobile and Alior Bank, and we still have such meetings. Also we had dozens of other meetings at B-1 and B-2 levels means that there is a deep involvement of both parties. I should say that it's not only a partnership, it's a true telco bank because T-Mobile is not only providing us the customer base, but they are really interested in marketing, how to market it, the new idea, how to acquire many customers with higher profitability. We are not paying only for the customers, and they only cover the cost of acquisition, but this cost is very little in terms of banking services. The great value with T-Mobile is the profit share idea. That's why T-Mobile is really strongly involved in it. And we are proud to be a white-label provider, that's why many people ask why we are happy with being only a provider? Yes, because if you check many telco banks in Poland and abroad, it was not really a partnership, in means the telco was not really interested in this project, so it stopped at a very low level in the management. Here we have the T-Mobile Bank.

This slide, slide no. 20 is presenting our target, is nothing new. So I think I cannot speak more about that. We want to acquire 2m customers in five years, and we are very comfortable with this target. Of course, we are not doing that for the point of having customers, we are doing that for money, as always, with a high ROE target. We have always this goal as a main every day in this cooperation. Thank you.

And one additional slide. The consumer finance we have started about 18 months ago. Now we are on the level of acquiring a great customer base. We are on the pace of providing the solid ratios, which are planned in our business case. We have clearly now a 20% growth rate in cross-selling high margin cash loans this year so… We are on the same pace to provide the net income which was planned in the business case of this project. It is not only T-Mobile bank but also consumer finance that is still on our agenda. We have a separate unit for this project and T-Mobile, so still, we would like not only to maintain our daily business on the highest level possible but also to provide to the strategic initiatives, which will exceed to our results in the future.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

Page 23 summarises the outlook for 2014 in growth, loan volume of new production growth of 400m monthly. And I think here, in this line there’s no risk. Our fight and challenge is to have a good composition: the one that is in consumer lending and the working capital financing rather for small and mid-size companies and the large companies. Large obviously will be an important part of our portfolio, but we will do the profitability out of the entire relationship with a client. Which is very much linked with the second item here - NIM. We believe that because of the client concentration, more price control concentration in Alior and [inaudible] in cash lending, we believe that similarly to what we have experienced in 2013 will come back to the 4.7 margin level at the Q4 with our target at 4.6% and 4.6% for the next two quarters. This is a challenge for us, probably the biggest, but we have already taken the necessary steps. Then the costs here. This is probably the line that we are most comfortable with, it’s painful obviously, but not taking the whole action to cut costs which we have done in 2013, would be a mistake, so you could say Alior delivered the results because of costs cut. Yes, indeed, we will be cutting costs to manage your expectations at the end of the year, and the good news here is that we will not be making this for 2015, but the majority of the benefits resulting from the cost cutting exercise will be visible this year, so we will be below 50% this year rather than next.

Risk: here is something sitting on the opposite side, if our expansion in consumer finance area and our expansion in cash lending will require to relax the cost of risk from 2.2% to let’s say 2.3%, but at the same time, looking at the risk/reward, we’ll be able to build NIM on an appropriate level thus leading to the overall profitability of the bank, and the ROE desired on the level, then we will do that.

So, it is not that I am not into relaxation of the credit policy, but obviously looking at the cash loans and our ability to control risk on this side, we’ve found that we are going into some segment of the customers with our collection capabilities, and that leads directly to the improvement of the bottom line profitability for the bank. As an example we do have a physical collection now in southern Poland and we have increased our collection capabilities in Cracow by more than 50% last year. That calls us for biggest opportunity to attack even further the cash lending, and in business this is our main driver of our profitability. So, that's it, I think, and we are open for questions.

Host

OK, so first we are taking questions from attendees present in the room, one willing to ask a question is kindly requested to give me a sign. We have one question I see.

Marta Jeżewska-Wasilewska – *Wood&Co- Analyst*

Good morning, Marta Jeżewska-Wasilewska, Wood&Company. My question is about your core Tier 1 ratio. It was 11.9 pro-forma including 2013 net result. But was it already in Basel III or is it still a previous regulation? Just for clarification, please. Thank you.

Witold Skrok - *Alior Bank S.A. – Deputy CEO*

You're asking on Tier-1? This is according to Basel III recommendation.

Marta Jeżewska-Wasilewska – *Wood&Co- Analyst*

What will be the level under the old regulation, because this ratio seems to be pro-forma, like-for-like, maybe?

Witold Skrok - *Alior Bank S.A. – Deputy CEO*

It will stay at the same level, because we have made an adjust, and there is no difference in that year between the calculations between those two approaches.

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

The main reason for that is that we are still using a standard approach, we're not using (unclear) advanced.

Host

OK, do we have any further questions?

Dariusz Górski – *BZWBK- Analyst*

Dariusz Górski, BZWBK: I have a question about the past issue bancassurance because your interest income on loans is jumpy. We heard a lot about price competition and so on; I wonder if recognition of the past bancassurance fees also has its impact, so could you give us a number for the full year? We know how much of the past bancassurance fees will be recognised this year, but I am not sure if they will be evenly spread throughout the quarters. Because to me this margin on loans is a little jumpy, so I wonder if this is a competition issue or pricing issue.

Witold Skrok - *Alior Bank S.A. – Deputy CEO*

Retained revenues from insurance spread over not [inaudible] but according to the effective interest rate. So, it may have an impact, but let's say, what is important is that it will have impact on the new rather than from the previous years.

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

On top of that, in Q4 there was a special effect of roughly PLN 10 mln, there is no special effect in the 1Q this year.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

If I can add to that: in this short-term effect that we have noticed in the Q1 this year, where the people at the branches.. because general negative sentiment towards bancassurance, we have seen the sales of bancassurance products going down at the branches, we have reacted even it in February, by centralising control over the branch activities. Simply, our advisors were reluctant to offer the product because there was something wrong about the bancassurance, and this was the short-term effect. Now the coverage of the insurance products in our branches are back to 2013 level.

Host

Any following questions, please?

Iza Rokicka, *Ipopema Securities, Analyst*

I would like to still begin a bit into this net interest income and NIM end of this quarter. How even if we exclude this standing in the last quarter, the interest income this quarter was even lower in this stable interest rates environment. Given the balance sheet growth, I am actually striving to understand this competition pressure. This promotion campaign should be enormous to lower the interest income in such a scale. And I do understand that you expect this margin to improve in the coming quarters, but is it doable in just one quarter or will we have to wait for it several quarters? Just to all those long-planted interest queues in Q1 to be cleaned up.

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

It will take some time, because when we have granted the loans with the loan margins we have to live with that, and adding new loans with a higher margin, the impact is significant , that is very clear. We have taken action to make sure that such new loans will not happen. They are still profitable. So, it isn't that we have granted loans that are not profitable with such margin, but our internal expectation is to have even more profitability, and this should be on retail.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

To add to that: we have two components: one is linked with our consumer finance. Consumer finance is longer, because we tend not to give loans that are below 0% profitability, but they are marginally profitable, the first loan. Then we are working on cross-selling to these lines. It takes some time, and we believe that this portfolio can be profitable by the end of this year. However, the other aspect was linked with the price leaking at the distribution network. I can say we reacted immediately, and now the branch directors do not have any competences not only on the risk side, but also on the pricing side. And I believe that this could lead into the improvement of our NIM in Q3 and hopefully in the Q2.

Iza Rokicka, *Ipopema Securities, Analyst*

OK. And on this leaking in terms of branches? It has effect only on the NIM or that we can expect it may negatively impact the cost of risk of Q2?

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

No, the cost of risk at the branch level: The branch directors have no influence on the risk. They have not had it in the past, they are not making the credit decisions, and we are making the credit decisions. There is absolutely no threat of deterioration other than our conscious decision at the headquarters. At the beginning of this year we moved the bonus system for people at the branches from something that was in Alior from the very beginning, which was a system based on net profitability of the branch. We gave them in the Q1 a typical share of targets by volumes or by number of pieces of sales acts. If you look at our income from the investment products, it jumps, because the people get into the sales targets to go for the client and offer them investment products, so brokerage is up, investment products is up… The negative of that was that without a strict price control sometimes they overused the price competences of branch managers to meet the volume targets, and this was already been taken care of. Simply, Alior at this stage we had to do it at some point, because to give freedom to all branch managers to be entrepreneurial in their local areas, which was the model of brand young Alior from the very beginning, was good when we had 300k–400k clients. And now as we are seriously fighting for the same quality and sales for the client, we can't afford that people in Lublin had completely different offers and promotions that those in Kielce. So, we've centralised those, and this was the effect.

Dariusz Górski, *BZWBK, Analyst*

I would like to get back to the fees a little bit: the net fees are going at the very rate. If you look at revenues and costs, you see that on fee income the growth is slowing and there was couple of lines from quarter to quarter that was actually a contraction. And one of the reasons why net fees were so strong, that you were able to cut your fee costs. So here is the question: what outlook is for some lines of your fee income? Other banking fees were weakish to me, you probably discard, and also you have small room for the cut off fee costs.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

I will answer to the last, and then Witek will continue the fee cost. In our overall cost reduction efforts there are three or four components.

One was the HR costs with that are 50% in our base, and here our general philosophy to cut the costs that are at the headquarters, cut the cost of the people who are not facing the clients, and leave aside the client-facing staff. Then we have the costs of real estate. Here every single branch in Alior is being.. now we are coming out of the 5-year lease period, which was typical, and are renegotiating the contracts, sometimes moving into other locations. Then the third component is the fees that we are paying to our outsourcers, and here every single contract is being outsourced base on scale, based on new processes with every single provider of services that we use. And the fourth component is the reduction of the fee cost, for instance with cash handling, with ATM machines, and so on. I think it's most difficult to negotiate, because we need to be very careful not to reduce the level of quality of service for the client. For instance, if I want to reduce this cost, immediately we're going to say: OK, as most of the polish banks - no more ATMs for free worldwide. Then you'll see an instant improvement of this cost by 3m or 5m, but then I think we are cutting back the quality of service and offers to the clients, that we want to keep. So, no to count on magic on one side, as Niels has mentioned we are growing with current account deposits and [inaudible] 6.6 bn already, and reducing the costs, I will be very careful with potential reduction of the fee costs.

Witold Skrok - *Alior Bank S.A. – Deputy CEO*

On the revenue side fee digit explained the seasonality, because if you compare Q1 with the last quarter, we had less business, for instance our debt issuance department, they have concluded a few transactions and generated profit with some other fees, and also number of granted limit to the customer when we charged the customer a fee for that, which is higher in the last quarter of the previous year than in Q1. That first one, like other banking activities: settlements, issuances is slightly below in the Q1, as I have mentioned Q1 is not comparable with the harvest quarter which is the last quarter of the year.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

To add to here, there are two lines here: commissions paid to agents (I think this is very much linked with our distribution model) and looking carefully on the risk profile in this channel I think we'll stay in this channel, so the level of the commission paid to the agents will stay, and here I see limited potential for further cuttings. And one example for the potential deterioration of the level of quality service to clients is not only ATM network (it is mentioned here, in Commission for ATM Sharing), but also the assistance services. So, we are looking at the assistance services that are currently granted to clients, and if clients are happy with this additional assistance that are added to our current accounts to boost, once again, the transfers of salaries, we will keep this offer to the clients. If they are not happy or if we are able to renegotiate contracts with the providers, then we will try obviously to cut these costs.

On the fee costs, if I remember it correctly, not a single line was cut in Q1 2014. We haven't been able to renegotiate on ATMs, and on agents, and cash handling, and assistance fees.

Host

OK, can we follow to the remote audience then please? OK, Operator, please open the line for the remote audience for the Q&A.

Operator

Thank you. Ladies and gentlemen, if you wish to ask a question, please press "*1" on your telephone and wait for your name to be announced. If you to cancel your request, please press the "#" key. We have one question coming from the line of Marcin Gierasinski. Please ask your question. He just disconnected. So, we go to the next question, which comes from the line of David Nangle, please ask your question.

David Nangle – *Renaissance Capital- Analyst*

Yes, hi, this is David Nangle from Rencap. My question is on the asset quality side, on the corporate loans. Can you give me more details? I think I missed this: You said you had one corporate loan in the production sector that cause the NPL to rise significantly in Q1. Can you explain that to me in more detail? Why did the loan go bad? Is it bad forever? Can it get written back? And the provisioning, obviously was not increased by 150m in Q1 for corporate loans. So, what provisioning did you have on this loan before? What have you done in this quarter? And what are we to expect? Because I was just getting around the nature of this one-off. Is it just fall into the NPLs and then falls back out? Or is it fully provisioned, is it more to go? That kind of colour would be good, please.

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

Hi, David, it is Niels. This single production is coming from a loan of 150m, and we have done 15m of provisioning. The reason why we put it into NPL is that they are running liquidity challenges, and asked for a refinancing from a number of banks. All this banks have been working together for the last 1.5 months trying to find the solution. I may not reveal the result. We are confident that there will be a positive outcome and we do believe that before the year ends, we will have this company back in normal, leaving out of NPL and hopefully the reduction of 15m provisioning.

David Nangle – *Renaissance Capital- Analyst*

OK, so at this stage what you are saying is that you expect a positive conclusion: into the NPL and back out. You've currently provisioned only 10% of the loan, PLN 15m or you only provisioned PLN 15m this quarter?

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

Only 15 in total, and it's all done in Q1. And this company has been operating in normal classification until the end of last year, and there has been no provision on it. We do have, of course, and extensive array of collateral on this single case and we do not believe we need further provisioning. The local banks that are financing this Company are positive towards refinance.

David Nangle – *Renaissance Capital- Analyst*

OK, excellent. Just broader on the same topic. Given the macro backdrop, I guess it's that you will get problems with your loan book, every bank does, but it's a problem in the broader corporate space. Is there anything else you're worried right now in you corporate book either specifically or from the sector point of view: are there any sector that you are pushing into or pushing away from?

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

We have handled all sector problems almost a year and a half ago, when we saw the significant worsening of the real construction sector. Else there is no other sector where we would see specific problems. We do have a number of exposures, which we are watching very carefully, and the mine companies are also connected very closely with AQR, we are not sure how the regulator will have a stance against the whole banking sector. We do not see in Alior that we have anything specific which the regulator quite figure that.

David Nangle – *Renaissance Capital- Analyst*

OK, and my final question is on secured consumer finance. It seems to be heating up in Poland from arguably a very low base, and everyone seems to be getting involved. How concerned are you, guys, at the early trends? Does the timing of the competitor effect, the credit push effect… At what point do you start to get concerned about these? Because, obviously, it's a key area of growth for you, guys.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

It is Wojtek Sobieraj once again: I think that the area of the biggest concern in consumer finance is that… well, speaking broader of the economy and the weakening spending, the large retailers would force banks into the unproductive and uneconomical conditions for the consumer loan growth at the POS. We think that in 2006–2007 even Alior, with the large retail chains in Poland, demanded that banks extended the so-called 0% ATR promotions to clients for some specific period of time. This drew to a model where the prime loan is highly negative in terms of the profitability of the bank and ROE, and only the cross-sell made these business very profitable, because then banks knew who were those clients, what they want to lend, what to borrow, and the creditworthiness of the client itself. But nowadays we've noted two things: first of all, there is no pressure from retailers on banks to reduce their risk appetite. In 2005–2006 if I remember correctly, it was the first line that large retailers discussed with the banks: is what is the approval ratio. Now, I think, it's gone. I haven't seen too many of these questions flying around. However, what is appearing is the pressure on banks to lower the margins. And our very tough stance is that we would not go into the negative equity businesses, and if the business is unprofitable for us, we will not be involved, we will not subsidise the business that dramatically. And the business we are looking for with retailers is what is their overall profitability, obviously if we do not see an overall profitability in the relationship, we are withdrawing from the cooperation.

So, long story short, there is a pressure from the retailers, but we will try not to get into a price war competition, where it is unnecessary.

David Nangle – *Renaissance Capital- Analyst*

OK, that's very clear. And maybe I will have one final question to you, guys. Just in terms of the share placements, because there have been a number of them. I guess that I am working on the market where we have the assumption that we are not going to have any more share placements before, maybe, December 2014 other than from the management or Carlo Tassara, etc. Is that a fair assumption to make?

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

I believe it is certainly is a very fair assumption. Carlo Tassara is sitting with 28.05%, 1.9% of that belongs to the management, we will get that later, before the end of June. They have 26.15%. They have given a strong commitment to the regulator to keep at least 25% as a reference stake. They could potentially go to the market with 1.15%, but I doubt this is something that will happen. In term of the management there is further lock-up ending in December of this year. I cannot commit or promise or whatever is the word for you if there will be a stake coming out, this I don't know, people are different in individual different economic situations. On top of that you have to remember that we have an option scheme, and part of these options were granted for 2013, and some will come out in 2014 and further in 2015. There is still a strong commitment from a very large number of top managers in the organisation to continue delivering not just a good price increase to the existing shares they might hold, but also to make the value of their option scheme significantly higher.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

If I can add to that: contrary to the management sell that we have seen in the past, this was the Manco company where there were over 100 people in Alior were participants, currently what is left is only six or seven of us, and a vast majority is at this table. Because it's privately owned only by the management. So, I think given the individual people intention to sell or not to sell, it's now much easier to expect of what would be the package coming to the market in the first window. So, first of all, the first window is in December 2014, it is up to you to judge, whether it is possible to go between December 2014 and [inaudible], if not than it starts the lock-up period which will finish by the end of Q1, the back of it, so before the FY results, which is basically the end of the Q1 2015. And I would like to stress myself that I have no any intention to sell.

David Nangle – *Renaissance Capital- Analyst*

Cool, very clear, guys, thank you very much.

Operator

We have another question coming through from the line of Andrzej Nowaczek. Please ask you question.

Andrzej Nowaczek – *HSBC- Analyst*

Thank you. I just wanted to ask you to comment on press report reports saying that you are looking at one of the SKOK-s.

Wojciech Sobieraj - *Alior Bank S.A. – CEO*

I think there were some press releases about this SKOK's and Alior involvement. Thank you very much for asking this question because I would like to clarify this as much as I can. There is an issue in the polish banking sector, the issue is sizable, it is of PLN 400m, and I think that this is a misunderstanding, to put it mildly. There is no single bank that is able to cope with the covering of it whole. What it means is that there is no solution that would fit, in my opinion, to deal with the entire SKOK's sector. I think that the recovery of the issue, and basically how to resolve this issue, will be based on four components:

One: some SKOK's will be forced into liquidation, some of them, especially the smaller ones will be taken over I hope by the other SKOK's or by a bank. And I need to stress: these are only the recoverables SKOK's on the smaller size. Then there will be a need either for an coordinated action from the banks, call it a big bank, call it something similar to what we have seen on the polish market, with Wschodni Bank Cukrownictwa and six banks cooperating to recover. I think it is also feasible. And it will not be enough. I think the fourth component is the increase of the potential threat to increase the BFG lead, so to cover the potential losses of the deposits of this corporate client. And it would take a form of increased participation for BFG. So I guess it will be solution that will that consists of four different components. Currently I can say there is a big discussion among the banks, banks and KNF, banks and BFG, banks and ZBP, so obviously Alior is involved in this discussion, but there is nothing extraordinary with Alior involvement in these discussions. There is no such intention that Alior is the safer of the SKOK's. So it's not feasible, no. I think it covers our position versus SKOK's.

Andrzej Nowaczek – *HSBC- Analyst*

OK, thank you so much.

Operator

We have no further questions on the phone line. Please continue.

Host

OK, thank you very much then. If there are no further questions, then thank you for attending the management presentation and management conference call. Thank you.

Operator

Ladies and gentlemen, this concludes our conference for today. Thank you for participating, you may all disconnect.
