Alior Bank S.A. 3Q 2013 Financial Results Announcement Call November 14, 2013

Corporate Participants

Wojciech Sobieraj

Alior Bank S.A. , CEO

Witold Skrok

Alior Bank S.A. , Deputy CEO

Niels Lundorff

Alior Bank S.A. , Deputy CEO

Presentation

Host

Thank you to everybody in the room in Warsaw and to all analysts listening on the call. We will proceed in the way we'll do the presentation and we will have questions and answers in the room in Warsaw and then we will take from the listeners.

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

So, welcome. It's difficult not to start with bancassurance case. We've taken a decision on 17 October which changed the methodology. We adopted the most conservative approach from all banks. The impact of this approach, which is basically 0% upfront, was devastating for the end of year 2012, and would have a negative impact of PLN105 million for 2013, the three quarters. It will still have a negative impact of roughly PLN15 million in the fourth quarter, first and second of the next year and in the third and the fourth quarter 2014 it will become positive for the next years and

Witold will walk you through how this PLN309 million plus PLN105 million would impact our revenue in the next years.

Another issue that is a hot topic is our general assembly meeting that was scheduled for 28 November. We are trying to prepare the Resolution to raise not more than 10% of the capital in no prospectus formula to the professional qualified buyers.

Then the third thing is looking at the strategy for 2014, 2015 and 2016. A growth plan to get double the market share from the end of 2012 is confirmed. Despite change of the bancassurance, we are not changing our business model. We are strong in distribution and client acquisition and volume of credit and deposit growth.

We slightly revised the cost income target. It will be below 45%. We are not sure is it 41% or 44% at this moment and ROE is revised at the 16%. Fundamental performance for the third quarter, it was not the best quarter in our history. Trading income was down because of the low interest volatility and basically low zloty/euro volatility but also when you look at the single line that hit us the most was the net interest margin. There's a big difference between earning 1.1% on a term deposit versus losing 1.1% on a term deposit.

In the third quarter we recovered our position and now I can say the net interest margin is defended. We'll go into this later but it should go back to the 5% level. Loan growth and deposit growth are in line with our expectations. It's close to 40% year on year with still one of the safest loan to deposit ratios on the market. Very strong growth on the numbers of customers. It's the highest in the market. It's the same as the two closest competitors combined. It goes in line with the distribution channels. We are not stopping building the new mini branches. We confirm the target of 220 of them by the end of this year and also we are gaining the clients through our strategic project that I've mentioned earlier, which is consumer finance, small Alior Express branches as well as Alior Sync.

Outlook, I've mentioned NIM improving, not dramatically, from 4.8% but we will get back to 5%. Loan growth, we are still confirming the growth of between PLN400 million and PLN500 million per month and we feel comfortable with the consensus PLN231 million scheduled for this year and the next years we'll cover later.

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

Thank you and good morning. On this slide, I have always had a problem with this slide because here we have almost 90 figures and 40 indices but I would like to attract your attention to four of them. First what Wojciech already mentioned, NIM. Net interest income increased only by 11% versus the growth of the loans by 37% but, as Wojciech mentioned, this is driven by the drop of the market rate which we suffered a lot. Of course we made measurements and we improved the margin on the credit side; however, we were not able to compensate what we lost on the term deposit margin.

The second, net fee and commission income, 25% growth, so this is something which is a very positive sign for the future; and the two next elements are general administrative expenses, 8%, almost flat, and impairment losses in line with loan volume growth. Before I comment on other financials in a deeper way, I have to say something about bancassurance because this was the most bigger and deeper impact on our financials.

If you remember those three models which we presented in June figures, so the old one, which we used for revenue recognition until the end of June this year and what we implemented and as a follow-up with the negotiation with our insurance companies, we changed the model, we changed the agreements, we changed the system of distribution and we were assured that all those changes fulfil recommendation which we got, and all banks got, in the letter dated 5 April. However, in August and September we had, let's say, talks and in the final talk, which took place on 14 October, we get clear unquestionable directions from KNF that we should restate and make a restatement of the revenues from the bancassurance for all production, so the period 2008 to 2013 and what we did, we corrected the opening balance as of 2013 by PLN309 million and PLN105 million, that was the reduction of the net profit for the first three quarters.

I have to admit, and I forgot that all figures presented in this presentation are restated, and this is according to the accounting policy which we implemented and they are comparable. So, the first quarter, the second quarter and the third quarter, these are on the same framework. What is important is that the PLN 409 million deferred income is something which will come and already come in 2013, third quarter and the first quarter, and then next year. So, on this slide you have in front of you, from the PLN414 million, almost PLN40 million will increase the profit of the fourth quarter and the rest will be distributed as it is displayed in the slide. One can ask, and Wojciech already that, for 2014 the impact of these changes which we implemented will have a neatural impact; however, 2015 and next year, it will be a positive income.

On the next slide just one important detail which I would like to highlight. If you look at the lower graph, the WIBOR curve, there is a drop by almost 2.3 percentage points. However, if you compare to what we put in the budget, the difference is smaller but still significant. There's an almost 170 basis points difference between our budget figures and actual and this explains the drop of NIM, despite the fact that a lot of actions we took on the asset side. Thank you. Niels.

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

Thank you. The slide number eight, we have a very good fee development. We see very good development in brokerage. There's an increasing tendency for wealthy investors to invest into shares. The settlements are going up quite well and we are keeping also a decent income from non lending-related sale of insurance products.

Page number 9, the... Sorry, my mistake, I jumped page number seven. We'll go back to page number 7. Yes, page number 7. The development we see on the cash loans now contemplating 30% of the loan book is making us very happy. We have also a very good development in current account deposits which is now making up more than 40% of the retail deposits. That's very good for the NIM and that in spite of the rate drop, as Witold and Wojciech mentioned, which has hit us on the NIM coming from the term deposit side. We're still having a good liquidity ratio, less than 100% loan to deposit ratio. Then we can go to page number nine, sorry.

On page number nine you will see we have on the left side 18% growth in outlets, 42% growth in number of customers, revenue of 17%, again nine months of this year versus first nine months of last year, again in spite of this reduction in margin on term deposits and the costs have grown in much more modest level, 9% in total. We have reviewed our processes now after five years of operating and we have identified a number of elements where we can improve our efficiency and we have a target of next year on like-to-like, so based on where we are right now, PLN25 million cost savings in the year 2014 impact, and another PLN25 million with impact in 2015.

As you can imagine, we have a very good efficiency already, so these are not very easy and low-hanging fruits but with a very good approach and our commitment to use also excellence and innovation internally, we will be able to achieve this so that our new cost/income target for 2016 is to be below 45%. Earlier we said 42% but due to this change in environment, we're now saying below 45%.

Page number ten, we have continued improvement in our risk tools, both on the loan granting sides, on the loan collection side. As you know, we have a strong focus on growing our cash loans. This is leading to a higher NPL, also because we're working into the consumer finance where we have in some of the shops a minimum acceptance ratio which is higher than we would have taken if it was from the street but from a business case point of view, it is something that is paying off over time.

Number 11, we have a very strong retail risk management with excellent scoring qualities, higher gini's than we see in many other institutions. On customers coming from the street we have a very tough acceptance ratio with the consumer finance, that we're not moving into a situation where we are accepting everybody, we are also selecting when we have seen the experience, of course, with the sales outlets, if we want to stay in these outlets for longer. So, we have a very strong growth in our presence in consumer finance. We have, we dare to say, the best in class collection system and this gives us a very high predictability of the cost of risk for the non-collateralised lending. For all of these cases, consumer finance more on the business case model, with longer-term payback, we have risk-based pricing and this is giving us a high return on equity with a good predictability on the non-collateralised lending.

An example of our improvement in the retail risk collection, we have given here some lines showing the production from 2009, 2010, 2011, 2012 and first quarter and how good are we at getting the money back after we have identified that this is a delinquency, meaning after more than one month of delinquency. Our tools are constantly improving. We're seeing some slow back in the last six months of this year where we have had an element of increasing unemployment and, as expected, that is for all of the curves, making the curve go less steep over the last six months. But we are very pleased with this development.

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

If I can add to this slide, one thing is just the things that Niels has mentioned but I think it went completely unnoticed that we are now... in the course of 2013 we've built a field collection force that is the biggest amongst the Polish banks. Only the specialised companies working in the collection business, they have more people on the ground visiting the clients. That's why these recovery ratios, as Niels has mentioned, we believe that with declining rates of unemployment and full speed of our Lublin-based collection system and field troops working on the retail collection, we can maybe have an extra pace this year.

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

Page number 13. After the correction of accounting methods, we are still above 12% total capital adequacy. However, to ensure that we are achieving our long-term strategy of more than 4% market share and more than 16% return on equity, the growth is very important and an element of that growth is giving higher profitability not in the year where the loans are booked and therefore an up to 10% capital increase would provide us sufficient capital to deliver that target.

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

Now on page 14, looking at our market share growth, we are still a tiny bank. We have 2.5% in deposits and 2.3% in loans in Poland but we are growing. Month by month, quarter by quarter we are gaining the market share in both retail and corporate sectors. One of the reasons behind is that we are building our distribution and we are building our client base. So, client base is 108,000 clients that we've gained and at the end of the quarter we have 1.9 million clients. I can say that today this number is already 100,000 more, so we'll beat the target of 2 million clients by the end of the year. It's quite a good result, knowing that the first branch of Alior has been opened for the clients on 17 November, just almost exactly five years ago.

We are not slowing down building of our distribution and in the table below you see where the clients are actually coming from - our regular branches, Alior Express, the small mini branches, consumer finance and Alior Sync - but it's worth mentioning that we are pointing here only the first point of contact because if you are a client of Alior Sync, you have a full service in all the branches. If you enter to our channels through Alior Express, then you can go to the branches and vice versa. So, all in all we are gaining substantial market share, more than our competitors.

Now, on page 15, we feel very comfortable with our quarter by quarter, month by month loan production in all the segments. We had on the cash loans... As you probably know, most of the Polish banks, with their advertising and sales force, they try to prevent NIM erosion by going into the cash business. We suffered in July and August. I can say that the results of September and later, we are fully back on track with the cash loans, both in margins and in volumes. Mortgages, I think it will be a very good fourth quarter because of the regulation S coming at the beginning of this year... over the next year and I'm not so negative about the impact of the 20% down payment rule because we see also this much faster growing demand for mortgages.

As far as the corporate banking is concerned, all other small and mid-sized companies, that is in our case, we see quite strong new volumes in working capital facilities but what is especially important is that for the first time we see the number of applications for investment loans growing and this is basically at the summer of this year. What is worth mentioning, the change of... and someone had the question earlier. The change of the bancassurance accounting booking hasn't changed at all the way that we are steering the sales of production at the branches. Both our employees, our intermediaries, our partners, they are rewarded in the same way. We have a very strong centralised desk for controlling all this and the level of insurance sales and new production after the change of accounting rules hasn't changed at the branches at all.

Distribution growth. As mentioned, we will end up this year with 220 of the small outlets with a number of Alior agencies roughly circulating around the same number that I've mentioned earlier. 440 to 450 is the number there. We are not building any more large branches. We're finished with that.

On the next page, on page 18, you see our three strategic projects. Although the numbers are not impressive yet, please have a look at the growth ratios. In consumer finance we are already number one in Poland as far as the e-commerce is concerned because of our cooperation with Allegro Group and we are already number three or four in physical distribution outlets for instalment loans. Alior Express, what is especially important is that none of our Alior Express branches is non-profitable after six months. So, six months... Some will be faster but after six months this low-cost format located in high traffic areas, usually what we call the convenience shopping centres, so not lifestyle shopping centres but convenience shopping centres with many clients coming every day, the format is profitable and many of potential partners or competitors that are considering this format to be introduced in other countries also.

Alior Sync, this is our virtual child growing. I am a little bit disappointed with the volume of loans. We have this really excellent system and I must say this is something that strikes me completely, the cost of risk for the products that are generated on the Internet and generally the NPLs for those are much lower than the cost of risk of the traditionally sold products. It's a function of better scoring, no any potential frauds in preparation of the post documentation and papers but also it's a function of who buys on the Internet in Poland today versus who goes into the instalment stores. Very positive development, however we hope on a faster growth, especially on the lending business.

If you look at page 19, it's the outlook for the next years. We used here... The only thing that we can use is the consensus analyst forecast for 2013, 2014 and 2015. We feel comfortable with these numbers. ROE for 2016 we are slightly... because of the changes, we had reduced to the level of 16%... above 16%, let's put it this way, production segments. Now they're PLN400 million to PLN500 million annual production. That's why we have generated monthly - quarterly it will be PLN1.2 billion/PLN1.5 billion - production with a split of retail versus corporate business roughly equal with more for cash loans because together with our instalment loans it will be closer to 55/60% production on the retail business.

Cost income, less than 45% versus previously 42%, the only link with the income affected by the accounting changes, however, as Niels has mentioned, we already undertook some actions to reduce our cost lines to somehow catch up with our and the market expectations on total profitability of our venture. What is also worth mentioning is that we built our infrastructure six years ago and six years ago not only the infrastructure cost for operations were lower back then but what is especially important is that we are using the technology that allows us to switch, to change, to rapidly develop the changes to imply even more cost-efficient way of running our business. Also, as you know, we outsource a lot of our operations and a lot of functions. It allows us to be on the helm of the total cost and, with a growing volume, growing number of clients, we are really receiving and we will receive even more the volume discounts from our suppliers.

Market share, we're on track and we are confirming that our goal is to go to double the market share from the end of 2012 when we got listed, which means that currently we're 2.5%, we still have on 1.5% to go by the end of 2016.

Thank you very much. Now it's questions.

Questions and Answers

Host

So, first we will take the Q&A from the audience. Who would like to ask a question, please?

Dariusz Górski – *BZWBK- Analyst*

On page five... We can probably do the maths back but, nonetheless, could you provide us with the number for the three quarters of this year how much of the past fees you have recognised this year and also, could we get a split of this PLN414 million into two revenue streams, meaning the past fees from 2010, 2011, 2012 and then those from three quarters of this year, if possible?

And my second question would be on the cost of risk because despite the changes... or favourable changes to your LGD model in retail, you had a high cost of risk in the third quarter and if you could elaborate on the reasons and underlying trends. Thank you very much.

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

I will start with the cost of risk. We have a very strong growth in the retail lending in two aspects. One is cash loans where we have our existing customers, Kill Bill customers, people coming from the street, and we can decide to a full extent which degree we have acceptance here or not acceptance and we are accepting less than 35% of those customers. Then we have the new instalment loans we are doing on the consumer finance. It's a project which is bringing this year negative ROE, next year 0% ROE and after that a very good ROE.

We have to enter into these consumer loans, small instalment loans, average PLN2,200, and a very large proportion of those are bringing the losses in the first six months after we have done these monthly loan sales. That is the reason why we see a continued growth of cost of risk. We have also not fully passed the bankruptcy cycle for corporates. We have a little increase, nothing significant, and this might go into also fourth quarter but nothing significant.

The macroeconomic improvement which we're seeing will, for sure, have an impact in 2014 on less bankruptcies and even higher recovery ratios and less delinquency from the customers in the retail but we will continue seeing a relatively high cost of risk because our focus is on earning money at the mass customers where the average cost of risk is higher than a customer where we having collaterals or also with the consumer finance where the acceptance ratio required by the shops leads to an average higher cost of risk than when we have the declining ratio, as we have in the Bank.

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

The bancassurance question. So, first the split of PLN414 million. It's PLN309 million plus PLN105 million, PLN105 million for 2013 and PLN309 million for the... as was stated in the previous slides.

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

But let's say from the first quarters we recognise from old production and the current production PLN100 million net. So, this is just after tax.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

Can I elaborate on the NPL you mentioned in retail? I guess you are blaming the consumer finance initiative but the duration is actually quite significant, by 50 bps, 9.2%. I'm referring to slide number ten, 8.7% to 9.2%, yet your consumer finance portfolio is really small. So, how come that it actually drove the ratio higher when it's like PLN400 million only? I mean, NPL would need to be like...

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

It's not only the consumer finance but it is a significant contributor.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

So, stripping out consumer finance, how would the ratio behave without consumer finance?

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

I will find that number and make sure we have that in the NDR.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

And maybe on the... your comment about the analyst consensus for next year, I mean, the third quarter profitability is really scary low, especially given the fact that you've periodised the impact of bancassurance for three quarters of this year. So, the run rate... I mean, I ask especially because the usual... or the market participants would think that you need to move up from PLN40 million quarterly profitability to almost PLN100 million quarterly profitability next year to arrive at the consensus. What assumptions are behind your thinking that you are going to deliver that? Is cost of risk going to define from seemingly high level of this year to 120 bps on your total portfolio? Are you expecting net interest margin to go up or it's just going to be the volume momentum which will be maintained at these levels?

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

I think there are two factors. If you compare the three quarters of this year with the three quarters of previous year and the growth, I think we feel very comfortable. The third quarter this year we were hit by especially net interest margin decline to 4.8%. Now going... the results of even September and October shows that we are... there's no more price wars in cash loans, so we will definitely hope to recover the position to 5% net interest margin, that translates into PLN50 million/PLN60 million of net profit loan for this one.

As far as the credit risk and cost of risk, we believe that we are able to maintain the long term 2.1% cost of risk for the overall portfolio. With this 2.81 for instalment loans, for cash loans I think it’s expectable to get better than even this 2.81 that you see here, and NPLs for the retail business on page 10, I think we’ll try to depress this level down further. All this combined make us comfortable for both to 231 this year, and the forecast for next year.

The other things that I’ve mentioned here, that we’ve mentioned earlier, is that we will see even flatter growth of the cost base in 2014, like for like it will be decrease of at least 25 million, we know where to find all these 25 million savings, and this is another lever. Any more?

I think all these three are the main drivers that makes us comfortable both the results for 2013 and 2014.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

Also one more question, I know this is post result meeting, but given your capital increase, and the shareholders structure, which you comment on in the report, that there is actually no profits on Carlo Tassara sale yet, and this actually may get prolonged beyond the end of the year, which is contrary to what you faced earlier, I believe. How should, I mean, do you, as management, intend to participate in the capital increase? Could you make any comment, you know, in the name of Carlo Tassara, is, are they going to participate, or would there be no comment on this, and how do you expect this kind of shareholder resolution to continue, the final shareholder structure.

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

I think we cannot comment on this at this moment. As soon as we know, we will let the market know. Currently I just cannot comment, sorry.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

You cannot comment about Carlo Tassara, or about the management as well?

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

I can't comment on the Carlo Tassara, for sure, because we are the subject of sales. I have to confirm however, that as we were supporting Carlo Tassara in the sales process so far this year, we are still supporting the UBS and Carlo Tassara in the sale of the bank to date, and I think okay, it's up to you, the judgement, which is going to be finished this year or next year, how are they going to commit, fulfil their commitment to sell. I think the process is on-going. This is… all what I can say at this moment, with the full support of the management. We, then, in order to better clarify the issue of the general assembly and the capital increase, we were advised here by the lawyers that we need to go, basically, through the current report publishing, we cannot, in this forum, in this form, provide any more details about that.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

I need to ask one more question, as feedback from clients, as probably you got, and all the analysts got after the management share sale which happened before the KNF decision, would you have handled the things differently? I know that your comment is that is also total surprise by the KNF, yet we are seeing some comments from KNF that this communication was on-going, and knowing, you know, about the procedures with the regulator, it's very rare that the regulator surprises anyone with their decision. I mean, the line of communication was quite clear from the very beginning, the intentions by the regulator, what they wanted to achieve in terms of comparability of results across the banks, you were the only one that actually, even in the first half results, you know, stick to your approach.

Some other banks, like your competitors, which also realised an up-front recognition, I'm talking about Getin Group or some other players, they've, you know, they've realigned their, or changed their behaviour a little bit, already in the second quarter or first half of the year numbers. Could you clarify those issues, and maybe what do you expect to improve your credibility in the market, which definitely took a hit because of the management share sale.

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

Okay, so two comments. First, I will not comment on our competitors, and their understanding of the requirements of KNF. I can say, however, that during the results of the first quarter, there were only a few banks that restated the 2012, or the past, the end of 2012, and then we were hit, we made all these corrections that cost us PLN30 million of net profit for the first quarter, for the first half of this year. We've done it, I would say, in the most, this was the most dramatic impact among the banks that I know of operating in the Polish market.

It was on-going, the discussions with the KNF, it is still unclear, it is still unclear if it's 0%, 20%, 29, 60, 65. It's not up to me to comment. What we've done is, basically the way to say it, that the income from bank assurance, from Alior, will be that low, or that big as it is currently or better. You cannot expect any deterioration. Because it was a deliberate decision from us, knowing that what we've done was quite dramatic in terms of negotiations with insurance companies, in terms of hitting our profitability in the first half.

We've discussed it with the auditor, we discussed it in on-going basis with KNF, we thought that this is enough, the meeting that took place on the 14th, then with on-going discussions, the meeting that took place on the 14th of October, with KNF, convinced us that it might not be enough, and that even postponing the results for the first quarter shouldn't we do this change, and then continue our policy that this basically was based on the pillar, on the main pillar, that Witek mentioned on his slide, there would be too much risky.

So what we are saying now is that from the bancassurance, is that you can expect these numbers or better. Here there is a clear guidance, and it was a guidance from KNF, I think, last week it was a public presentation done on the bancassurance and it still hangs on the pages of KNF, and it's still very much difference among the Polish banks, how much they booked up-front. It's not up to me to comment, all I can say only is that we are now at the bottom of it all, with zero up-front. If KNF comes back and says the acceptable level is higher, it's 30, it's 40%, or give the clear guidance from their side, then we will obviously comply with their regulations.

We have the… now coming back to your question about did we know that the sales of the management shares, I can, well, what was in the… we have the four slots for management shares. One for the January, May 2013, then 15th of September 2015, then, sorry, 15th of September 2013. The next lot is 15th of December this year, and then the 15th of December next year. These are all the four slots for the management. There are 1.3 million shares, roughly, to be sold on the 15th of December 2013, and 1.5 million shares to be sold at the end of next year. Both slots in May and September were filled by the management almost fully 70, 80% of what we could sell we did at these slots.

There are a number of reasons for that. By the way, we started the sales process in October, we are acting together, there's 105 managers, together in LuxCo. As a whole group, we went to some intermediaries in the markets and brokerage houses to place this, the first attempt that was in September, just after the 15th was unsuccessful, but it was publicly known to the market, in all, combined. Then the successful one was done on the 1st of October, and then the current report went out on the 4th.

I can… there's one more factor that they need to tell, in the sales process, of Alior, one of the major potential buyer expected us to have, the management to have a further five years of complete lock-up on our shares. This was a condition to place the offer. When we've learned about this, it was at the beginning of September, we decided, because at the beginning of this whole process of Alior, we were asked to invest, some of us, top management, to invest all our net asset value. So we were calculated together with Carlo Tassara how much we own, how much we owe to the banks, and the total is out of pocket investment. Then five years of completely no bonuses, no returns from what we've achieved, it was the lock-up period, and now, at the beginning of September, we knew that for the further five years, all this money, we will not see this money at all.

I believe that this is from the timing and logic and facts, for us this sale is very clear, we are cooperating with KNF, and I'm 100% sure that the outcome of this will come, we pushing to come very soon, and it's… and then we, all this unpleasant situation will be cleared. That is a question I can answer only from myself. We are still committed to these numbers, and let me put it this way: if we can expect just from the logic that people are getting married, they're getting divorced, invest, not invest, I can't expect that the lot, a bit chunk of the 1.3 million shares to be sold in December, and 1.3 million shares will be sold next year, maybe not 70% like it was in the first two tranches, will be sold, because this is how the people's mentalities, this long period of time.

However, I can tell you from the top management point of view, from my point of view, if I'm not forced to sign anything like a five years lock-up, or I won't see this money forever, I am… me and the top management is fully committed to the growth of the bank, and we would not sell because of the financial performance or bleak future of the bank. I can assure you that there was… if any other questions, obviously, I can answer them, but these are the facts.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

If I may have out two more questions. It's mindboggling to me how you say that this is actually neutral for 2014 and positive for 2015, the slip to accrual accounting. I mean, it's very easy to do an Excel file showing that if you need to, you know, periodise your revenue from current sale and future sale, it's mathematically almost impossible for you to have a positive or neutral impact. It will still be negative. And a basic numbers comparison, I think, suggests that right, I know that obviously you will be accruing your earlier, or periodising your early revenue benefit from the earlier sale, but the fact that you need to periodise the current sale, I think it's kind of obvious.

So I'm just… could you provide maybe a kind of a spreadsheet for us or something, because for me, personally, I just don't see why it's neutral and positive for 2015.

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

Absolutely, exactly Marcin. And we take out the 115 from the past production until the third quarter. You can recalculate that to be a pre-tax. We still have some production in the fourth quarter. On top of that, there's the production of loan-related insurance in 2014. If you only take that, then you have a gap. On top of that, you have the non-credit related insurance fee, which is significant, and we have a little gap after that, which is filled up with new loan growth, shorter terms from partly consumer finance, and from the negotiation of the cross-sell level, which we will have in the various parts. There's no gap. Which has a neutral impact in 2014, and a positive in 2015, versus our latest communicated total income from the insurance distribution.

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

Additionally, to what Niels said… We calculated this with an effective interest rate, not just linear. Because if you took out, for instance, PLN300 million of new production in terms of the insurance, and if you apply the average, you would get, for the next five quarters, which we are talking about almost PLN55 million revenues. If you apply the effective interest rate, which is like this, you get more revenue in the first quarter than after. And just an illustration: from the production that we, from this year production, for the first quarter, we recognise only PLN2 million, but in the second, almost ten, and in the third one, almost 20 million. So the sum is a…

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

Maybe it is better, as you suggested, to provide you the spreadsheet, so everyone can be on the same…

Marcin Jabłczyński – *Deutsche Bank - Analyst*

This would be great.

And secondly, why bother with all this bancassurance product, we know that those are fake products, to be honest. I mean, the cover that the client gets is really symbolic, to be honest. The only advantage for the bank was actually to collect it up-front, right? If you need to periodise it, why not give up on the 80, 90% cross-sell within the cash loans, with the insurance products, and just stick to a very limited cross-sell of, like other banks do, of 15 to 20, 25%. Because I think one of the problems KNF had with you is that even though the product is voluntary, like the vast majority of your clients took insurance product, you know, hand in hand with cash loans. And you have the same Poles as clients which other banks do, yet other banks have much lower penetration. And they suggested that this was not really voluntary, but the product was constructed in a way that actually pushed the client into the insurance product. But why bother? I mean, you don't have the up-front revenue collection benefit. Give up on the 2% annual insurance fee, and put it into effective interest rates with the higher loan, you know, APR rate. And that's it, right? And you have no risk, no KNF you know situation… stuff like that.

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

Thanks for your advice. I would… to answer this, I think there are two, only two aspects. Because directionally, you are right. Why bother, with the discussions with KNF…why… why are we selling this product altogether. But there are two very important things. First, we make sure that there is no mis-selling in our approach, and actually there's nothing… our clients are getting the highest repayment, so it's not a fake insurance, as you mentioned earlier. It's 87% claims from bancassurance are being accepted, which is double the size of the average for the market.

But for us, it's very important from one reason: when you have a good contract with the insurance company, you can really count on the jobless insurance coverage, which means that you are able to make the cash loans to the clients in 15 minutes, rather than waiting to call the HR department in the employer to verify the employment, than to check the status of the employer, is the employer prone to bankruptcy in the next month. I think it is very important part of our granting the loan. And then it comes back that the higher the coverage of the client, so there is no negative selection for the clients that are coming to the bank, and taking this product, then it has a better coverage from the insurers. So you are right, there is no difference between if it's 15% client coverage, 13%, the 30% of client coverage, but if you go to the level then the coverage, which in our case is about 50%, I think then it becomes part of your decision making process, which is faster, that's why you can enter the areas like consumer finance, or enter the new markets, like with this Alior Express.

So that's why, unfortunately for you, we will continue with our existing business model of selling the bancassurance products, with a full compliance with KNF regulations as I mentioned earlier. If it's required, the special agency licences from our employees, we'll get the licences from employees. But we will continue the way it was, that we've done it before, because it's good for the profitability, look at the antylichwa (*polish word*) .. I'm sorry, anti-usury. This is the ticking issue that is unresolved for the Polish banking sector, with how to cope with this very… I would say without any additional charges, like, for the clients, like insurance related like risks, then it 's becoming really, really… four times number trades, we know we have to calculate. And this is the cut.

The coverage, the coverage of the jobless insurance plus the anti-usury limit I think the most important factors, to answer your question.

Host

Please let me know if you would like to ask the question.

Kamil Stolarski - *Espirito Santo - Analyst*

Kamil Stolarski, Espirito Santo. I have a question about capital increase, and my question would be what are your targets for costs, Tier1 and Capital Adequacy Ratio for 2016? Because this is the (Unclear) you were talking about, page13.

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

I think the capital increase that we will be submitting to the general assembly is for the maximum of 3.6 million shares.

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

6.3.

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

6.3, 6.3 million shares, maximum. This is the capital increase now. And we cannot comment on the desired level of capital and equity ratios in 2016, however we believe that with this capital increase, 6.3, it's enough to provide the growth for the bank without any sacrifices in the speed of growth, 400, 500 million production of loans, and with restricted dividend policies, it will be enough to be compliant with full Tier-1 and capital adequacy ratios by the regulator, with even the possibility of 2016, theoretical possibility to pay out the dividend in 2016. However, the payout of the dividend will not be just subject to the management, and will obviously be related to, with the growth options that will be in front of us in 2016. But we do not run any more.

Kamil Stolarski - *Espirito Santo - Analyst*

In the midterm, what would be the Core / Tier-1 initial target? Do you have any, like, 11% or 12% that is the minimum accepted by you or not really?

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

The current ratio is 10.5, it's not acceptable by us, so we are increasing this. But we do not… we are planning this to be on the safe and comfortable level, but we do not have any number that is kind of set in stone.

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

It's natural the Tier-1 ratio, capital adequacy ratio is also, depending on the growth, which is ahead of us, before we see a very strong profitability in all aspects, we still have significant capacity. We need more scale.

Kamil Stolarski - *Espirito Santo - Analyst*

Another question, if I may ask about the concentration of your loan book. It seems that the 10 largest exposure is, right now, more than 1.6 billion, right, like 80% of your equity, let's say, goes to 20% of whole corporate loans also 8.9% of all loans. Do you feel comfortable with this concentration level?

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

We feel comfortable with the level we have right now. We have no intention of making it significantly stronger.

Kamil Stolarski - *Espirito Santo - Analyst*

A year ago it was, like, say, 6%, not it's close to nine. Do you expect it to go up further or down?

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

It will go up a little bit, but not much. Our focus last year, in February, was when we established the large corporates division, to be able to serve also larger corporates in Poland. We have very few engagements where we have no relationship, where we get the cashflows, the foreign currency exchanges, with the customers. So that is our focus, and by nature our focus is having a very high return on equity. We are not engaging with any customers where the return on equity is deteriorating the total return on equity of the bank. That puts also a natural limitation on how far we can go in large corporate.

Kamil Stolarski - *Espirito Santo - Analyst*

About the sales of consumer loan, it is close to one billion in this question, do you expect it to go up, and how much up could this go, say, in the next year, with the quarterly sales of loans?

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

Consumer loans will definitely go up, for two reasons. One, the results for the third quarter were depressed because of the very unsatisfactory July and August in consumer loans. This is where our competitors were really keeping up with the market. We defended this, based on September and the next results. Then it's the seasonality, and third is the increase of the number of clients that we are experiencing. And our model, that allows us to have this 35% acceptance, is based on the fact that the majority of the clients coming to pay the bills to us, and we know we can score them properly.

So the answer, if you combine these three things, I expect very strong growth in cash lending business, cash lending, credit cards, overdrafts, on all unsecured lending in 2014, not to mention the fourth quarter this year.

Kamil Stolarski - *Espirito Santo - Analyst*

But could you quantify it a bit, 2014, 2015? Like 20%, 10%, or 50%?

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

You said 10, 20 and…?

Kamil Stolarski - *Espirito Santo - Analyst*

50.

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

50? More than 20.

Kamil Stolarski - *Espirito Santo - Analyst*

My last question will be…

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

50 too high.

Kamil Stolarski - *Espirito Santo - Analyst*

Yes, I imagine. My last question would be on Polbita, and the question is what is your current exposure to this company, if you could divide it into equity exposure and debt exposure, and also what are the risk weighted assets for this exposure?

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

I'm not publishing the direct number. It has increased a little bit since year begin, because the company is developing well, and we have found ways to make cheaper purchasing for them by granting supplier lending, so inverse factoring. And the classification of these assets, we have some provisioning which we created last year, we have seen so far no need for further provisioning. The performance of the company is satisfactory. We are still in the process of finding a buyer or a joint venture structure where we can move out of this engagement.

Kamil Stolarski - *Espirito Santo - Analyst*

So maybe…

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

It goes forward in acceptable, or in an expected way, of the sales process of assets disposal.

Kamil Stolarski - *Espirito Santo - Analyst*

Is this exposure higher than 10% of your equity, combined?

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

So far not.

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

(Unclear) our exposure but let's say this, the total amount is split between us and Erste Bank.

Host

Okay, so we have one more question.

Marta Czajkowska - *DM BPS - Analyst*

Marta Czajkowska, DM BPS**.** Two questions. One is on your expected opening of branches for next year. You mentioned no big branches to be opened, and the smaller one will be opened this year. What are your branch expansion plans for next year? And the second question is also related to cost. It is… could you give us please these cost saving plans between personal and non-personal cost, and if there is any plans for opex going into capex for next year?

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

I will comment on the first two, and then opex capex I leave it to. I think the… no intention to build more agencies, no intention to build any more big branches. So the only focus of the expansion are the Alior Expresses. Alior Expresses , as I mentioned earlier, they are achieving the break even points after six months. Obviously as in any business, you cannot go forever. We believe that the targets for this year of 220 will be met, and we'll not sacrificing, to improve, for instance, our cost business, cost position in 2014, we are not sacrificing growth. We still believe that there is room for 60 new Alior Expresses to be open in 2014.

I can say, however, that 60 is the maximum number. When we notice deterioration or lengthening of the break even periods, we'll stop building them. So far, we are very happy with this channel of client acquisition, especially as I mentioned that the clients are coming with their full payment, and receipts. That is Alior Express, because our clients are coming to repay their bills, including the loan bills in other banks, becoming more and more important factor, important channel of distributing of the cash loan.

Second question, HR costs versus the operations. I think the net, with the development of the bank, with the development of the new branches, mini-branches, I can say that HR costs will grow. We will focus on other part of our costs, including fees of the bank to outsourcers, including the real estates, and including all our… After five years of operations we are much bigger, and we can exploit the economies of scale.

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

Moving to capex is not a cost saving, so this is not an option for us. We have, ourselves, a very strong economic interest in delivering value to the organisation. And the growth in the number of employees in the bank, now more than 6,000, almost 1,000 over the last year. We will continue growing the total number of employees, but it doesn't mean that these cost savings does not entail efficiency also in certain functions of the bank. But just there will not be a net reduction, it's not that we are… not with such reduction, mass layoffs, we don't have that.

Marcin Jabłczyński – *Deutsche Bank - Analyst*

Can I have a question. Why have you cut marketing costs so rapidly, five million in a quarter is like five times, or four times less than a year ago, for example, and the lowest quarter was ten million before, and now it's only five million.

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

This is… the growth of Alior is really rapid. Last year, we have launched Alior Sync, and in our marketing costs we're 25, 29 million of the Alior Sync costs alone. So I think this is… we are not, our share of voice, if you measure from the other side, our share of voice in all media, electronic, TV and so on, is the same as it used to be. We are not losing this, we are not cutting, it's just an arithmetic from the Alior Sync versus last year, and then if you look at the quarter on quarter, I can tell you, it's a phenomenon that should be in the all the banks, I think it is in all the banks, because to go after the retail clients, the marketing costs in July and August is really counterproductive.

All the banks that I was in, all the time, so usually the third quarter is the weakest in marketing spend, and fourth quarter is the strongest.

Host

So we would like to give opportunity to ask questions for the remote audience. So are there any questions from the audience present in the room?

Operator

For those…

Marcin Jabłczyński – *Deutsche Bank - Analyst*

For trading results, I think you stated a quarter ago that this should be sustainable, now we are seeing this major drop, mainly in terms of interest related trading income. Could you explain that? Why that is?

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

We have stated that the FX is very sustainable, we continue seeing a very good flow. The interest rate trading in the second quarter was due to a significant volatility, where we have a number of the larger corporates doing a lot of hedging on the interest rate positions.

Host

So please let me know if there are any further questions from the audience present in the room. Thank you very much, and operator, please open the line for the attendants present on the call, and we may proceed with the Q&A.

Operator

Thank you. For those participants on the phone, if you would like to ask a question, please press * 1 on your telephone keypad and wait for your name to be announced. One again, it's * 1 for any questions or comments. Your first question comes from the line of Daniel Cohen, please ask your question.

Daniel Cowan - *Morgan Stanley - Analyst*

Yes, good morning, just a quick question for me, please. Your new return on equity targets of 16% plus, does that include the assumed capital increase, please?

Niels Lundorff - *Alior Bank S.A. - Deputy CEO*

It does include the capital increase of up to 10%, yes, it does.

Daniel Cowan - *Morgan Stanley - Analyst*

Thank you.

Operator

There are no further questions on the audio at this time, please continue.

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

Okay, I know that this is a very busy day for you today, it's not only audio. Thank you for coming. If there are questions, we know that we will provide the certain information on the two subjects that we promised, on the bank insurance bit and the other issues that we mentioned earlier. Thank you very much for your time and attention. Bye-bye.
