Alior Bank S.A. 1H 2014 Financial Results Announcement Conference Call held on August 7, 2014

Corporate Participants

Wojciech Sobieraj

Alior Bank S.A. , CEO

Witold Skrok

Alior Bank S.A. , Deputy CEO

Niels Lundorff

Alior Bank S.A. , Executive Management Board Advisor

Presentation

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

We welcome you on our 1H results presentation. And let me start on page 4. These are the highlights of what we are trying to say today. First of all, net interest margin. As we mentioned at our quarterly results presentation three months ago, our strategic goal was to defend and increase our net interest margin from 4.5, which was reported at the end of March, and I am really proud to say that we achieved this target. For the full 1H it is 4.7, for Q2 alone we reached close to 4.9. There are numbers of reasons for that, but all of them are very much in line with what we expected at the end of Q1, and the reasons are: first, centralisation of the credit decisions; second, strong focus on converting our clients in our First Bank programme, which means that Alior would like to become the bank of the first choice for our clients. We see year on year almost doubling of the current account balances of our clients, and this would allow us to keep the funding costs at a lower rate. Also, we defended our position in cash loans, although some of our competitors wanted to build the position in the segment. We also tried to avoid the price and margin erosion in the large corporate segment. As we expected, we have seen a lot of international players coming to finance the large companies in Poland. We are trying to avoid low-margin segments in the large corporate business, moving to mid- and small-size. And all these things combined led us to defending our interest margin at the 4.7 level, which, we believe, will be maintained or even increased in 2H of this year.

Second point is growth of profitability. Our loan book grew at PLN 950 m. Our long-term target is 400 m per month, so it is a little bit below the our expectations but the composition has changed. And it is a better than expected growth in consumer lending, better than expected in cash loans, in mortgages, and even in the mid and small enterprises. We just didn't grow the volume in large corporate segment as rapidly as we did in the past.

Cost of risk. As we announced in Q1 – and also it's gonna be true for 2H of this year – we believe that our cost of risk will grow from 2.2 to the 2.3% level, but this is stable, then no one of events whatsoever, and this leads me to believe that in 2H of this year we will continue the same strategy of defending net interest margin at 4.7 even above this level and keeping the cost of risk at 2.3.

T-Mobile. This is major achievement for us. We started in the second half of May with the first campaign, and 40,000 clients from T-Mobile cooperation that we had never had any contact with were acquired by the end of June, and at the end of July we had close to 60,000 clients from this cooperation. And the credit campaign, the vast distribution of our products in 830 POS strong T-Mobile outlets hasn't started yet. So we are pleased with the start and we already working on Phase 2 of our cooperation, which is introduction of the new products and services. And as with the case with Sync, we are happy to be with this offer much faster than our competitors, including the strongest competitors in this mobile sector.

So now I pass over to Niels.

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

Thank you very much, Wojciech. As you see on page no. 5, we have had a 26% volume growth y-o-y, and 11.3% q-o-q. You will see that over the last quarter we have a net interest income growth of 12%. We have a volume growth of 11%, and, as Wojciech mentioned, we have been capable of managing to recover our margins on retail lending. We see a very good growth on retail lending, and another driver of the profitability is the cost income ratio. We see that in Q2 we are at 50.2%, giving us very strong comfort that we will be below 50% for the full year.

If you look at page no. 7, Wojciech mentioned the most of the reasons for this net interest income growth. We have a very strong position in the net interest income, in the net interest margin in the Polish market, mainly because we do have a very strong focus only on high-return client relationships.

Page no. 8, the split of the volume growth. We have seen a good growth of mortgage loans in the Q2 and even in the 1H, mortgage loans with a good profitability. We have seen repricing in general in the market of mortgage loans, we still see a very good growth of cash loans, both to the consumer finance customers cross-sell and also via marketing campaigns where we have the general market coming and taking cash loans. On the deposits side, almost PLN 7 bn of current account deposits from retail at a very, very low interest income, interest for the clients are giving us a very good margin, and this is very stable money. And this element of stable money you will see on page no. 9. When we got established, we said, 'We want to have client relationships.' And we went out and we created client relationships. Almost 44% of what we can call core clients have their salaries transferred to their accounts with Alior. This is at the level of banks which have had customer relationships for tens and twenties of years. We are very pleased with that. In spite of the significant customer growth, we are keeping up a very high proportion of the clients using Alior as their main bank, their first bank. When we three years ago created the pay the *Bills without a fee*, ARBO in Polish, Kill Bill project, this was made to do cross-selling of loans. We are very pleased to inform that we have almost 17% of these clients paying in salaries or pensions to their current accounts with

Alior, giving us a total first bank choice of 29% of all clients in the bank. This is crucial for us that we have a very strong relationship both in the retail and also in the corporate, because this gives us the capacity to act as a universal bank, which we are.

The page no. 10 you will see a very good growth of the topline of the fee and the flat on the net. We have a good growth on payment cards, we have introduced some fees to make up also for the fee costs which are increasing from the interchange. We have a good growth in bancassurance coming from a good volume growth which we have seen. And on the cost side, we have increased the remuneration to distributors, plus we have had a relatively high cashback, which we have stopped now, we are not going to see this cost continuing on the same level in the quarters going forward.

Page 11, credit risk. As expected, we do see an increase in NPL, partly coming from the fact that in Poland it is very difficult to have a write-off happening, partly because we have seen an increase in the so-called loss identification period for retail, which both have led to a higher NPL, but also a higher provisioning, IBNR, and therefore we also see a higher coverage ratio coming out of it. The mortgage loans, we feel very comfortable with the development which we have here. We have very good collaterals and therefore we do not need the same provisioning level as we see in the market, with a lot of mortgage loans in foreign currency granted when the exchange rate was much more favourable for the client but has turned out to be a challenging loss in loan over value. We have not on this one here but we as mentioned 2.3% cost of risk as our target for the year, and this seems very realistic.

I will hand over to Witek now.

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

Thank you, Niels. So on slide 12 we have the ROE development, and we are very proud of what we did in the last quarter. If you look at the ROE at the end of Q2, 12.1 vs 11.2, almost 1% growth, so it gives us good comfort that our long-term target will be achieved. In the same, I feel quite comfortable with the equity equipment. So if you look at the capital adequacy ratio, 13.1, this is above the regulatory requirements, and the same with the Tier 1 ratio. So our target is to keep and to concentrate on the high-profitability relations just to create to some extent perpetuum mobile to generate enough and high ROE with the equity which allow us to stay on this safe level.

Next slide, deposits and loans market share. What we achieved at the end of the 1H is 2.6% market share for the loans. This is almost a straight line to achieve our mid-term target, 4% at the end of 2016. However, if you look at the lower tables, you can see that despite the tough market we are growing much faster than the market. In the retail, our pace of growth is two times faster than the market average. For the corporate, despite of the part which Wojciech and Niels mentioned, that we have shifted our focus a bit to retail customers, we are growing two times faster than the market.

On the next slide, number of customers. Within 1H this year we exceeded half of our full-year target, and we acquired more than 20,000 customers, but if you look at the lower table, you can see that half of the acquired customers in Q2 come from the T-Mobile project, which gives us very good comfort to achieve and even exceed full-year target.

On the next slide, slide 15, you can see the number of distribution networks, we are number 4, and in terms of the physical distribution network we achieved what we expected to do. We have the potential to be in all the 830 outlets of T-Mobile, however, this is the beginning of our cooperation.

…I think that one of the most important slides in our presentation: *Costs and Expenses*. If you look at the HR, we have special expenses which happened only in Q2: we paid a lay-off for the restructuring programme which we had announced in the previous year, it cost us around PLN 4m. And the second item which happened in Q2 is the special bonuses for the people who work in strategic projects. With the success which we achieved in these projects, we decided to pay this special bonus. If you look not at the HR costs, only one element explained the growth between Q2 and Q3 – this is marketing costs. The PLN 12m which we spent in Q2 for marketing was one fourth of the target for this year, so in the next quarters we should not expect big increases in this line.

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

On page 18 and 19, I'm trying to… Talk a little bit more about our cooperation with T-Mobile, it just started. We are working on two fronts at the same time, or rather three fronts. The first one is to acquire clients. Client acquisition goes according to the plan, or even exceeds our initial plans, both from our side and from T-Mobile side. The distribution network is activated: internet, mobile banking, contact centre, virtual branch and T-Mobile outlets. Now, we are just after the summer holidays, at the beginning of September, we will try to activate the clients on both lending and deposit products. Simple product range – current accounts, debits, deposits, overdrafts, and cash loans, including the refinancing of loans in other banks – so this is the second pillar of our cooperation. And then the engineers and IT experts are working on the third pillar of cooperation, which is to offer the clients much more than the current offer. Linking the information, linking the benefits between the bank and the telecom company can result in really breakthrough services that are uncommon on the market yet. We probably will be able to introduce them at the early 2015, but the work is already much developed. All in all, we found this cooperation extremely attractive from our side and also from our partner, from T-Mobile's, side (not only in terms of Alior engagement, but also in terms of the people from T-Mobile engagement, including the people who are working in 830 branches). It's a process, but the first results are very encouraging. As Witold has mentioned earlier, with the starting the channel, the cooperation with T-Mobile allowed us to capture these 44,000 clients at the end of Q1 and 58,000 clients at the end of July, but which arithmetically this is something that is responsible for 50% of our client growth. At the same time, we to boost our fee income and to get rid of unprofitable client relationships (for instance, those that we are using in Alior Sync only for cash back scenarios) we gave the clients a choice to stay or to go in our regular business and all in all, we did at the end of March or early July, we done the first repricing for our clients, and we lost some of the people of unprofitable relationships on formal Alior Sync and on Alior ARBO clients. This decline of number of clients due to repricing was more than offset by the number of relationships that we started working together with T-Mobile.

On page 20 this is one page of ours another strategic initiative, which is *Consumer finance*. In consumer finance we are now definitely in Top 3 players on the Polish market. The strategy that was designed really worked on upper table: this is our exposure in terms of instalment loans at the POSs, this is usually the loss-maker and door-opener to get to the relationship with the clients. Our long-term goal is not to boost these volumes too much. We are already now in the fifth round of reviewing the relationships with the large, mid-sized and small retailers, so the volumes here are stable at the PLN 650m level. At the same time, we are working stronger and stronger to activate the clients that we acquire through instalment loans, and our strategy here really works quite well. The increase of close to 40% in one quarter shows that we are on a good track: we built seven centres, six centres in Poland from where we are trying to activate our clients from; and also the vast distribution network that we have in Poland, that is very different from our competitors' in the consumer finance area, also start to bring positive results because some of the clients are transferring are not only repaying the loans but also becoming our clients on ARBO product and other products.

On *Other issues*, on page 22, I would like to close this issue of potential irregularities concerning the shares of sale by part of the management in 2013: there was absolutely no sign of wrong-doing, and the case was closed (that is the investigation was not even opened by the KNF). KNF after reviewing the facts, basically confirmed what we had said earlier: there were absolutely no wrong-doings.

On *Outlook*, on page 24, there are four pillars. One is the volume growth on the lending side, with PLN 400m is still our target. It will require much more effort on our side because I would like to confirm this PLN 400m will not be made by granting big loans with 0.75% margin for large corporate segment or extra-large corporate segments. As I mentioned earlier, we expected the large pan-European banks to come with their cheap financing and lending to Poland. It did happen, and it is not the game that we would like to play. We would like to refocus or focus more on a growth in consumer lending, cash loans, cards, mortgages and working capital financing and investment loans for mid and small -sized companies in Poland. But definitely we are also open for large corporate relationships, especially those with the FX component because we are quite good in providing services in this area. However, we will be looking to defend our margins quite closely. I would like to confirm that we still would like to get the PLN 1.2bn growth per quarter for the remaining part of this year.

Net interest margin. After the developments of Q1 I thought that 4.7% would be difficult. Now I can say that 4.7% for the full year is very probable, with some signs, some marks and some phenomena leading me to the conclusion that it might be even a little bit better in the second half of the year. Obviously it depends on changes in the composition of our lending side and lack of any market economic changes, like decrease of base rates.

Costs. Our plan that was launched in Q1 of this year is already finished. All the lay-offs of people at the headquarters from the group that is non-client facing is done. We have not stopped hiring people at the branches, in the back-up section you will see that there are even more of us facing clients in our Alior Expresses and Alior regular branches. I think it is fair to say that our goal of going below 50% for the full year is very achievable, our full-year target might be even better than just below 50%. Let me remind you that we are at 50.8% at the end of 1H of this year.

Risks. These are costs of defending the NIM. We will do everything to control our pricing and to be strict on the margin side. However, this year fact that we are switching to a slightly more risky part of the population would leads us to believe that our costs of risk for the full year would be at the level of 2.3%, which is the current level for 1H. We would like to keep it till the end of the year. And since we are very prudent with the IBNR provisioning, we do not expect any significant changes that could lead into an increase of this coefficient.

So these are the four pillars: we are looking forward to achieve the results that are expected, not only in terms of the guidance. But I would like to reinforce what we have said earlier, if there are any signs that we will not meet the consensus, we will inform the market. In the 1H results I do not see any signs that would make the full-year results expected by the market impossible. Thank you very much.

Host

Ladies and gentlemen, we are now open for your questions. We will first start with questions from the guests in the room. We have one question already.

Kamil Stolarski – *Espirito Santo*

For me one of the most important issues in Alior Bank is the quality of the loan book. Looking at the largest exposure that you have in the corporate segment, you have informed this quarter that you have reclassified two out of ten largest exposures in corporates on NPL. And those two together account for more than three hundred million, more than 10% of the equity. I wonder if you could comment on the collateral that you have in them and the reasons for the reclassification of these exposures.

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

We will not mention names, of course. The significant part of what is NPL is really restructuring. So it means that some companies have had a quarterly loss and this is a trigger for us to call it NPL. Then, there is a cure period between three and nine months depending on the severity and the plans set up. For most of our corporate exposures we have very good collateral, including for these cases. We feel confident that we are not going to see any losses higher than we have already provisioned for these cases going forward.

Kamil Stolarski – *Espirito Santo*

Are those companies overdue with instalments towards you?

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

No, they are not, but there are other triggers of the reclassification.

Kamil Stolarski – *Espirito Santo*

The second question would be on the cost of risk in the retail segment, because I believe that you have recognised some IBNR provisions, more or less PLN 17m. And it is surprising to me because last year you were renouncing IBNR provisions and now you have decided to recognize them back. And I wonder what is the reason…

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

There is a natural reason. What happened last year was that we finally had gathered sufficient internal data to use our statistics for the calculations instead of collecting data from the market, and we were better than the market. What is happening right now is that there is a trend to see higher loss identification periods, and this is the major reason for these roughly PLN 17m higher retail IBNR. Just a few millions is due to the increased portfolio.

Kamil Stolarski – *Espirito Santo*

And the last question about the cost of risk…

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

If I may, just one comment to what Niels said... Last year we were having another track record, we optimised LGD parameter, this year we focus on the LIP(loss identification period).

Kamil Stolarski – *Espirito Santo*

I had a comment that you decided this year to go for more risky clients. Could you quantify it somehow when it comes to your risk appetite or how you measure this?

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

One of the elements is what Wojciech showed you on page no. just a second, page no. 20: we have an increase in retail lending, and cash loans are without collateral. So one can call it riskier, but in retail business it is the unexpected risk that in reality is a risk. If we have a high capacity to predict the expected losses, these are for us normal costs. Therefore the stronger focus on non-collateralized lending, which is a strategic competence of Alior both in Poland and the European context, we have a stronger focus on this non-collateralized lending, so versus pure mortgage lending or other collateralized corporate lending it looks like a higher risk or a higher cost of risk, as it is called, but we have very strong predictive models telling us that we have a good understanding of what we are doing. You can also see it by the higher margin which we are gaining. We can see internally of course in a number of sub portfolios that we have a very good understanding of with very high-quality predictive tools.

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

Also if I can refer your attention to page 29, on the backup side… Here we refer to our new quarterly production. If you look at the upper side, which is *Cash lending and mortgages*, we defended our position in cash lending. Our competitors also tried to boost their NIM, by attacking especially intermediaries in the sector. So here the position of Alior in the market shares even grew. If you look at the lower part of the graph, which shows the exposure to corporates, in Q2 of this year, we reduced our exposure to large corporate segment and we maintained the same production for mid and small companies. Mid and small companies, as compared to the large corporate, have two things in common: they are slightly less risky but they offer attractive margins. And if you combine, this will be the strategy of our bank for 2H of this year also.

Dariusz Górski – *BZWBK*

I have a question about your loan-to-deposit ratio. Are you comfortable with 102%? Obviously it did miracles to your NIM in the last quarter or two but what are your thoughts about funding of growth further out?

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

We are pleased with 102%. We have said that we do not want to be depending on wholesale funding. We have some co-capital of roughly PLN 2.8 bn which we could consider as not depending on wholesale funding also. We do understand that our growth does require a growth of retail deposits. We are very pleased with the growth we see on the current account. We have deliberately held back on doing deposit campaigns in Q2 of two reasons: one has been the small deposit war that happened and we did not want to go into that pricing element; second is there are trends of expecting a cut in the interest rate and therefore sitting with a relatively small term deposit base should help us also gain a little bit from not have too long repricing periods ahead of us.

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

Also I think that in the longer term we do not have any intention to change our policy. We would like to maintain our self-financing model and the loan-to-deposit ratio at 100, not like in this quarter. However, I would like to remind you that for the last 3–4 quarters we were punished by the market and by analysts keeping this buffer in the declining interest rate environment at too high a level. For the last two quarters we had it at 92–93, which was from the financial engineering point of view, or from the retrospective, I can say, was too expensive and unnecessary. So 102 is not our target, our target is 100. But I think we will look at the market developments and will try to avoid the trap that Niels has described by getting into lengthy relationships on the deposit side with the clients in an environment that might or might not result in reduction of the base rate.

Iza Rokicka – *Ipopema Securities*

A follow-up on deposit volumes this quarter: it is clear that there was a significant drop in retail term deposits. That drop in the interest rates may come in September or October the fastest this year. Is this mean that we should expect a further drop in deposit base in the Q3?

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

We are steering this at a very dynamic mode. I do not think we will see a drop, but it does not mean that we will see a significant increase following the volume increase of loans. In terms of funding, we are fully aware that we do not want to have these long-term 7 or 12 month deposits of repricing time if there is a cut. We will see within the next one month time from now if there is a cut.

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

I also think that we are looking at the developments on the market from our competitors. We are looking where we are losing each single client on the term deposit, where they go and where they come from. We decided in the Q2, not to take any pricing actions to defend the long deposits at any price. We will be looking closely at the developments from competition in Q3 to manage our deposit base in line with the growth on the lending side. I would say after the some strange campaigns with 4+% we see rates, nowadays, even though it is summer a stabilization rather than a price war for deposits. But what I can say is that we will be looking at it very, very closely.

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

One more comment to that. If you just take out Q2, we have a NIM at almost 5%. So there is space for our growth and paying a little bit more for term deposits if that is what you are aiming at. Can we fund our loan growth? Yes, we can, and still with a good NIM.

Iza Rokicka – *Ipopema Securities*

A question on consumer finance loans or rather on retail non-mortgage loan book. This quarter growth of the stock was much slower than the sales data suggest. The question is what happened: is there delay of sales versus outflow of cash for the customers? Could you elaborate a little bit more on the volume growth in mortgage non-retail? If I look at the stock, the stock increased by less than PLN 200m quarter on quarter. It is significantly lower that the sales data suggest.

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

I will have a look at that. I manage sales data. In mortgages there are no repayments, so I think it might be…

Iza Rokicka – *Ipopema Securities*

No, in non-mortgage retail books…

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

In mortgages? We are taking about non-mortgages, so mostly cash loans?

Iza Rokicka – *Ipopema Securities*

Yes.

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

So mostly cards and overdraft facilities, and that is pretty small.

Iza Rokicka – *Ipopema Securities*

Yes.

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

I think it might be linked only with two factors – the delayed payments to the clients and second is the repayments from the clients. But we have seen with the centralisation of pricing rather a decrease in earlier repayments from the clients. So, it might be linked only with the delay in disbursement.

Iza Rokicka – *Ipopema Securities*

Should we expect in Q3 that the growth of loans in the segment will speed up versus what we saw in Q2?

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

After the defence, the successful defence of the attack on the intermediary sector by ALIOR I think it is hard to say. But we definitely will see the increase in Q4 because of the season renovations and because of the demand. Knowing the seasonality of the cash product, Q3 should be the same or slightly better than Q2 in the segment because of the summer. Summer is relatively slow, then it picks up in September. So only I know for the full half-year, comparing half year with half year, I expect the growth in the sector for sure. Q3 vs Q2, the baseline is increasing but I am not sure about the effect of the very hot summer.

Iza Rokicka – *Ipopema Securities*

And the final question from my side is crediting SKOK in Rumia. There was a press speculation that you applied to the regulator to acquire those assets. Can you comment on that?

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

As you have mentioned in your question, I cannot comment on speculations and rumours including the press speculation and rumours. But on the other side, what I know about that… I am not very familiar with all SKOK segment in Poland, but SKOK in Rumia has 60m deposits and 70m of loans, altogether 14 outlets, it is not very sizable at all.

Iza Rokicka – *Ipopema Securities*

So we should not pay attention because it is not sizable or we should not pay attention because this press speculation was simply wrong?

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

I think not paying attention[…] In general, I think it is not advisable to base judgements on press speculations. This is what I think.

Iza Rokicka – *Ipopema Securities*

Thank you.

Kamil Stolarski – *Espirito Santo*

If I just might follow-up on the net interest income question because historically there were some quarters when volatility in net interest income was explained by the volatility in revenues from bancassurance, the one that you are recognising right now. I wonder, if you could comment or give us the values on how much bancassurance revenues you will recognise this quarter vs the previous quarter or what was the delta? And is the bancassurance responsible for the hike in this quarter that we have?

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

The volatility which you were referring to was mainly visible in Q3 and Q4 of the previous year when we made a restatement and readjustment because there was some not clarified issue. But when we closed this issue, I can say that forever, with our regulator having the letter and confirmation that our approaches are in line with the KNF Regulator, this adjustment and restatement and also the volatility will not happen. What we observe and what is shown in the Profit and Loss Account is net interest income and fee and commission income. And fee and commission income is just upfront which we charge and this is according to our explanation for the cash loan – the range is between 12% and 15% and the average is 13%; for the mortgage this ratio is even higher, it is close to 20%. So this is when we sell the insurance contract and the remaining part is spread over the lifetime and that is shown as our interest income.

Kamil Stolarski – *Espirito Santo*

I am sorry but my question was if there is some seasonality related to the value of bancassurance revenues recognised as part of net interest income.

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

It is not explained by seasonality in terms of the recognition of the income. It is by seasonality of the sale. And for instance, we observe, if you look at the fee and commission you can see that we increased the revenue from distribution of these products in Q2. Because are you remember when we published the Q1 results, we mentioned that the penetration of the insurance, especially in January and February, was below our expectation. We regained this, improved this ratio in March and were gradually improving it through Q2 and now in terms of the penetration we are at the level before this turmoil which we observed in 2013.

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

We think it is worth to say that the net interest margin regained in Q2 cannot be explained at all by any changes in bancassurance. I think the most what was responsible for regaining our position and control of net interest margin was the end of ”Gwarancja najniższej raty” that was the campaign that we ran in Q1 this year, and basically, taking all the pricing decisions from the branches to the headquarters. And this is the most important factor. I would like to confirm that on the bancassurance side, once penalised by the market, we do not have any intention to be more liberal than needed and I must say that our booking and accounting policies on bancassurance is confirmed now by two or three auditors, and it is the strictest that you can find on the Polish market. In periodisation, duration of the contract and also with the provisioning for early repayments, we are using here 28–29% levels vs some of our competitors who are at much, much lower rates.

Magdalena Komaracka – *Erste Group*

I have a question concerning the bancassurance recommendation that is supposed to be implemented in next year. I was wonder if you could share any guidance or expectations we should see going forward with this one?

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

We have seen the recommendation U coming to the market and as every single bank in Poland, we are looking at the consequences of recommendation U. There are some obvious consequences in one of which we need to go through the effort to, basically, probably train and license our staff. It will be 1–1.5m, so it is not a very significant effort from the financial point of view, but quite heavy on the training and logistics. Other than that, we are looking at the four different models from multi-agents, joint ventures, licensing, group and so on. We found the current, regardless of which order we select, we found that the effect of the recommendation U on our bottom line will be (regardless of the model and we do not know which model we will follow yet) will be very small. And we do not expect any significant changes going in tens of millions worth value on the annual revenue. On the cost side it is pretty straight-forward that we need to train the people, we need to change. But most of our people are already trained on bancassurance products linked with the investment products, so I think for us it is only marginally needed. All in all, I guess the impact of the recommendation U will not be significant at all.

Piotr Palenik - *ING Securities*

I would like to ask two questions. One regarding fee costs you mentioned with one of the reasons for growth of fee costs, was cashback and if you could comment, and it will not be up during Q3. Could you quantify value of cashback in Q1 and Q2?

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

For Q2, as far as I remember, it is about four million as well.

Piotr Palenik - *ING Securities*

OK and the second question is we saw small but decline in the number of branches, outlets in Q2. What is your medium-term guidance for development of your own network? I understand that now your network is supported by T-Mobile but the question is about your own outlets. Thank you.

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

This is a very important question that is a little bit too early for me to answer. But let me go point by point.

First, we do not have any intention to build any more branches. As we mentioned at the end of last year, 220 small Alior Expresses, 205, now 216, because our private banking is included in our main branches, and agencies, this is all what we need.

Secondly, and this is the second point, we are now… Time flies and Alior is not a new-comers to the market any more, and some of our branches were opened still at the peak of 2007–2008 pre-crisis price levels. So, we are trying to reduce our cost base by also reducing the rental fees from the landlords in our branches. Some of them we are very successful, some of them say, “No. We still want to charge you EUR 30–40 per sq m.” So then, then we move somewhere else.

The third point is that we are the only bank in Poland that is open for clients vastly in 200 locations on Saturdays—Sunday till late at night, 21.00 to 22.00 pm. A lot of our Alior branches, Alior Expresses, are located in shopping centres. And here comes the point No. 4. In some of these shopping centres we are very close to T-Mobile branches. So that is why I started answering this question about the branches by saying it is to early. We simply do not know how the cooperation between Alior Expresses and T-Mobile partnership would work. Currently I can say only that the client acquisition on the current account is similar in both channels but the moment of truth will come only when we try to cross–sell the cash loans. The more successful the T-Mobile network is in cross-selling, then we will have to refocus our Alior Expresses. So far it is too early to say and we do not have any projects, any plans to either build or close any branches. But on slide 15, you can see how fast and how deep we activate…, I am sorry, the magenta part… This will basically answer your question. We definitely need… we do not need to service in Poland we do not need 1700 numeric distribution outlets. It is too much. We should add our branches to their branches. But it is a process.

Kamil Stolarski – *Espirito Santo*

Excuse me if I ask it once again, but it is early in the morning and I have had no chance to look at all the data. I am looking at the NPL in the corporate segment. The NPL value has increased by [80]m quarter-on-quarter that we have added to exposure, and the large exposure that you have reclassified is more than 300m. I wonder if you have taken out any corporate exposures from the NPL, it is quite a lot this time, the 20m. Maybe a question on the situation with Polbita once again.

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

There is a movement in the corporate, especially when we look at the larger ones, which is painful for us as a relatively small bank to have a large one with an element of default classification without being a critical issue for the survival of the company, we still have to classify in and out. So there is some movement in the NPLs. In terms of Polbita, all I can say is that we are still negotiating. We cannot say anything more at this stage. We have an intention to sell and we have an intention to sell at the best price possible. That is all.

Kamil Stolarski – *Espirito Santo*

The question if it was it profitable last year in terms of EBITDA. Yes?.

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

Yes, Polbita was profitable last year and it is profitable for the 1H results, which is an important distinction because the profitability of the full year results for the company in the drugstore area is easily achievable because of the November–December period. But what is really… the results for 1H are also very encouraging. I am talking about the profitability on the EBITDA level.

Host

Do we have any following questions from the in-room attendees? If no, then, please, Operator open the line for the Q&A of the conference call attendees. Thank you.

Operator

Thank you. As a reminder, if you would like to ask a question, please press "*" and "1" on your telephone keypad, then wait for your name to be announced and then start to ask the question. The first of these telephone questions is coming through the line of Anna Marshal. Your line is now open.

Anna Marschal - *JP Morgan*

Good morning. Two quick questions from me, please. First, could you, please, clarify what interest rate expectations are factored in your NIM guidance for the full year? And second question on asset quality. Do you see any impact from the geo-political tensions on your clients and asset quality, and also in general on the Polish economy? Thank you.

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

I did not fully understand the question regarding the credit risks. If you could, please, repeat.

Anna Marschal - *JP Morgan*

So again. Do you expect any impact on any of your corporate clients, maybe engaged in the export sector from the current geo-political tensions happening in the region and consequently on your asset quality? And what is your general expectation of the impact on the Polish GDP, for example?

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

So the first question was what interest level we expect. For our NIM guidance we are assuming no change in the interest rate level and that is why we are saying there is a potential increase from the 4.7 going forward, whereas a rate cut could lead to a reduction or potentially even a flat dependant on how significant it will be.

In terms of export companies, we are having exports to both Russia and […] Ukraine sectors. We have a very neglectable exposure to such companies and therefore we do not see any change in our outlook for cost of risk. Of course, there is one or two small ones and it is a challenge for those small owners to have these things happening but it is nothing which will have a significant impact on the total cost of risk.

The total impact of seeing a ban on exporting agricultural products is very tight to Russia and also challenges in Ukraine, but payment morale and therefore also lower exports… There are a number of macroeconomists saying between 0.3% and 1.6% of GDP against the challenges how many apples the Poles will eat extra per day, how many export licences will be made for dairy products to Singapore, etc. It is very difficult to come with an exact measure of this. We have a relatively small exposure to the agricultural sector in Poland as Alior but naturally any change in GDP will have a spin-off effect on the total amount of spending capacity in the population and therefore also protensive to some retail customers eventually. It is too early to say exactly what it means and we as Alior do have a good understanding of where earnings are coming from when you have a salary, and we also have capacity to measure if you are employed in an exposed food industry and we are doing risk assessment in this context. We do not see as Alior that this is something that will impact us significantly.

Anna Marschal - *JP Morgan*

Thank you.

Operator

Our next question comes through the line of Jovan Sikimic. Your line is now open.

Jovan Sikimic - *Raiffeisen Centrobank AG*

Yeah, good morning. Just a question on other results, meaning everything which is not net interest income and fees. It was quite good in this quarter. Maybe, you could give some insights whether we can expect similar levels especially on trading results and on other results for the coming quarter, so at least for Q3 this year. Thank you.

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

In terms of trading results I can tell that our effort of having our E-FX tool used by mid and large corporates is bearing fruits, and we see 50% of this increase in trading results is coming from customers using this electronic tool which is a very, very big advantage for the user. In terms of net gains, other financials, there is nothing big to talk about. Other operating income and costs, also, it is a more pressing thing, a little bit higher income and controlling the cost there a bit, but, also, there is nothing we can call sustainable in this four million extra income from net other operating.

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

Adding to that, I can say the FX results from both spot and hedging products in Q2 of this year were slightly even below our expectations and the reason for that was the extreme stability of Polish Złoty. I must say I am not very happy with what happened with the turmoil on the markets over the last weeks but in spite of the middle of the holiday season here we all see already a big interest in FX products coming from our small and mid-size companies and individual clients, and trading volumes on our FX platforms increase with the volatility of the Polish Złoty. So this will be the major factor influencing our results in this other segment in Q3 and Q4. We are ready with our platforms to take more of this business in 2 part of this year.

Jovan Sikimic - *Raiffeisen Centrobank AG*

OK, thank you.

Operator

If there are any further questions, please, press “*” and “1” on your telephone keypad. There are no further questions at this time.

Host

If there are no following questions, then thank you very much for attending the Management Presentation and the Management Conference Call, and hopefully we are seeing at the next quarter results in November. Thank you.

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

Thank you, thank you very much.