Alior Bank S.A. 3 Q 2014 Financial Results Announcement Conference Call held on 6 November 2014

Corporate Participants

Wojciech Sobieraj

Alior Bank S.A. , CEO

Witold Skrok

Alior Bank S.A. , Deputy CEO

Niels Lundorff

Alior Bank S.A. , Member of the Supervisory Board

Presentation

Host

Ladies and gentlemen, welcome to Alior Bank's Q3 2014 results announcement. We have speakers presenting here today: Wojciech Sobieraj, our CEO, Witold Skrok, our CFO, and Niels Lundorf, currently taking the position of the Supervisory Board member and also supporting IR. Please gentlemen, start the presentation.

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

Welcome everyone to our quarterly results presentation. I would like to go quickly through the presentation, summarising our results achieved on Q3 on page 4. You will see what is in our opinion the most interesting facts, coming from Q3. For the first time in Alior history we achieved the normalised profit of above PLN 100 m, then we closed the Polbita transaction finally, which had a negative, minus PLN 31 m effect, so the net profit is PLN 69 m, which is 30% over 2013 results. YTD, it's 48% vs. 2013. Good progress in NIM defined our refocus from large corporates to mid-size and small companies and household lending. When we are looking at the coefficient between NIM minus cost of risk, we actually improved it from 2.3% to 2.4%. We maintained a strict cost discipline. What we promised was to achieve a C/I ratio below 50% by the end of this year, what is achieved already now. Now our cost growth is practically non-existent, it's flat. At the same time, we are hiring and expanding our sales force in Alior and Alior Express. There are more than 300 people getting employed, of which only 15 people are in support functions at the headquarters. Obviously the results of our cost cutting that was first announced at the beginning of this year are already in this number, and the programme of cost cutting at the headquarters is finished. Now it is over and finalised. Last but not least what is typical for us, we continued a successful customer acquisition. We promised that we will have more than 2 m clients by the end of 2016. We are really happy to announce that last week we passed 2.5 m clients in all our channels. What is important, these clients are treating us more and more as the bank of first choice, and the percentage of them transferring salaries to us rose every month.

As far as T-Mobile cooperation is concerned, our partner here publicly called this cooperation spectacular, we are also very happy with this cooperation. Now T-Mobile Usługi Bankowe is being offered to 350,000 clients, which means that there are more than 100,000 clients acquired after we started the cooperation on 28 May. Practically speaking, after the summer period, we see the results of September and October extremely encouraging, but it’s just the beginning. The first loan campaign we start before Christmas, November–December. On the financial side, in our optimistic scenario, we said that the cooperation with T-Mobile will be shown in our results for 2014; 2015 it will obviously going to be the first profitable year of our cooperation.

Next topic is the acquisition of Meritum bank. After really long negotiations, we achieved the agreement, we signed the deal with the current owners of Meritum. Obviously the results of the last general assembly were disappointing, but we strongly believe that it was only a technical mistake in the process. As management, we are very confident that the vote on 2 December will be positive. We haven’t stopped the process. We supplied our notion to KNF and UOKiK. Our notion to take over and then merge is now being perceived by the regulator.

Last but not least, the stress test and AQR, they are done and past. Alior probably was the smallest bank that was reviewed with the same technique and methodology as all 130 European banks. Not having the part it was a major effort for us and our staff to go through supplying the regulator with all the necessary data. We have done and passed, and we are very happy.

On page 5 there are a lot of numbers, but I would like to draw your attention to only two of them – gross and net profit with and without Polbita. For the first time, net profit excluding Polbita is about PLN 100 m. There are no signs whatsoever that Q4 results will be lower than Q3 results, on a normalised basis without Polbita. This PLN 100 m is within our reach, not even counting that Q4 is usually the strongest in the banking sector. We are optimistic to achieve the results that we have promised to the analysts and the market at the beginning of this year. If you remember, we started the year without interchange cuts and without rate cuts, and the analyst expectations were in the range of PLN 315–350 m. We couldn’t guide you what the guidance was for the year, but we solely promised that if we find anything that might affect our results vastly or below or above the market expectations, we would notify you immediately. I don’t see any reasons now to guide differently from what were your expectations at the beginning of the year, not PLN 296 m as is currently consensus after the cuts. So, not today’s number, but the numbers at the beginning of the year. At the same time, I think it’s good practice to have the same kind of dialogue with the market for 2015. When we know your expectation for 2015, we will reply to that. I don’t see a lot of reasons for 2015 not to enjoy at least 4 times normalised results of Q3 2014, which we did here.

The loans growth was 24%. When you see the net profit results, the 30% growth and 48% growth excluding Polbita, this means that our policy is not based on just the growth of our balance sheet, but stable cost and growth on all aspects of our revenue – lending, deposits, assets. Q3 was very good because of the volatility on the zloty market. For the first time, the first two quarters of the year were very flat and very stable, with have seen a lot of income coming from clients doing transactions with zloty-euro. This three numbers, 30% and 48% growth compared with 20% growth of the loan book, show that we are delivering what we promised at the previous presentation. I would like to reassure you that our plans for Q4 are exactly the same as they were for Q3 – flat or slight growth on the cost side, and strong two-digit growth on the revenue side.

On page 6 for some of you that are not familiar with the Meritum acquisition, what is Meritum. I think that Meritum in three numbers is one tenth of Alior in everything – in long deposits, client base, and distribution network. Meritum is not de-structured of Alior strategy in any aspect, they are exactly in the segment that we would like to deal with and further develop. They have strong consumer finance focus, and very effective loan distribution, experience, methodology and team in this area, and they are very innovative in technology. I think technology and innovation have always been the strong point of Alior. We are proud of what we have achieved, but when someone is better than us in some aspects, we are also humble enough to admit it. Two aspects of technology are much more developed in Meritum than in Alior. One is linked to its optical recognition and mobile transactions, which after successful acquisition will be used immediately in both Alior and Alior branches on Alior mobile services and T-Mobile. The second area of their expertise is in good scoring systems and engines for the decision-making for personal lending, with immediate adjustments. We have our engines extremely good, the price in Alior is based on risk profile of the client. They have risk-based pricing as we do, and on top of that, they have demand-driven pricing which that we don't. That will allow us to be even faster and more agile vs. the partners in consumer finance and personal lending. Acquisition price is agreed, it's PLN 360 m. By the way, not a single line in what we agreed will be changed between now, between the last general assembly, and the one that is going to be held on 2 December. It's the same conditions: PLN 360 m, of which part (PLN 2.3 m) is in shares and the rest in cash.

These are the main points and topics for Alior for Q3. Niels will guide you through the operational aspects of our activities.

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

Thank you very much. On page 8, you will see that Alior has managed to maintain a very high NIM of 4.7%. We have taken action to raise fees to almost fully mitigate the impact of the rate cut that is reducing our margin on the liability side and on Lombard rate cut, which is limiting the maximum interest rate we can charge on customer loans.

On page 9, you see the loan book development and deposits. We are very pleased with the strong retail loan growth, up almost PLN 3 bn y-o-y. We have kept a very healthy L/D ratio of around 100%, growing our deposit base without doing any significant expensive deposit campaigns.

Page 10: we are pleased with the credit risk development. The NPL growth is not worrying us, since we have not started sale of NPLs yet. The annual growth of retail NPL ratio is 2.9 p.p. per year, which is almost equivalent to the cost of risk for this customer segment.

To give you a little bit more flavour of this NPL growth, we have put in a little bit more educative slide, slide 11. NPL is the accumulation of the several years of NPL production. The annual NPL growth which we are simplifying here, Q3 2014 vs. Q3 2013, Q2 2014 vs. Q2 2013, etc., is between 2.3–2.8 p.p. All that NPL growth is provisioned year by year in the cost of risk. It is just cumulated here. Why are we not selling them off? Alior is now about to celebrate its six-year anniversary. We started out very carefully, first we purchased the HSBC portfolio, we built the systems and then we started granting loans in 2010. Now, roughly four years after we started granting retail loans, we see that our efforts on collection are also reaching limits. On the curve, you will see that after 3.5–4 years we are not getting much more back from the bad customers we are collecting from. That means that our retail portfolio starts maturing. When it starts maturing, we will start selling NPL. So, soon we are going to see some NPL sales. This will help us not just reduce the cumulated NPL, but at a certain stage also stabilise it. Therefore, we are not worried about the NPL growth.

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

Thank you. Slide 12 where there is fee and commission income. We are pleased that we were able to improve quarter results vs. Q2 results. What is most important, if you remember our previous meetings when we discussed the interchange fee; by the action which we launched before we were able to compensate, offset the full impact, which is shown on the graph, when we reduced almost PLN 6.9 m vs. the previous quarters.

Slide 13. Strong capital position, with capital adequacy ratio of almost 14%. As Wojtek mentioned, we passed AQR and stress test, which is a very good result. We don't expect that this base is sufficient for the future growth. Of course, I'm referring to organic growth which we wanted to achieve through the merge and acquisition transaction.

Slide 14. We are getting market share of 0.2 p.p. quarter by quarter, if you look at the loan side. We are growing 3–4 times faster in the retail customer segment. With the corporate, as mentioned over the last meeting, we are slowing down a bit, however we are still growing faster than the market. This brings us to almost 2.7% market share. If you ask me about 4% target which we announced for 2016, yes, we are on a good track to achieve this target.

Next slide, slide 15, shows that we are getting customers through all our distribution lines, from regular branches to T-Mobile. We are getting more and more customers. We are No. 1 in acquiring customers quarter by quarter. As Wojtek mentioned, we already achieved 2.5 m customers.

Slide 16. We are widening our distribution network, however, there is some reshuffling. The AEX branches – three of them rebrand, and they are now becoming regular branches. We are looking very carefully at franchising outlets, and some of them we decide to close down. We are still ahead in being in T-Mobile outlets, not of all 800 which T-Mobile has, but with more than 100 to turn, definitely.

Slide 17. If you look at the previous quarters, costs are flat, and very fast revenue growth brought us to a C/I ratio of below 50%. Last time when we met, we expected to achieve this ratio at the end of the year, but good revenue growth allowed us to recount this ratio at the end of Q3.

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

At the last two slides, we will go through strategic initiatives and outlooks. Strategic initiatives are on page 19. Obviously, T-Mobile is the most important project that we are currently running, as I have mentioned with new 100,000 clients already acquired since late May start. As Witold mentioned earlier about long distribution target, let me be very clear: in all of these 800 T-Mobile branches there is a possibility to do T-Mobile banking transactions, however, in 80 of those stores we have dedicated staff only for banking services. Together with our partner, T-Mobile, we are installing additional 100 store-in-store tables, desks, positions, as I mentioned, 100% dedicated to financial services. We are rolling these 80 plus 100 right now in Q4 2014, in November–December, and in the first quarters of 2015. We are very happy with the fact that we launched this cooperation almost one year earlier than our competition, that we were able to come the market with our Alior Express mini-branches sooner than anyone on the market. Now they are becoming profitable. Every month more and more Alior Expresses are becoming profitable. Every month the T-Mobile branches are becoming profitable to the extent that we see continuing expansion of this store-in-store concept throughout the entire T-Mobile network. But the moment of truth will come and this moment of truth will be the launch. We care about the number of clients, we care about the transfers and transactions that they have been doing with T-Mobile services, but the real moment to make real money on this cooperation will be the launch of the loan campaign and the acceptance ratio of loans. So we are ready, we have already built a sufficient data base on the risk factors, a date base on the customers from T-Mobile side and now closer to Christmas – late November and early December – we are launching the first campaign. At the same time we are working on a new mobile application, so, again, we believe that we will start 2015 with a new mobile application for private individuals and small companies. Again, that would allow us to be some half a year in front of our competition.

On page 20 you will see the progress of our strategic initiative number two, which is the consumer finance. Consumer finance is exactly on the path which we expected, which means a slow stable growth of monthly instalment loans, – 5% you see here, – and at the same time a strong growth of the cross-selling to the clients that have already taken their first instalment loans. We know what is coming to the market, we know about these strengths of Santander consumer finance, and we believe that, if we successfully merge with Meritum, we will be a humble No. 2 player on this market in consumer finance and that will be our goal and our strategic positioning is to be important, not leader, but important number two player on consumer finance in the years to come.

I think in the past we made a strategic mistake. We withdrew from car lending and car loans too early. Now when you see the results, you see that the risks were lower than we had expected. We should have stick to this strategic initiative stronger, we should have been more patient back in 2012 when we cancelled that business line. We will not cancel now our business line in consumer finance now, as this is our money generating machine, and we will be there to stay.

To finalise, on page 22, we have 2014 Outlook slide. I must say 2015 will not change much, so loan growth for 2014, we promised it to be around 400 m monthly net production, which translates into 4.8 bn annual production. I think we will end up with closer to 4.5–4.8 bn. It is only because of our slight refocus from this large corporate lending. We would have had a slightly lower cost of risk (CoR) and we would have had a slightly lower net interest margin (NIM) if we had stayed in this segment. For a number of reasons (volatility of the results, refinancing by large Polish corporate segment) we would rather focus on mid-sized and small companies, with selective large companies when we have the real relationships strengthened, for instance on our FX platforms. NIM will be maintained at a 4.7 level, the same with CoR, – 2.3. It is the same result as for Q3 this year. No more Polbitas, and the cost-to-income ratio will obviously be not only below 50%, but at the end of the year it will be below 49.8% as it is currently recorded at the end of Q3.

Thank you very much. This is the last slide from our side. We are open for questions. Thank you.

Host

Thank you very much. We are starting our Q&A session, first we are taking questions from the guests present in the room, then we will follow with questions from attendess on the line. If you have a question, please let me know.

Marcin Jabłczyński - *Deutsche Bank - Analyst*

I have a question. Two questions, actually, on interest rates. The interest rates are going down under the lombard rate, the lombard rate-cut will have its impact on the 4Q this year, and will probably follow in the next year, and if there is a significant portfolio which can be impacted , if lombard rate goes below 10%, what are the mitigation actions to increase the overall stability?

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

We have guided that there might be some 10–15 m net impact next year. As for Q4, the net impact might be in the range of 10 m also because it takes some time to have the actions actually take hold. The actions we have already implemented are making us very comfortable that we will be capable of mitigating up to this level and potentially even more. That means if we have another rate cut of the Lombard as well, we will have a number of actions taken and have already learned how strong they will work and what to adjust further to do further mitigations. We do not believe that we will sit naked with the full impact hitting us.

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

The calculations of impact if we do not do anything, the impact is announced to be minus 15 next year and minus 5 to 10 this year. I think that, with large campaigns to our existing customers in mid September–October and for the new clients already at the beginning of September, the results of this calling of the repackaging of the products to the client are already visible. And what Niels was saying, we believe the effect will be lower than what we have calculated earlier, – this minus 10–15. Obviously, what we are doing is calling the clients that already perform (and we are not calling the non-performing clients) and we are offering them the same monthly total repayments. We are introducing new fees and commissions to the product and lowering our dependence on the Lombard rate. All in all, we are positive until the rate cuts take effect on the market. So, basically, if this happens, plus additional 25 basis points this year. If this is more than 25 basis points this year, obviously the impact will be negative. A 50 basis point cut translates into 15 m of our annual net profit.

**Marcin Jabłczyński - ***Deutsche Bank - Analyst*

I have one more question on AQR and the fact that you need to adapt a PLN 30 M provision post the AQR. Probably you are the only bank which sees actually the need to add such provision and the one that actually commented on it so far. What is driving that? And how would you comment on the AQR which was actually quite (inaudible).

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

The models they have used are very generic. We have rating models, scoring models, provisioning models, which are adapted to our processes and as we clearly documenting in all our presentations, we are much more successful in collections of retail loans than most other banks, not just in Poland, but in Europe. The reason why we are doing a 10 m adjustment in Q4 is coming from the fact that in discussions with regulators saying there is a potential risk in the models we cannot deny that we have already done a number of portfolio provisions, we have already allocated some money on the Pillar II for model risk. This identification based on the generic model is telling us sure something: the 10 m is not an academic calculation, it is an estimate that something could happen; we are not seeing very significant moves on a monthly basis. The models which we have contain a learning element which we we have done lately in terms of quality of decision-taking, quality of collection and the discussion that we have with our regulators is how many periods of learnings we need before we can state that this model is very strong. That is the reason why we are saying let us now allocate 10 m over the P&L for this and allocate 30 m over the Pillar II capital allocation.

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

I think both the management and two of our auditors that looked at our models strongly believe that our models are right. But in case the models under the strict scenario of the regulators are better, we are provisioning this PLN 30 m to capital and 10 m to P&L. Why others are not doing this is I think a questions to others.

Host

OK, do we have any further questions?

Kamil Stolarski **-** *Espirito Santo - Analyst*

Inaudible – The asked question was reffering to the Alior's deposit policy.

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

As we reported at the last results presentation, we have deliberately scaled down on the deposit campaigns in the anticipation of a rate cut. Sitting with long-term deposits and the rates reduced, we would repeat the same, I cannot call it a mistake, but an effect as we saw from our deposit campaign in the Q4 2012. We had to sit out with the rate cut and have a significant negative margin on the liability side. What we have done here is doing very short-term liquidity management with corporate deposits but not go out into strong retail deposit campaigns. We have been capable of doing it and we have much more potential of continuing doing this, we are not afraid, in terms of liquidity management. When we have seen a stabilisation of retail deposits, we might go back and do some deposit campaigns. But there is another element of retail customers having significant liquid reserves, investing less in retail deposits and, moreover, to share investments in the one or the other dimension. Our strategy for growing retail deposits is growing number of customers and deepening the relationships with these customers, and using corporate relationships, which we do a favour very much as a short-term liquidity management tool.

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

I think what also happened in Q3 is that our strategy vs. mid-sized and large companies started to work. In 2012–2013, we invested a lot in our FX platforms for corporates. You probably remember that we deal with the servers and we signed a deal with the 10 largest money-makers in London, and we feel very comfortable that we are offering the large corporate clients probably the best FX transactions in Poland. But this was only part of our strategy. We are offering our clients a package. If you treat us as your main cash colleague, main partner, when you put your surplus a month, your deposits, then we are giving you a better rate. If you do not, if you prefer to use other banks as your main partners and only use our FX platform, then we charge you more with FX, we charge and then we book the trading results. All these two combinations started to work in both dimensions. Some companies started to use us as a partner of choice, transferring a lot of deposits to us and enjoying very low margins on FX transactions, while others still preferred to be partners of other banks using only as an FX platforms. Q3 2014 showed to us how linked we are in our profitability with the stability of zloty vs. Euro. In the time of the turbulence, of the volatility of the market, we started earning money from both deposits from corporates and from FX from corporates. If the Zloty/Euro is flat and nothing is happening, and companies feel secure not to hedge down their positions on the market, we earn less. This was part of the reason why we have relatively lower than expected results for the Q3 and Q2 in this particular light. Q3 was good. I think Q4 is going to be OK. Not as good as Q3.

Kamil Stolarski **-** *Espirito Santo - Analyst*

Inaudible – the question was reffering to the current status of two minor write-offs over two exposures in Alior's loan portfolio.

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

One of these exposures will be I think, completely wiped out from our NPLs even by the end of this year because, and it is not major confidential information, that one of them is Polbita, which is now part of Pelion Group. So, I think I have all the necessary numbers and consistency to believe that even by the end of this year, not only will our provisioning to this client is sufficient enough, but we can resolve some of the provisions. The other one is linked with a production company from southern Poland, and this production company from southern Poland is provisioned enough in our books, and also, to the best of our knowledge, there is a chance that the company will successfully refinance the acquisition by the end of the year. But all in all, we believe that no further provisioning to this two clients will be needed.

Kamil Stolarski **-** *Espirito Santo - Analyst*

Inaudible. The question was reffering to the expected level of Bank's NPL in the future.

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

It's difficult to say exactly because we are negotiating right now a sale of our portfolio. As I mentioned, we have some portfolios that have matured enough that we can go out and sell. If we are continuing just cumulating it, it will go up above the market, but we do see our potential to have a clean-up, just like other banks that have many more years of credit history behind them, and on a regular basis it's either writing off or selling off. We are getting to that level right now. The challenge for us is that we are better at collecting than others. We keep them a little bit longer than the other ones. But it is not something that we are worrying about.

Iza Rokicka - *Ipopema Securities - Analyst*

Inaudible. The question was referring to the decrease of Alior's loan production target from PLN 4,8 bn to PLN 4,5 bn.PLN

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

4.5 bn is based on the assumption that we will not achieve this growth by a major lift in the structure of corporate lending. I think that is why we are lowering from 4.8 to 4.5 reflecting the structure that is more similar to what we achieved in Q2 and Q3 vs. what you have seen in our loan book in the previous year. I think that corporate loan production in Alior could be expected from 1.8 to 2.3, but not at 2.6 bn as it used to be in the previous quarters.

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

Perhaps just one addition to that. If you look at that page 35, which you are mentioning, you will see that retail loans in Q4 are very strong. We are preparing ourselves very well for having a very good Q4: both for SME lending (as Wojciech has mentioned, we will continue putting focus there), but also on the retail side.

Iza Rokicka - *Ipopema Securities – Analyst*

(Inaudible)

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

Yes, that is correct. Not sell but have net growth. Yes, correct.

Iza Rokicka - *Ipopema Securities – Analyst*

And another question is what is the average duration of your corporate term-deposits?

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

One month. This is short-term liquidity management. Corporates are normally not doing long-term deposits. A corporate's CFO doing long-term deposits should be fired.

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

Maybe just one more comment. What Niels mentioned during the presentation that we didn't want to have any deposit war. And with that in mind, I think that we should expect further rate cuts. We are a universal bank, and we have access to corporate clients. And they have a lot of cash. So this is why we offer short-term, and there are much less attractive than term deposits for retail customers. So what we are getting a cheper funding for the short-term period to have the platform when retail customers, retail deposits stabilise.

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

I will come back to retail clients. As soon as we feel that we are at the end or closer to the end of the rate cuts period, then we will basically go and rebuild our positions. Because the sell financing model was and is and will be the model of operations for Alior. We believe that now going for this type – Oh, one important comment. The concentration level among large corporates and corporate deposits is negligible. So, it's not that one or two big deposits came and made up for our deposits in this area. We believe that at the beginning of 2015, when the cycle of rate cuts might be over, we will be able to go for the retail deposits, but not earlier than that.

Iza Rokicka - *Ipopema Securities – Analyst*

Inaudible. The question was reffering to the L/D ratio management in case of potential possibility of corporate-government deposits outflow at the end of the year.

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

Not really.

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

Again, we are managing our loan-to-deposit ratio very carefully, and this level of around 100% will be one of our targets. So when we first find that something is going wrong, that we are not able to manage our position, we will react. Every week after the Board meetings, we are looking at this position. So it will be managed very closely and at the end of this year it will clearly be desirable to have a loan-to-deposit ratio of between 98% and 102%.

Iza Rokicka - *Ipopema Securities – Analyst*

(Inaudible)

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

Correct.

Iza Rokicka - *Ipopema Securities – Analyst*

Inaudible. The first question was reffering to the target level of L/D.

And the second question was on the cost/income. You have made some restructuring in the 1Q2014 – when exactly will we see the exact effect?

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

Let me answer this first: The loan-to-deposit ratio that we are trying to achieve and that we will achieve is between 98% and 102%. We are not planning to go above 102% in loan-to-deposit and we are trying not to go below 98% which is extremely costly. So this is our goal. As far as the result of the cost-cutting effect, I think that you already see this cost-cutting effect now and you will see it in Q4. Because it works like that: this 250 people fired at the headquarters, unfortunately, – partially because of size of Alior that allow us to automate some of the functions (we are big enough not to do it manually but to automate it) – that made space in our costs room to hire more people, and by hiring these new people we are able to gain market share, especially in loan books. For example, in the last quarter alone we created a fully-staffed 8, we called it the mortgage centers in Poland. There are more than 150 people who work three shifts – this is the only bank in Poland to service our mortgage intermediaries. In Poland, 80% of mortgages are being sold by intermediaries: real estate agents, developers, not necessarily banks. We figured it was kind of strange to direct the intermediaries to our high-street branches that are open from nine till five and we paid 50 euro per sq m. Instead, we asked the developers to come to centers that is fully dedicated for them and is open 24 hours, do a better job in processing and risk assessment, and this was 150 people. And so all the costs rebalancing allowed us to achieve only the growth of 0.6% quarter-on-quarter. I think it will be similar for Q4 of the year. Also, in terms of the number of people, I don't want to make a big story out of it, because it is not a big story, but you will find 85 people from SKOK there.

Marcin Jabłczyński - *Deutsche Bank - Analyst*

I have two questions about the shares: First one - 1.3 million lock-up expires at the end of the year, will we see them on the market, or there will be no further sell, can you comment on that?

(Inaudible) The question was reffering to the price which needs to be paid for Meritum as well as the payment structure.

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

Let me comment on the potential sell of shares. This 1.3 m shares that are coming to the market- potentially in December this year, and this is not the same situation as we used to have in the past. So it's not more than 120 people that are eligible to drop the shares to the market as it used to be in 2012 and 2013. Now the number of potential sellers is limited to practically three people plus current Board and three Board members from the past. So it's no more than ten people. What I can say it that one person within this group is myself, and I am clearly stating what I said earlier: that there won't be any sale from myself on the thirteenth. Carlo Tassara International, which we have a deal with, is domiciled in Luxembourg, and there might be an effort by some of the Board members to bring the stocks from Luxembourg to Poland. But that will be sell and buy transactions that you will not see, at all. So what I'm saying from my side is that not a single share from Sobieraj will be on the market in December. When I'm talking to other Board members, I think that the situation – is somehow different – but I think the vast majority of this 1.3 m shares will not actually be in the market. Part of this, I know what I'm talking about – these are my shares, and part of this is based on my discussion with the Board members.And let's go over to the second question, which is the Meritum pricing.

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

The price is fixed, it's 360. And roughly half of the debt will be done through the shares. And the second half will be settled by cash which we will get through subordinate issue.

Marcin Jabłczyński - *Deutsche Bank - Analyst*

(Inaudible) The question concerns the rumors on the potential merger of Alior and BPH as well as the sale of Alior's shares by Carlo Tassara.

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

This is clearly the situation where [...]. We believe that merger, building the market share for Alior with anyone including BPH would make an economic sense. We want to be part of this transaction. However, we don't have the means to do that, so it is beyond our reach. What is within our reach without strategic refocusing, is Meritum, and I think this is what we achieved. But I would also like to comment on your suggestion that Carlo Tassara has difficulties in selling the package. I think we have relatively three quarters of two-year top scenario, where ourregulator told very openly that no traffic in our data rooms would be allowed until the potential buyers pass the AQR test. AQR tests are gone, so now the game is opening again. What I'm trying to say now is only theoretical, so don't quote me on that. I think that in the bank, growth in performance of the bank like us, I might imagine the situation that Carlo Tassara is not that fast and so pushed to rapid sell. If you ask me, if I were Carlo Tassara, I would wait. But Carlo Tassara has a lot of considerations to make, and is theirs decisions, not ours to make.

Marcin Jabłczyński - *Deutsche Bank - Analyst*

On the other hand the term was already postponed ..

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

To mid-2016.

Marcin Jabłczyński - *Deutsche Bank - Analyst*

2016? Not like it was dropped?

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

No, not dropped completely, but I think this quarter we are coming with the 69 m profit, which is corrected already by this this unfortunate Polbita. Hoping, knowing what we know, the results for this year – 315 to 350 – will be met, and knowing that the next year might be at least four times the results of Q3 this year, this economic calclutation is probably considered by the seller also. But I want to clarify: it's not mid-2015, it's mid-2016.

Host

Ok do we have any following questions from the attendess present in room? If not then Operator please open the line for all of the attendees present on the line.

Operator

If you would like to ask a question on your telephone line, please press "*" and "1" and wait for your name to be announced. To cancel that request, please press "#". Please press "*" and "1" if you would like to ask a question. Let me remind you to press "*" and "1" to ask a question. Our first question comes from the line of Ivan Bokhmat from Barclays. The line is now open.

Ivan Bokhmat – *Barclays Capital - Analyst*

Hi. Thank you very much. I have a small question. Just maybe a follow-up on the last time we've discussed. There have been some press reports that you may be interested in another small bank in Poland, FM Bank. I understand that you may not be able to comment on individual banks, although you are very welcome, but I just wanted to get some more colour from you on your general attitude to M&A. Would, theoretically, something in addition to Meritum be a possibility? And, similarly, would you need to increase equity once again, so this type of placement that you are trying to do now?

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

I believe that the main strategic development path for Alior is the organic growth. Acquisition of the portfolios, as was the case in the past with HSBC, is very welcome to kind of speed up our growth to this 4% market share. However, it is only in an opportunistic scenario, only on a come-assess-and do basis, it is not part of our strategy that we are acquiring growth through mergers and acquisitions. And it also has to have a strategic fit, which in case of Meritum is, in our opinion, undeniable: they are acting in the same area as we do. So, with every quarter from our six-year-old existence, we were looking at the part of the portfolios, especially loan portfolios, to be taken, and I do not exclude these possibilities. However, the activities of Alior at the merger scene are limited. I guess Meritum is the biggest and most strategically fit institution that I can think about. So, never say never, even in business, but I think it's not the path that we would like to follow.

Ivan Bokhmat – *Barclays Capital - Analyst*

OK. Thank you.

Operator

And our final question comes from the line of Rohit Nigam from J.P. Morgan. The line is now open.

Rohit Nigam – *J.P. Morgan - Associate*

Hi. Good morning, gentlemen. There are two questions from my side. My apologies if they have been asked before, but the phone line was not very clear. The first question referring to your slide 8, there are two parts of this question. You refer that the impact of NBP rate cuts is mitigated by new fee structure. Are you referring to repricing them within the loan portfolio or are you referring that you have offset this impact on margins by higher fees elsewhere on the portfolio? That was the first question. And the second question is on margins. Assuming the rates stay at this level for an extended period of two to three years, I'm just wondering where you think your margins can go from the current levels, if the current rate environment holds for the next two to three years? That's the first question. And there is still a very quick clarification, or the second question. When you said that you can achieve the 100 m per quarter for the next year as well, were you just referring to the underlying performance excluding any impact from the acquisition of Meritum?

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

On the last one: yes, that's true, that's without any impact from Meritum.

Regarding the fee increases, we are mentioning here the fee increases to loan customers. We do not speak about other transaction fees. We do have some potential out there, but the actions taken to mitigate the impact of rate cuts in this context are purely on the loan customers, both existing and new loan customers. The outlook for NIM, we have not given any guidance yet. We are working on prolongation of our strategy, and we will come out and communicate when we are ready. The drivers naturally would be functions of loan book composition, interest rate environment, funding, which we still believe will only come from with customer deposits, but also I think the fees we are implementing, some of these will be booked as interest income, because according to the international financial reporting standards, if fee is very clearly linked to a loan product, it has to be booked as interest income over time, so that is also an element which we'll keep holding up the NIM going forward.

Rohit Nigam – *J.P. Morgan - Associate*

And the loan-related fees that you mentioned now, was some part of it reflected in NII, or was it mostly reflected in fees?

Niels Lundorff - *Alior Bank S.A. – Member of the Supervisory Board*

In the NII.

Rohit Nigam – *J.P. Morgan - Associate*

OK. Thank you.

Operator

No more questions coming for you on the telephone line.

Host

OK. If there are no further questions, then thank you very much for attending our Q3 2014 presentation and call to all of the attendees present on the call and in room. We are inviting now all of the attendees present in room to an informal part of the meeting. Thank you.