Alior Bank S.A. FY 2013 Financial Results Announcement Call March 6, 2014

Corporate Participants

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Presentation

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

I would like to welcome all the participants on our FY Presentation. Today with me are: Kasia Sulkowska, the Board Member responsible for risk, Michal Hucal for product and development and major projects of the bank, Witek Skrok – CFO and myself - Wojciech Sobieraj. Who's not present is Niels Lundorff and the reason for that is that he's got his ribs broken, and hopefully he'll get back to work soon … if not, we will cover up for him. So I know he's on the conference call also, checking if we are doing anything wrong in investor relationships, so Niels – get better!

Now this is the highlight of the (inaudible) and highlights on regulatory update, capital increase, some data about the operational performance, strategic initiatives outlook, and all that issues. Obviously there will be a time for questions and answers from your side. Please make notes and if you have questions, we'll cover that at the end of our presentation.

So I will try to start then Witek will follow with operational performance and Michal will say more on the strategic projects that we started. The summary of very stormy and bumpy 2013 for us, strong fundamental growth: we managed to keep the NIM at the 4.7 level. This is the equivalent of 4.8 in the previous calculation. 4.7 is a net interest margin.

Client acquisition, we are the strongest in Poland still to more than 600 thousand new clients and surprisingly even for us, the speed of our client acquisitions is accelerating. I think – our strategic deal are Alior Expresses, and they are getting filled up with new clients, also Alior Sync and regular branches, and consumer finance lines are contributing to this increase.

Strong double digit growth in loan portfolio and also in deposits, and then we are on track in keeping our promise of net growth of loan book by PLN 400 million per month, and this was for 2013, and we continue this speed in 2014. Obviously, the reported results were impacted number of times in 2013 by extraordinary changes. These extraordinary changes – they have only one reason which is the bancassurance.

I would like to announce very clearly that the – after our change at the end of the third quarter when we introduced the most prudent accounting, which called for zero percent up front, we - together with all the other banks in Poland, we got into very friendly, open dialogue with KNF on what is the final and proper number, and proper methodology for accounting. And we got this in writing finally confirmed that our accounting methodology for upfront in bancassurance is finalized, it's done and it's finished.

So we will get to the details later, but it means that there is a range set for upfront income for cash loans, which is around 13 percent, and then there is range for mortgages, which is between 18 and 22 percent. We have restated all the numbers in 2013 in all quarters using this finally approved methodology and finally approved numbers. So we will show it later how it has impacted the results of every single quarter.

The extraordinary – we used – at the same time, there's one more extraordinary item in our P&L this quarter, this is provision for non-current assets held for sale. You know that there's only one asset that our company has got in the category, and we prudently provision this is for 19 million net, 24 million gross reduction of the value.

December capital increase secured Alior Bank growth even under strict and approved by KNF of new regulation for upfront bancassurance accounting. We had enough capital for growth under the previous scenario, and now after the successful ABB for which I would like to thank you at this – for your trust and participation – to most of you. We are now on very strong capital position of tier 1, and capital adequacy ratio for the further growth, even under the stricter bancassurance accounting.

I would like to reaffirm that medium-term targets, both ROE, monthly volume growth capital, Cost /

Income and the market share that we would like to keep. I know there might be some questions about the guidance for net profits, I will try to cover that later at the end of the presentation, but practically we cancelled all small projects that we were involved in 2013, 2012.

We focus all our resources in 2014 on innovation, on IT in building this cooperation with T-Mobile. I'm certain that this cooperation will bring very positive results to both parties, including Alior. There are now not tens, but hundreds of people that are working on this project and what is only uncertain is the time and scale when this project is going to start. So taking this uncertainty into account, it will be very difficult to comment on final number figures, and net income for 2014 or 2015; however, I would like to stress that underlying business based on both strong double digit growth in volumes, monthly loan growth that we are planning, cost of risk that we are planning to keep at this point, so that percentage level in 2014 as well as the cost cutting sum that we announced, which is PLN 50 million for the net savings in 2014-2015. – all these actions lead us to strong belief that the net income in 2014 and 2015 will grow very, very strongly.

Now there are some numbers that I would like to focus your attention on here. The operating income growth for the bank …by the way, all the numbers here are using the same methodology for accounting for bancassurance. So operating income growth is 21 percent. General and administration cost, if we are comparing, this one to one excluding the one-offs that was linked with our IPO last year it's still a big growth of 13 percent. It's a big growth.

I can tell you that in 2014, we are expecting strong growth in operating incomes, strong double digit growth in the operating income while there's no way that operating expenses in our bank will grow more than 10 percent. 88 percent of this number of the growth was linked with the number of people: HR related costs of which the vast majority was the client facing; this were the people that we employed in the contact center, which we employed in Alior Expresses and front lines.

That's why now, when we announced the cuttings and, which was announced during last two weeks and we still have few weeks until the end of June this year, I would like to stress because this was some misunderstandings, this – all the people that were unfortunately affected by the reduction and the restructuring of the bank, all of them are non-client facing staff at the headquarters in Krakow and Warsaw. So we are not cutting the image of our company because it is linked basically with the fact that a loss of the – of the central functions in the bank they're prone to be either automated or outsourced to the – to external players. We are big company, we have more than 2.5 million customers nowadays, and at the very beginning, there was a little sense for us to invest in automation of the processes if we have left clients. Now if we have the large volumes of the transactions, and these are numbers of examples from fraud detection to the (inaudible) bank handling. All the central functions will be automated in Alior. But the cutting of 260 people that we were planning to reduce our staff, these are only the people at the headquarters.

So another thing that I would like to focus on is that – if you look at the – at the numbers: it's 228 is the net profit for 2013 versus 61 for 2012, which is a huge growth. However, if we clean this number off or rather adjust this number for one-offs which are linked to our IPO in December last year, and

we cleaned this number with our provisioning for the – our financial assets held for sale, and the growth is adjusted for these two items it's only – or (inaudible) 12 percent around them. There's a very strong growth in fundamentals and loans and deposits.
We kept the principle of Alior, which is the self-financing on the liquidity management, loan to deposit ratios were kept at 94 percent along the whole 2013 and capital adequacy ratios are very strong, giving us a power for looking at the – both very secure growth of our underlying business.

We have enough capital to strongly deploy the capital – and we hope it will be needed for the T-Mobile cooperation, and if there are any new opportunities of the portfolio purchase on the market, as we did with HSBC, we will be looking for these opportunities also.

Last, but not least, the cost of risk. With the reduction of this financial asset with the corrections for this financial asset held for sale in our bank. All the underlying business here is 2.2 percent cost of risk, is exactly as we are planning for 2014.

Witek will cover the bancassurance and other regulatory aspects.

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

Thank you. Not only those two items, which Wojtek mentioned, I would like to cover, but let’s start with this – the most important issue. After stormy year, which Wojtek already mentioned, now we are in the very peaceful harbor because we achieved agreement to the KNF (Financial Supervision Authority) (Inaudible) in recognition of the bancassurance is fully in line with what KNF expected and we have got the confirmation. We worked in December, and January, and even beginning of February together with KNF to reach, first of all, understanding at the end to achieve the solution and confirmation, and what we have presented in our financial statement it is a final, final decision and final approach.

And what we applied the cash loan.. OK, sorry - slide number 7: the ratio which we finally agreed to for the cash loan is a 13 percent for cash loan, mortgages 20 percent, and the rest is amortized over the lifetime of the product, however for the mortgages additional components because we sell insurance for the five fears.

At the end of December, all banks received a draft of recommendation U. We are not going to comment, but we are waiting for the final decision because as you may know the list of questions which Polish Bank Association provided to KNF as a feedback was much longer than the draft of the recommendation.

The next two items, which will have impact on 2014 results this is additional tax. Let’s face it, this is tax and for 2013 impact was 1.7 for this year, and we expect it to be 7.1 million zloty. And the next – the last one, which I am aware and this is a final list of the changes which we expected this is an interchange reduction. However, due to steps and measures which we undertake we don't expect any major impact on our results.

Now, if you could go to the operational performance – capital increase, sorry. What is … Slide number 10. I'm proud to present this slide, however the work was done by Niels - so Niels, congratulations. Why? Because if you look at this first box, EGM acceptance at 93 percent was for. This is a very good result. The second reason, demand was almost three times higher than we expected, and we have collected more than 460 million new equity, and we got new shareholders. So this is a great success, and that's leverage for the further growth in the next years. However, what is important, I must underline it in our capital base in terms of the capitalization has not been jeopardized at any time in our history.

Next operational performance, slide 12: two important information. As you may know, and this is what – opposite direction which we did at the end of the third quarter when we changed our approach in accounting, and what revenue is from the – from the insurance were recognized in the fee and commission line. When we – at the end of third quarter, changed the accounting policy because of effective interest rate methodology, we improved NIM, now we did opposite; so if you compare the NIM at the end of the third quarter versus what is presented here, it's a small reduction; but if you look at the – and compare apples with apples, so the NIM in the fourth quarter, and the NIM in the third quarter there is an improvement.

And the second important information, our NIM is the best – the highest among the Polish Banks. Here Wojtek already mentioned that we experienced very rapid growth on the loan volume, and this growth does not come from one source. There's stable growth of two legs, corporate and retail, so both contributed in the same development of the loan portfolio.

We still stick to self-funding policy and we improved this ratio by 5 percent points versus the last quarter, and our target is to be closer to the 100 percent, but we are not going to exceed this.

Now I'm on page 14. So all figures presented here, as Wojtek mentioned, is according to the same methodology restated fully, so it figures are comparable and the growth of fee and commission line is driven by two items, growth of the loan, plus the sales of the insurance products including those which are not linked with a credit loan, which we in details elaborated last quarter.

Next slide: slide 15. We improved Cost/ Income ratio by almost 5 percentage points. It was done because of much faster revenue growth, driven by the number of outlets, the number of the customer, and there's a positive side and a negative side, so those items which will reduce this, there's a HR cost which grew by 20 percent. But this is related with a distribution network and fulfillment of our sale forces.
And later on I would share with you our targets for this year. I'm going to mention this new cost savings program - 50 million zloty. Half will come from the HR cost, the steps which were already launched, but what is important that it will affect head office people only. Branches, and distribution network, and client-facing people will not be harmed.

On the next slide, slide 16, credit risk overview: our NPL ratio is growing gradually up, however we're still much below market standards. It is explained by the completely different loan structure, but if you look at the coverage ratio, we are pretty satisfied. Why? Because if you look at the recovery rate which is close to 60 percent: it will give us a very good way to getting better collaterals from our customers. And having one of the best in Poland collection system, we are pretty sure that this ratio and the cost / income, our cost of risk will not increase comparing to the cover age.

On the next slide, slide 18, you will see our efficiency ratio, ROE – and capital adequacy ratio. If you look at this slide close to me, 14.5 capital adequacy ratio – it will give us a good way for further growth.

And if you look at this table – I'm sorry, slide 19, you will see that Alior during last six months – not only six months, but only six months are presented here, we are growing much faster than the market. As a result, we are getting the market share and now deposit 2.6 percent of the market share, loan 2.5 market shares, so in 2016 it will not double, this market share, but from the starting point when we had 2 % market share. Our target is to achieve 4 percent market share in 2016.

Slide 20, growth of the customer more than 600 thousand in this year is number one. If you look at this slide comparison where Alior Bank is versus the rest of the sector it's explained that we are at the very high speed able to acquire customer. This is related mainly maybe because we have third largest distribution network in Poland.

This is what I just mentioned, having 859 outlets, we are number three, number four and what is important that we are not going to develop and open the new outlets. Why? Because as you know we got in cooperation with T-Mobile, which happens to have 1000 outlets, and we will treat this as an additional distribution network. So we don't need – we don't see any need to develop our own, we will rely on the distribution network of T-Mobile, of our partnership.

So I'm at the end of my part, Wojtek if you could run…

Michal Hucal – *Alior Bank S.A. – Deputy CEO*

Slide number 23: T-Mobile. There's no doubt that T-Mobile project is the most significant project in our bank and in our history of our bank, short, but history. First of all, because of the great scale of customer base, it's 16 million contracts which we can offer with our products. But also – almost 1,000 outlets in which the product of cooperation will be offered.

There is the strongest brand of – everybody knows T-Mobile. T-Mobile – we checked a perception of T-Mobile on banking customers is very good. They are – eye opener for customers even. And innovations: we always based on innovations in Alior Bank and this cooperation with T-Mobile will give us the even better opportunity to develop mobile innovations, but not only.

Unfortunately, we are not open to say all details of the project now, well, both because it's a partnership, so everything should be revealed only with consent of T-Mobile.

But also because of – we are on the early stage or in the middle of development of some fields which could be very interesting, but still not – we are not sure when they will be on the market. So we can say that in five years, we want to acquire 2 million customers as our goal. We'd like to achieve 16 percent of ROE in three years and 40 percent in five years.

And the base of profitability will be, of course, credit side. So we are going to have 20 percent of cross selling ratios in credit products in five years. This business will be quite similar to bank business. It's not that we are open for young customers, the T-Mobile base is an average in Poland, so we think that as a great opportunity for our bank. Thank you.

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

The outlook – slide 25: I have only two slides, one is 2014 and one – 2014-2016. Loan growth in both short-term and mid-term, we are expecting to grow at the speed of 400 million net per month. What's important - keeping the current structure, so it's not going to be we're moving to large corporates and because this is very easy to go and build a portfolio 400 million.

We will be keeping the kind of portfolio structure, will be even with some bias into the retail lending and cash loans. Why is that so? Because the key – the 400 million has to be the structure to protect, or rather prevent from erosion, our net interest margin. Margin stabilization with an upside potential due to gradual shift to hedge loans, and at the same time, we believe that we will be living in a stable interest rate environment. Obviously any uptake that we expect might happen in the third and the fourth quarter of this year would translate into the improvement of net interest margins.

Costs, we are keeping the mid-term target of 45 percent. We believe that this year will get below 50 percent at the end of year, improving the Alior efficiency as I mentioned earlier. Double digit growth on revenue side, and I shouldn't say flat, but very, very small growth, definitely one digit growth, and this is what I can promise on cost side.

And cost of risk, I have mentioned earlier, 2.2 percent, a continuation of our methodologies, recoveries, collections and systems that we have so far. Here we do not expect anything significant. In strategic outlook: ROE going to 16 percent, still loan-growth volume, still self-financing so the deposits will grow. It's on page 26, and it will grow to the same rates roughly. Although we are not as strict with this keeping the 93-94 percent in loan-to-deposit ratio. It can go up to 90, 99, 98, but not above that market share and we are to structure of four percent plus and because we promised to double the market share where we – where the level of 2 percent, 2.2 percent, I think it's realistic to believe that at the end of 2016 we will have 4 percent market share.

I think that this is it from our side the rest of the slides (inaudible). If there are any questions within Q&A session – Fabiola, first from the room, anything?

Host

Thank you, Wojciech. So we are now ready to start the Q&A session. We will start from the attendees present in the room, and so one willing to ask a question is requested to ask for a microphone.

Dariusz Górski – *BZWBK- Analyst*

I have a question relating to bancassurance, which is probably obvious. First of all, on the 18 million which was a positive impact on your 2013 accounts versus 84 that was put back in 2014: basically how much of your past bancassurance fees are recognized in 2013, this will be the first question.

I'll say three at once. Then what is the SME – what is the insurance product content in SME's with the percentage of upfront for cash loans and mortgages, but I wonder how big it is for SME loans.

And the third question on the bancassurance fees – would relate to your quarterly charts with this because they're obviously quite jumpy, the bancassurance fees, but they seem to be related to the level of origination, and interestingly in 4Q, the level of bancassurance fees was almost the same as in 2Q.

If you look at the origination slide, which is on page – I'm very ashamed because I have a paper copy and I have all the slides, unlike my colleagues. But if you look at page 29 of your presentation, you'll see that the originations for 4Q in both retail and corporate is much bigger than it was in 2Q. So why was there such a big difference in origination and similar bancassurance fees?

So this will be the first part, and I have more questions. Let's do these first.

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

First of all – as you correctly said we increased versus the methodology – which we had at the end of – with a zero upfront, we increased profit by 18 million zloty and equity by 54 million zloty. What's left to be recognized – for 2014 and the next years, there's 448 million zloty.

And we expect that in this year, 96 million in 2014 will be – will be recognized from that amount.

Dariusz Górski – *BZWBK- Analyst*

This is net profit, or this is gross speed?

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

This is net profit. We are talking about equity and net profit, so these are the same – the same figures as we, let's say, present and discuss when we presented the third quarter results.

Dariusz Górski – *BZWBK- Analyst*

But during the previous presentation, you provided us with a nice chart which represented the split of how this is supposed to you know pan out over the years. Should we apply similar proportion to 448?

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

Exactly, because let's say the difference is – if you compare the result from that slide, we had 115 for 2014, now the impact is 96, so the difference is... and I believe that if you apply this methodology… we also can provide you with the details.

Dariusz Górski – *BZWBK- Analyst*

And to make life a little more easier: how much of the past fees were recognized in 2013, because 18 million is outcome of the new methodology. Because now you are recognizing upfront a bit of it which you didn't under the previous regulation, but there also must be an element of past fees in 2013. So to contributions to 2013 fees, right?

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

Right, as maybe – because I have Excel with me, so if you don't mind let me check it. So are the… I will provide you with the figure because.. The second question was about SME. Because we have two groups of products, I mean, from the insurance: we have those which are linked with the bancassurance, here we have the two elements: cash loans and the mortgage.

And these are bundled, and this is why we recognize according to agreed approach with a KNF. And the second we have pure insurance products, and we sell to our customer. Here we have a unit-link, and we call it as a protection plan – legal protection plan for the SME. But the amount which we get from that revenue, which we get from that item, is less than 15 million zloty for the whole year. We recognize that upfront, yes, because there's…

Female

(inaudible)

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

No. The insurance products which are linked with SME, like a credit - we recognize according to the scheme presented, OK?

Dariusz Górski – *BZWBK- Analyst*

All right, you mentioned that the tax will have 7.1. million impact on your 2013, but you said it's a fee impact. So did you recognize it in your fee line? Am I – is this correct? If you look – flip back to the slide?

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

No, it would not be recognized, it would be other fee – other expenses.

Dariusz Górski – *BZWBK- Analyst*

But it's – OK, so it's not a fee – it's not a fee, it's a tax in other expenses. The questions would be on your mortgage portfolio coverage that is on page, or slide for the benefit of the listeners, it's on page 16. And if I look at this chart, this is the strongest deviation to market average in your – in your coverage ratio.

You do explain it on the next page, page 17, that you have some insurance coverage and you have collateral, but I understand other banks have similar situations, so why would your coverage ratio would be so much different? Especially within the clear maturation of the book because the coverage ratio is picking up quarter by quarter.

Katarzyna Sulkowska - *Alior Bank S.A. – Deputy CEO*

There are two reasons. First of all, our mortgage portfolio is young and our collection activity on the mortgage portfolio, it's at the stage that we have quite huge coverage by collateral. And due to the fact that only a few execution processes were closed and in our competitors, they unfortunately have on – credit portfolio credits after execution with amounts without collaterals.

That's why they need to cover all amount because they cannot use this collateral after close of the process. And from the insurance perspective, we have a bit different situation because our agreement with insurance company is different from the standard market insurance. We use, and we collect money before we start the reposition process.

That's why we received huge money back at the beginning of the collection process. It means that our colleagues from other banks use insurance at the end of this stage after three or four months of all years, depend on the speed of the process after the reposition of collateral of mortgage. That's why we have a different situation, and a different process.

Dariusz Górski – *BZWBK- Analyst*

OK, thank you very much. If I may ask you on…

Iza Rokicka – *Ipopema Securities- Analyst*

Wojciech, a quick follow-up question on this NPL mortgage coverage ratio: basically, when we look at this chart, it sums up to something like 102 percent altogether. And what I'm wondering, whether in the devaluation of the collateral, did you assume any haircut, which one…What would be if it's not a specific…

Katarzyna Sulkowska - *Alior Bank S.A. – Deputy CEO*

Here we have economic version – economic value of the collateral, and we – having in mind huge changes during last two years, we reevaluate our collateral twice a year.

Iza Rokicka – *Ipopema Securities- Analyst*

So 7 to 10 percent is…

Katarzyna Sulkowska - *Alior Bank S.A. – Deputy CEO*

Economic – yes, it is economic version of collateral. Depends, of course, on the type of collateral because we have house, of course, flats, and depends on the local market, but here you can see economic version of mortgage.

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

I have one question concerning the cost of risk, if we are subject. Because you guided for 220 basis points basically for 2014 outlook. However in the fourth quarter, if we adjust for 24 right of for the assets for sale, still the cost of risk is somewhere closer to 250 base points.

And we saw consecutive growth of the nominal write-off's, of course, partially connected with the growth of the loan portfolio, but also connected with the slow, but sure growth, of – underlying cost of risk. Could you explain why the cost of risk was at this level, and what was the reason why we should not be concerned for the cost of risk not crossing this 220? Thank you.

Katarzyna Sulkowska - *Alior Bank S.A. – Deputy CEO*

Based on our structure of our portfolio, and based on our results, we prepared the budget and having in mind quality of the portfolio, we did not expect any future grow of this cost. Even previous results of last year shows us that it is possible to reduce, kind of, cost of risk having in mind that 35 percent of our portfolio it is cash loan.

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

To answer the question about the fourth quarter: the jump it's purely linked with one asset, and when we adjust for this – the one company, I think it is a drug-store, all the remaining part of the portfolio, 53 percent which is the retail portfolio based on the recovery ratios, based on our (inaudible) as well as other corporate portfolios, this makes us fully confident that we will be at the 2.2 level.

There is one financial asset that is an asset held for sale. We, as you know we have purchased this asset with the other bank; we have the very strong performance – operational performance of them. We are in the sale process; however we need to adjust our expectations by this 24 million zloty.

Also, I believe that this level is enough; I don't want to go into any other details because we are in the sale process. So if we state, for instance, that we would like to dispose of this asset by first half of this year, it will jeopardize our negotiation power. If we set up the levels that we adjusted the price, it will then test the price that will be offered by the – by the potential buyer.

I would like to assure you that there are strong, very fine potential buyers, and the sale of the drug store chain will be over soon.

Iza Rokicka – *Ipopema Securities- Analyst*

Just a follow-up question on this 4Q because of risk. Actually, we don't have the exact notes quarter by quarter given these changes in the accounting, but for me it seems that there was an increase in cost of risk for the retail. A significant one basically explaining the effort that Marta was talking about.

So the question is whether those higher costs of risk are coming from cash loans, installment loans, mortgages. And other question related to this point: Of course, you marked NPL ratio increase for the cash loans, or non-mortgage retail loans, which more or less for me is understandable. What I am wondering, what were the driver for the NPL ratio increase for mortgage? 50 base points quarter on quarter, and whether you have in your methodology cross-sell default.

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

Cross-sell default is in our methodology in this last question. The second question about the mortgages: Since this is the small and young portfolio, I can – the jump from 1.5 to 2 was linked with the two cases that we have with relatively high value. But these are two cases and Kasia was mentioning earlier that going into the long-term assumption of not more than 2 percent, where the total portfolio is still to be held on mortgages side.

And now in – as the first part of your question, the growth on the cost of risk for the cash loan business, it's coming from installments, not from the regular cash loans. The installment loan portfolio grows. We are just starting to cross-sell to the clients, and this is the nature of the business is when you start, it will have the – at the very beginning a slight increase, and then it flattens because the good clients are being cross-selled with additional cash loans. This is the nature of the (inaudible).

Iza Rokicka – *Ipopema Securities- Analyst*

So actually, we should not expect this trend to be continuing in 2014, or do you want to increase the sale of installment loans? And if yes then why should have been, why shouldn't we expect a further growth in the cost of risk for retail?

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

Because – if I can answer, we will have in installment loans the growth of the cost of risk for the newly entered businesses, but at the same time, it will be offset by the lower cost of risk for those clients from installment loans that will be cross-sold. So for instance, if we are going and selling the installment loan for someone that bought furniture, actually furniture has very low cost of risk, but let's assume that the furniture it is a higher cost of risk for the first time encounter with the client.

But then we are cross-selling the same client with the top-up's back to originals other loans that have a much lower cost of risk than did the original loans. And these two factors for the maturing portfolio in installment loans level up. We hope that this leveling up will happen in our portfolio in 2014. That's why all in all this 2.2. is such a…

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

So maybe if we are done with cost of risk, and maybe I can ask just to clarify your outlook for cost, and cost /income ratio of 50 percent combined with the savings initiatives. The savings initiatives are actually – will help you to keep the cost growth under control below 10 percent. It's not that you nominally want to keep the cost of – keep admin costs at the same level as in 2014.

We should be attached more to cost / income ratio and treat these savings initiatives as something that will support in – support achieving this rather than you know any sort of limits to the business, yes?

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

From the end: There won't be any limits to the business. And the cost of risk.. cost to income ratio is a proper measure. However, if we look at this number, and only assuming that the HR costs, we'll have these 260 people leaving at the headquarter function. We'll have all our Alior express branches filled up now with the new staff.

You can assume the non-HR costs and depreciations will grow as in the last year in a very, very small level because the bank is coming out of this investment. With the exception of T-Mobile project, quite honestly, we have nothing to invest in. We – we're coming out from the face of the growth of Alior when we haven't invested and then now we are filling this investment with the business.

As far as the HR cost, which is roughly 50 percent of our cost base, we will not slow down an entire ring of the people in a client facing business. If it is needed, we are measuring the efficiency store by store, phone center by phone center, and the proper measure is cost income.

I believe that it will be unachievable to have the cost flat in 2014, however, I believe that it – because of the cost cutting programs that we launch ourselves, and together with Roland Berger, we will, by reducing the costs by the total of 50 million in two years - we get at the end into the low single digit growth of the cost base in 2014.

Iza Rokicka – *Ipopema Securities- Analyst*

I believe there is still one other question and answer, the one of Darek on the volatility on the insurance fees in relation to loans, then I will follow to another topic.

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

This volatility, which we observe in the course of 2013 is related by two aspects. So the existing portfolio and recognition of the revenues is going gradually down. However, new sales, especially short-term products coming from the consumer finance when we recognize – because the maturity of this loan is much shorter than the cash loan. Here we are talking about 18 month in some cases, and 24 month, and this component, especially in the – in the last quarter increased versus the previous quarters. And it explained this increase in the last quarter of 2013.

Host

So we are ready just to take two more questions from the audience present in the room. I apologize, but we are very tight in timing. We have still a conference – a press conference ahead of us.

Iza Rokicka – *Ipopema Securities- Analyst*

In your outlook, you mentioned the NIM of 4.7 for 2014. Looking at your chart on the page 12, it seems that the net interest margin is close to this level. Actually, I'm wondering how did you come up with such NIM giving the very high increase in net interest income in 4Q.

But it’s another question. Why the outlook for the NIM is almost flat year on year. You do not expect any improvement in the cost of funding given that you have a chance to roll out your deposit base right now at much lower cost than in the first half of 2013?

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

Obviously I would like to tell you that 4.7 is the minimum, we would like to achieve more. But there are three components. Cost of funding, I think we are slowly achieving our target and this is 40 percent of our retail clients sending their salaries to our accounts.

Going above this level means that we will have more loyal clients than Pekao SA and PKO BP, so I would like to be realistic here. We spent whole year on first bank project. We got up from 28 percent to 34 percent, even higher. I think there are some limits in the kind of cost of funding. Obviously if the interest rate environment changes, then we'll not be contributor of that.

On the other side – on the lending side, there are two components. One is that we keep current level of lending margins on retail clients, both in cash loans and in mortgages. There are no signs of wars here on the market at all.

We see strong growth in the month for investment loans among the companies, and this is 15 percent of our portfolio. And I must say that here the – what we were mentioning earlier that we worry a little bit about the competition from the foreign banks with the cheaper cost of financing; we see tougher competition on lending margins in – there's definitely huge competition already in a large corporate sector where we are not that present, but we see this spreading into the mid – small enough, but with the mid-size companies.

So this is the three components that make me confident that keeping the 4.7 level is tough, it's realistic, it is achievable. We cannot planning to go up.

Marcin Jablczynski – *Deustche Bank- Analyst*

Can I have just one short question? We heard from the market from some of your competitors, and also your competitor commented about you that if you look at your new cash loan production – let's take, for example, a five year or seven year consumer loan, you can sell one year insurance with no automatic renewal of the insurance product. You don't then periodize for like seven year or five year period, but then you only have for one year period, this amount does not go to upfront. So because there is no automatic renewal of the insurance product, could you confirm that this is something you know these days in your current sales?

Michal Hucal - *Alior Bank S.A. – Deputy CEO*

Completely no. We'd like to be more saint than pope in bancassurance. So we are not looking for any option how to create any other environment than is accepted by KNF so no, completely. And we have no plan – such a plan.

Marcin Jablczynski – *Deustche Bank- Analyst*

And maybe just as a follow-up, because we all hope that this whole bancassurance mess is over, but it probably is not because the recommendation-U is coming. What could be your current stage of thinking ahead about recommendation-U? What would you need to change and the impact?

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

OK, just – the price that our company paid for being first in the bancassurance front is heavy, and it's all 2013. We were the first to do some changes that we believed were good of second after the first half of this year, we were the first to do the changes in the – after the third quarter of the year. Now we adjusted to under the guidance of KNF to something that is the market standard.

And I can assure you that we will not take any active role in the whole industry discussion that is currently going around recommendation-U. We will be humble participants of this discussion, and whatever comes to the entire sector will be done in – it will be followed up with Alior. I know we having said so, it's not that we are passive and we are doing nothing, we are looking very carefully at the level of the discussion currently.

But the three participants, which is the insurance company, the PIU, Zwiazek Bankow Polskich – Polish Banks Association and KNF – this triangle is at the so early stage of the – of the discussion that the full impact of recommendation-U, I don't know of any single person in Poland that can tell you what's going to be the full impact.

I can assure, however, that if there are the strictest ever possibilities of the bancassurance, our bank is even able and willing to shut down the bancassurance business, and go into the regular provisioning for the clients. Now with this 13 percent up front level, honestly speaking, it's not much of a difference.

It would be the devastating effect on our NPL if we go for 70 or 64 percent level that we have earlier. But currently, when all the adjustments are made, if let’s say the – there's no bancassurance in Poland, I can tell you this, we will react by changing our fees and commissions structure for loans, and thus we will protect all of our revenues from this line of business.

Obviously, this is linked with all the products that are bundled. The question that you asked earlier about the insurance products for the – for the company, it is a very, very small part of our portfolio, as well as the unit- links and this other products sold separately, we would like to say that we would – we will develop the stand alone insurance sales in our branches.

As we mentioned earlier, we are retraining and certifying our employees to sell the insurance product. Why? Because this is one of the products KNF has no problem with in selling in the banking branches. As you know we have – we have cantors in our branches, we sold gold in our branches, there's no reason why we shouldn't sell the insurance in our branches.

But as a standalone product on which it is a completely different category. But this is one of the things in the future.

Host

OK, Operator having any questions from the audience present on the conference call we are ready to take to questions from the remote audience right now.

Operator

Thank you very much for those participants on the phones, please press star 1 if you wish to ask a question. Once again, it's star 1 on your telephone keypad for a question.

You have a question on the line of Jovan Sikimic. Your line is open.

Jovan Sikimic, *Raiffeisen Centrobank AG, Analyst*

Hi, good morning. Just a short question on the (inaudible) on the interest income price. Can you maybe give us from of which part came from bank of bancassurance and which part from the underlying (inaudible)?

Host

I'm sorry; could you please repeat your question? We did not hear you well.

Jovan Sikimic, *Raiffeisen Centrobank AG, Analyst*

OK, I will try again. Now it's better?

Host

Much better, thank you.

Jovan Sikimic, *Raiffeisen Centrobank AG, Analyst*
OK, thank you. I mean, I just want to know what's, like, the split of net interest income go in the fourth quarter because it was, like, in nominal terms more around 60 million, and truly coming from interest income side. And if you can give us the split, which part is related to bancassurance fees (inaudible) and which part in underlying loan growth.

Host

We still cannot hear you right now.

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

So the changes which we – which we did has comparable impact as we observed in the third quarter because the adjustment which we – which we made is – and around – 60 percent of part of the net interest income comes from the net interest income remaining part is – what is driven by the insurance.

Jovan Sikimic, *Raiffeisen Centrobank AG, Analyst*

OK, thank you. That's all.

Host

Operator, do we have another question? We still can take one more question from the remote audience.

Operator

You have a question on the line of Ivan Bokhmat. Please ask your question.

Ivan Bokhmat, *Barclays Capital, Analyst*

Hi, good morning. Thank you for providing the detailed guidance. Can I just ask you; maybe you can also provide some guidance on the bottom line in the form that's convenient to you. I mean, again with relation to consensus, which I can see right now is at about 381 million zlotys for the 2014. Thank you.

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

OK, I mentioned earlier it is – because of the T-Mobile project, and only because of the T-Mobile project, I feel very uncomfortable giving the guidance on the bottom line. However, there is something like a consensus among the analysts, and I can assure you that if our views on the consensus are totally different from what you expect, I believe that it is my duty to warn you.

That this is not – the expectations are not in – not right. I don't want to do it, so I'm not doing it and this is the end, as far as I can do it, the guidance for the 2014 number.

Ivan Bokhmat, *Barclays Capital, Analyst*

So if I understand you correctly, the current consensus is something that's pretty close to your budgeting and on top of that, there's further upside from T-Mobile. Would that be the right approach?

Michal Hucal - *Alior Bank S.A. – Deputy CEO*

We cannot add anything.

Ivan Bokhmat, *Barclays Capital, Analyst*

OK, thank you.

Host

All right, so thank you very much for attending our management presentation and management conference call. Sorry and apologies for the incident with the printing house that we had, and the presentation printouts has been delayed.

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

And obviously I would like to add that if you have any questions, both those present in here and those on conference, Piotr Bystrzanowski and all of us here, especially Witold Skrok and Kasia Sulkowska on the risk side, are available for you to dig deeper into the numbers and to provide you with additional information if needed. Thanks.

Host

OK, so thank you very much, once again.
