

ALIOR BANK S.A.
ALIOR BANK Q3 2016 RESULTS ANNOUNCEMENT
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Edited transcript

Speakers:
Wojciech Sobieraj, CEO
Witold Skrok, CFO

Piotr Bystrzanowski: Good morning everyone, thank you very much for participating in our results announcement. Our speaker today will be Wojciech Sobieraj CEO, and Witold Skrok, CFO. And I leave the floor to the two gentlemen.

Wojciech Sobieraj: Good morning. Welcome to our third-quarter results presentation. On page 3 these are the major developments in summary, and operational performance (not only) for Alior in the third quarter.

Cost of risks, basically in line with our expectations. And a strong improvement in net interest margin, all together translated into (20 percent) growth in NIM minus cost of risk, which is one of the core and basic core (efficiencies) of our activities.

So from this angle, it was a good quarter. Good solid quarterly loan volume developments, PLN 1 billion net, slightly impacted by seasonality. And then if you look at the details; a little bit disappointing growth on an investment loan side, we see now the fourth quarter is usually the strongest on an investment from companies, investment loan interest. So we believe that we will be... we feel very, very comfortable with meeting the annual growth of PLN5 billion of net asset growth.

Third thing that I will comment on in the next few slides is the Alior and BPH Core merger, which is on track and not even... I think in a number of factors, we exceed our expectations. And I will follow on this on the next few pages.

And last but not least, we are not stopping on our innovation growth, and with our artificial intelligence/robotic solution we were able to gain the reputation and recognition on, I would say, a global scale. We won both the innovation from America BAI and from EFMA in Europe.

And this is on page 4, what is our Dronn, the virtual adviser. Basically this is the self-learning artificial intelligence tool that combines the learning with a speech engine. So we use this machine, basically, to call for the collection of the small amounts that calling by person is not efficient.

As you know, all Polish banks and all European banks we are about to comply with the new FATCA regulations, basically, who is asking all the clients in Alior do you have a Green Card or not. So I think it was a perfect, basically, activity for machine learning and we will be using this together with biometrics that we will implement next year to service the clients in our daily activities with them.

Now coming back to the more down to earth action. BPH Core merger on page 5.

I must say the financial part of the transaction is over, now we are in a phase of basically reviewing the closing accounts and finalizing the transaction with GE.

Last weekend was a very significant milestone in our transaction. First of all the BPH Bank was successfully demerged into the two parts, and we took control of the BPH Core. So now we are acting - we are operating still on two IT systems, two brands, but we are one Bank from the legal perspective.

We don't want to change at this stage our synergies which were calculated at PLN460 million annual synergies by the 2019. We will do that as soon as we have a full review and control of 2017 combined budget for us and BPH.

We do see some potential for improvement here, but we need to look more carefully on both the number, PLN 460 million, and the timing to make it faster.

We do feel comfortable, even now, to announce that we will bear less costs of integration - on integration side. It will be not PLN 650 million but PLN 500 million. And we do the integration and all these costs, and, potentially, the synergies - we achieve the synergies from the merger faster than we expected.

Our operational merger took place one month ahead of schedule which gives us one more month to better prepare for March 25/March 31, 2017.

On that date, we are planning to run the operational merger of Alior and BPH and thus, from this date, we will be running on the same IT system with all consequences for our clients, our employees, and branch networks and so on. So far, the BPH Core is on track.

The next steps on page 7, as I described earlier is from November, well, the last week, and conversion to the full rebranding. We have plenty to do. And, well, this is my personal 28th banking merger in my life, and I think that I will make sure that this one will be the fastest and the most efficient one.

I know that it sounds very ambitious to have a Bank fully merged in five months' time, but we have -- today we have 94 days between -- working days, between now and the merger, and I can assure you that we are working very hard to make it happen.

Also, I think, quietly, we are creating probably the largest financially-related IT workforce in Poland. We have now more than 700 IT experts in combined BPH and Alior, and we're trying to make sure that these resources will be used

appropriately, i.e., we'll finish the operational merger as soon as possible and then they can move into the areas of growth.

I've mentioned the biometrics. We have API and PSD2 projects running in 2017. We'll have to finish the new mobile/Internet platform and a number of other IT-related projects that we already launched or we will launch in 2017.

If you go to page 8, this is, as you might recall, oh this is yours. I'm sorry. So Witold will go with the numbers, I'm sorry.

Witold Skrok: Wojciech just mentioned that when we reached the agreement with GE, one of the conditions was that BPH management team would perform; we call it, a restructuring program. And we had two main components of that. Reduction of FTEs and reduction of branches. In two ways: conversion and closing.

So if, and those targets we expect to be achieved by the end of 2016. But if you look at where we are, we are well ahead of all of them and we have still two months to do. So the figures, which you find on the slide 8, prove that what we agreed with GE has been delivered.

If you look at slide 9, we have two the most important message which I'd like to share with you is an amount of integration cost. Having the access to BPH data and much detailed data before we sign SPA with GE, we revised down integration cost from PLN650 million to PLN500 million.

And what is also important, we shift them from 2018 to 2017. So 2018 will be the first year, after integration, without any integration cost.

At this stage, we are very comfortable with the synergies, and PLN 300 million, which we promised to be delivered, we expect that it will be delivered without any significant effort. But we are still working and I think that when we meet next time, I believe that we will have positive information also on this side.

Slide 10. The most important data from the financial statement of our combined entity for the first three quarters. Revenue cost, net profit, loans, and deposit. What is important here, that equity is just, what we have will be amount for the combined entity. So this is also according to our expectations when we signed the deal. As you remember, we have a number of KPIs, which we measured performance of BPH, and all of them are better than we expected.

Now we are back to the Alior part of the presentation. And if you look at the key financials, I would like to attract your attention to two lines. Net interest income, 22 percent growth, quarter to quarter, so a very good result. With a much lower growth of net impairment. And as Wojciech mentioned the loan, we are on track to deliver PLN 5 billion in the course of 2016.

What is important also is that loan to deposit drop, as we mentioned in our last meeting, we shared with you that our comfortable level is close to 95 percent and we are getting close to closer.

Next slide. Well, we are growing in all business lines, and these are the most important factors. So we are standing on the two legs, corporate and retail, and this is our target quarter this year to put previous year we grew by almost 20 percent.

Wojciech Sobieraj: And on this graph you can see that the growth was really strong in cash loans, in mortgages, in working capital, financing for enterprises. And then slightly slower, because of the seasonality and also the slowdown in investment loans for the Company, just PLN 19 million quarter on quarter growth, I think will be much better looking forward.

Witold Skrok: Next slide, slide 14, you can see the deposit development and, as we shared with you that our liquidity position was related to the transaction. When we concluded the transaction our loan to deposit ratio went down with the optimization of the retail deposits.

And if you look at the deposit margin of Core Bank and Alior Bank you will see that, based on the experiences from BPH, our target is to squeeze the

funding cost. Well, I'm afraid that we will not be able to achieve what Core Bank performed in the last years but definitely it will help to reduce funding costs for the combined entity.

On the next slide, slide 15, credit risk overview. So boring quarter, we are growing in NPL ratio, especially for the retail, but as you remember we are gathering NPL portfolio in order to have a momentum and, as we did last year, we consider to dispose a significant amount this year or at the beginning of the next year.

Wojciech Sobieraj: It's the portfolio of roughly PLN300 million to PLN400 million that we at least we try to gather in one transaction, and if we there's a good chance that we will conclude the transaction this year. But we cannot promise that. It can be the fourth quarter this year or the first quarter next year. And then the NPL coefficient will go back to the market average.

Witold Skrok: Slide 16, net interest margin development; I mentioned that improvement in the third quarter is a very respective achievement and it was driven by a net interest margin. If you look at the 4.5 percent versus the previous quarter, we grew by (30 basis points) and in line with our guidelines. And this target has been achieved with a slight growth of cost of risk. So at the end risk adjusted net interest margin improved by 20 basis points quarter to quarter.

Next slide, slide 17, you can see that our fee and commissions are at the same level as in the second quarter. But what is important is just two parts of the bars; significant improvement of the fees related to loan transfer and current account from (71) to (82), and this improvement offset a drop of the bancassurance. This is our policy to reduce the bancassurance share in our products and because of price adjustments which we made on the products, we cover this gap. Fee and commission expenses are there at the same level as in previous quarter.

Wojciech Sobieraj: And I think it's worth mentioning here that this is the area where we are not really comfortable with, and one of the first things that we'll try to improve, while merging with BPH, is to offer our clients access to the cash

management tools based on the BPH solutions that are still viewed as one of the best in the market, the Sezam portfolio for companies. And I think it's worth mentioning that in our forecast we never gave any good estimates for the revenue synergies between our Banks. It was too early to judge, but I think we can expect one of the revenue synergies to come in from the cash management and, i.e., improving the fees and commission. We'll have the appropriate numbers for the revenue synergies also at, hopefully next quarterly results presentation.

Witold Skrok: On to slide 18, our capital position, this drop from almost 21 percent to 16 percent as explained by finalizing of the transaction with GE. You remember that we had cash and treasury bonds which converted into shares which we acquired from BPH, so those are just different ways which we apply for the assets.

Next slide, slide 19, cost development. This is according to our budget, our forecast. This slight growth is explained by the restructuring program which we ran on our side. In the quarter we shut down some of the five branches and the increase of cost between quarters is explained by this factor.

Slide 20, obviously number of branches is going down. This is a trend, market trend and we will follow this. But what is important here is the drop of retail customers. We decided to clean up our customer base ahead of integration with BPH, so this drop is fully explained by the actions taken on our side.

Next slide, distribution network; well, we are number four, in terms of the distribution network and I believe that after consolidation with BPH, we will become number three. And next, so T-Mobile, so Wojciech if you want to...

Wojciech Sobieraj: It's on page 23. T-Mobile Corporation is on track in Poland and we are ready to start in Romania; we are already having a full banking license but the marketing launched will be... we're working on the last aspects of that with the Romanian T-Mobile.

In Poland I think it's new loan volumes are quite significant and we are happy with this performance. And two weeks ago we've launched complete, or three weeks ago, we've launched completely new mobile applications for banking on the T-Mobile. All the good features that are there will be available as our main mobile and Internet platform that is scheduled to be launched, I think at the time of the merger or just a week later. Plus we are working on other solutions especially for the corporate clients or small business clients that will be available in our mobile solution and are not there in T-Mobile platform yet.

And now, going to page 25, the final page of our presentation. This is the outlook. What can I say? We confirm all the numbers. Loan growth; cost of risk, maybe even slightly lower than 2.3 percent; cost/income, already below 48 percent and will be going down; net interest margin at 4.6 percent; and then PLN 322 million as the result for the full year.

I think it's fair to say that if you look at page 19, we've already encountered something like PLN 23 million-worth of costs associated with the merger. The fourth quarter will be for the costs associated with the merger, probably the same or a little bit even bigger, in terms of our expenses. Nevertheless, we believe that we'll meet the annual forecast or even beat the annual forecast because we expect a solid fourth quarter as usual in our Bank and the retail banking in Poland even covering the one-off costs associated with the merger. So with those costs, I would say we feel comfortable that our full-year results will be met.

So thank you very much.

Piotr Bystrzanowski: Thank you. We're now going to take questions from the physical audience.

Dariusz Górski: Po polsku. Dzień dobry. Mam pytanie jaki był badwill na transakcji z BPH? Czy tam negatywny goodwill? Czy nie mają Państwo pokusy żeby w ciężar tego badwill'u jednak więcej kosztów fuzji z BPH w tym roku wrzucić... więc może ta kwota nie będzie te pięćdziesiąt parę milionów tylko większa, więc moje pytanie: Jaka jest kwota tego badwillu i czy te figury podane przez Państwa, ten owe to są tak wykute w kamieniu na twardo .

Witold Skrok: Jeśli chodzi o negatywny goodwill to taką pewną kwotę będziemy dopiero mogli potwierdzić po audycie, tak to jest kluczowa dyskusja, audytorzy są bardzo sceptyczni. Natomiast według nas jest możliwość wykazania około 200 – 250 milionów badwillu. I teraz jeśli w scenariuszu pozytywnym uda nam się przed audytorem obronić takie podejście, to wtedy większą część tych kosztów moglibyśmy przenieść tak żeby utrzymać pozycję kapitałową i żeby wynik kwartalny, czy nawet miesięczny był pozytywny. To są nasze cele, ograniczenia których się trzymamy. Punktem pierwszym jest opinia audytora.

Wojciech Sobieraj: A na to mamy 60 dni od closing accounts i 30 dni jeszcze na uzgodnienie ze strony GE. Czyli opinia audytora tutaj będzie nie wcześniej niż w lutym

(The question related to the possible amount of badwill related to the BPH transaction. It was highlighted during the answer that the exact amount of badwill will be known as soon as Bank's audit is finished. According to the Bank there is a possibility to book around PLN 220-250 m of badwill in the positive scenario. Still Bank has to wait for the auditor's opinion. It will be available in February at the earliest.)

Kamil Stolarski: Chciałbym zapytać o zmianę tego outlook'u na koszty integracji, bo tam właściwie Państwo teraz zakładają dwukrotnie niższe koszty związane z HR. Pytanie jakie założenia za tym stoją? Czy mniejsze zwolnienia? Czy po prostu... z czego to wynika że te koszty są teraz dwa razy niższe.

Wojciech Sobieraj: Nie, nie są dwa razy niższe. My się odnosimy do 650 mln zł. Cały czas mówiliśmy, że te wcześniejsze 950 milionów zł to było super skrajnie konserwatywne...

Kamil Stolarski: ...jeśli mogę przepraszam, na stronie 9 Państwo pokazują, że wcześniej spodziewali się że koszty integracji w dziale HR będą 314 milionów zł, a teraz spodziewają się Państwo że te koszty "ludzkie" czyli pewnie pakietów odprawowych będą 167 milionów zł. I z czego tutaj przepołowienie wynika?

Wojciech Sobieraj: Może zacznę od końca. Pakiet, który został uzgodniony przez związki zawodowe w GE jest pakietem wiążącym nas przez rok. Czyli nie mamy prawa zakładać, że odprawy będą niższe te, które oni sobie ustalili. Pakiet odpraw ustalonych przez GE był wg mnie największym znanym mi, najbardziej hojnym dla pracowników jaki kiedykolwiek widziałem w polskiej bankowości. Więc jeżeli patrzymy na ten iloczyn, który wpływa na tę całą kwotę to na pewno nie jest niższa odprawa. W związku z tym może się to wiązać z dwoma innymi czynnikami: mniejszą liczbą osób do odejścia, bądź inną strukturą odejść tych osób. Bo wiadomo jak z każdym pakietem, jest część ludzi, którzy są zatrudnieni krócej i oni nie mają pełnego pakietu. Część ludzi, którzy są weteranami bankowości dostają ciut więcej. Więc my patrzymy na to z tej strony, że nie będziemy na pewno zmieniali w żaden sposób pakietów odpraw i nie będziemy starali się zmniejszyć jakichkolwiek należnych części dla pracowników. Część z tych kosztów przesuwamy już na 2017 i zmienia nam się też struktura osób, które będą z tych pakietów korzystały. To są główne czynniki stojące za mniejszym niż... To jest raz, a dwa, druga część jest taka, że te 314, które było wcześniej w tym planie to było bardzo konserwatywne. To był plan zarówno z centrali jak i w oddziałach, taki, żebyśmy byli w pełni wyrezerwowani na dosyć agresywny scenariusz, co do kosztów odpraw, liczby pracowników zwolnionych oraz ich struktury. Chcieliśmy być bezpieczni. Teraz jest kwota 160-170-180 mln w zupełności nam wystarczy.

(In this section the issue of synergy costs decrease was discussed. It was pointed out that the PLN 314 m amount represented conservative approach. The decrease can be link with smaller number of FTEs reduction and reviewed structure of employment.)

Kamil Stolarski: Ok, I to nie wpływa jakoś mocno na szacunki synergii...

Wojciech Sobieraj: Szacunki synergii, które są podane 460, to chciałbym, żeby to było dosyć dobrze... Myśmy mieli szacunki synergiczne, które chcieliśmy osiągnąć z BPH, to było 460 mln zł. 160 mln zł było po zrealizowaniu ich planu naprawczego I tutaj już jesteśmy, tak jak Witek powiedział, poczekamy jeszcze na te wyniki audytora, ale w przeciwieństwie do skomplikowanych

zagadnień goodwill'u, badwill'u to tu możemy nawet na tabelach powiedzieć, że oni to zrealizowali i 160 mln jest już zrealizowane przez nich. Czujemy się bardzo komfortowo z tym, że do tych 460 mln dołożymy 304 mln i sądzę, że te synergii.. o ile do kosztów synergii jesteśmy już bardziej przekonani, że to jest ostateczna kwota 500 mln całkowitych kosztów, to nową prognozę synergii, która może być tylko lepsza niż suma 460 będziemy mogli podać sądzę już na następnych wynikach kwartalnych. Ona na pewno nie pójdzie w dół.

(The next question was on the forecast of synergies amount. The synergies in the amount of PLN 460 m were acknowledged. The new forecast of synergies amount Bank will be able to present during next quarterly results conference. The amount will not be decreased for sure.)

Kamil Stolarski: Dziękuję. Jeszcze w tym kontekście, koszty integracji na 2017 wzrosły z 328 na 447. I do tej pory consensus rynkowy był taki, że ten zysk Aliora w 2017 r. będzie gdzieś pomiędzy 0 a 100 mln zł i teraz jeżeli te koszty rosna o 100 mln zł, to czy Państwo się obawiają, że będzie strata w 2017, czy...

Witold Skrok: ... nie, nie, nie obawiamy się. Tak jak odpowiadałem wcześniej mamy takie graniczne element, które pozwalają nam zarządzać tymi kosztami, to jest nie możemy mieć miesiąca ze strata, to jest pierwsza rzecz I druga współczynnik wypłacalności ze względu na koszty nie może spaść poniżej takiego naszego wewnętrznego bufora, który jest o 1 punkt procentowy wyższy od minimalnych wymogów KNF.

Wojciech Sobieraj: I tutaj jeszcze mogę dodać, że jeżeli udałoby się... a wierzę mocno, że uda się przeprowadzić fuzję operacyjną na koniec I kwartału, 31 marca, to mamy praktycznie 3 kwartały, które będziemy już mogli się cieszyć... no poniesiemy koszty związane z synergiami, ale będą już efekty tych synergii również. Więc chciałbym tutaj uspokoić i potwierdzić, że przesunięcie części tych kosztów na 2017 rok na pewno nie spowoduje jakichkolwiek strat w Aliorze. Tak nie będzie.

Witold Skrok: Nie chciałbym tutaj tworzyć jakichś takich dużych oczekiwań, ale w nawiązaniu do tego o czym mówił Pan Górski, jeżeli udałoby się nam przekonać audytora do tego goodwill'u to jesteśmy nawet w stanie te koszty 447 z 2017 utworzyć na nie rezerwę w 2016 r. mielibyśmy koszty w I I II kwartale, bo wtedy mamy prowadzoną fuzję integracyjną i dopiero po jej zakończeniu będziemy w stanie nazwijmy to generować synergii i de facto III kwartał, to już byłby kwartał w którym mamy dużą część synergii i żadnych kosztów integracji.

Wojciech Sobieraj: Ale to zależy od tego ile będziemy mogli zaksięgować badwill.

(It was pointed out that higher integration cost in 2017 can lead to the net loss in the year 2017. It was highlighted in the answer that these costs are manageable. Moreover if the operational merger completes in the end of Q1 '17, Bank will book costs of course, still it will enjoy synergies as well. The shift of integration costs will not lead to the net loss in 2017 for sure. There is also the issue of badwill discussed with auditor. The recognition of badwill could allow the Bank to enjoy majority of synergies in the III quarter with no integration costs, but it depends from the amount of badwill the Bank will be able to book.)

Piotr Bystrzanowski: Apologies for non-Polish speaking part of audience. We switched to Polish, but I wonder if we could go back to English because I get questions what we are discussing. The things discussed so far were badwill, and we said we will - it will be dependent upon audit – end of year audit, and we now discuss the new synergies presented in the slide 9, the acceleration of integration costs, expense, and the reasoning behind the PLN 500 million.

Kamil Stolarski: So maybe next question on the... would you be willing to quantify the probability that you will close the deal with Raiffeisen? And yesterday there was a news that Deutsche Bank Polska, is put on sale, it was made by Reuters on sources related to the transaction, would you be interested in Deutsche Bank Poland? Thank you.

Wojciech Sobieraj: So I think, let me start with the last question. Alior, from very beginning we were very involved in M&A part of the activities in the Polish market, so we were in number of different data rooms providing various strategic fit between the potential buyer and the seller. And first of all, we don't want to comment on Deutsche Bank rumours or speculations, but Alior also is... which our transaction with BPH shows. We are not interested at all in purchasing the portfolios of foreign-denominated loans, regardless of what is the currency, Swiss franc or euro, or anything. As a reminder, in this case on BPH, we were not buying the Polish-denominated mortgages neither.

So this would be the answer to the latter part of the question concerning the Deutsche Bank.

Looking, discussing why not, but we are not a large international Bank. We are not very much interested in large international portfolios of corporate clients, and we are not interested in foreign-denominated loans, mortgage loans.

The question is what's left and is it a really strategic fit for us? Questionable.

But I think we are now at the speculation stage, so I don't want to go further on this news.

As far as the Raiffeisen is concerned, I cannot say a single word because it will be, basically, I will be breaking a law. We are in exclusivity period of the negotiations with them. We announced it to the markets, us and Raiffeisen, and if transaction goes forward, we will announce. And if the transaction is not going forward, we have the legal obligation to, without any delay, to inform the markets. So all this speculation if the transaction goes forward, when, how, and which conditions, I have to refrain from.

Kamil Stolarski: Thank you.

Piotr Bystrzanowski: Any more questions from the physical audience?

Male: I have a question on your NPLs. I appreciate your comments that you are preparing for a large NPL disposal but nonetheless, the NPL ratios are going up, despite heavy origination, or high origination and I wonder what's driving that. And also, as I understand correctly, in 3Q there was a substantial part of risk costs, neither related to retail nor corporate. So I wonder what that was.

Witold Skrok: So if you look at the graph on page 15, you can see that NPL for the retail portfolio developed (0.4 percent), (0.6 percent) quarter by quarter. So what happened in third quarter is just ordinary pace of business, when part of our portfolio deteriorated and is reclassified into NPL. And... so nothing spectacular happened in third quarter.

And, as I mentioned, to get a better price we should offer a minimum PLN0.5 billion of NPL portfolio. The smaller bit, based on our experiences from the past, brought a less attractive price for us. So this is why we are collecting and we are waiting to get a minimum PLN0.5 billion. And, as we just mentioned, end of this quarter, beginning of the first quarter next year, the portfolio would be disposed.

Wojciech Sobieraj: And on the retail side, I can comment we haven't changed single policies. We're not taking more risks. It's the composition also that our... it was a really, really strong performance that allow us to get into the net interest margin of 4.5 percent and on the annual basis, even 4.6 percent.

And I would say, without sale, you will see the growth of the NPLs also in the fourth quarter of the retail clients because this is a seasonality and we'll go for the cash loans. We see a lot of clients that are coming maybe on a base of the 500 plus program that are coming from non-banking institutions to our branches and we would like to serve them, also especially in the pre-Christmas period. So our hope is to conclude this sale of NPLs and get back to the 11 percent level or even below in the retail NPLs.

The other, what was related, I think...

Witold Skrok: The other concerned this line, net impairment allowances. It's not just only the credit risk provisions but the write-downs, some of the assets. And I think that you can get a good explanation in the (note 10) of our financial statement on the page 26.

Piotr Bystrzanowski: OK. Any more questions from the physical audience?

Male: Just one question about Bank's exposure to wind farms in Poland. What is the amount and whether management feels comfortable with this exposure? Thank you.

Witold Skrok: Our exposure to the wind farm is... can I share? OK so there's around PLN 1 billion. So there's a total exposure which we have. And we are reviewing, with our auditor, the business plan of case by case. And based on that, very small amount of the provisions has been already created.

Wojciech Sobieraj: And we do feel comfortable with the provision level that was created. And if the situation continues, you will not... if it not vastly deteriorates from the current state, we will not see the rights of the two would be visible on our quarterly results.

Piotr Bystrzanowski: Are there any more questions from physical audience? OK, Jean, can you open the lines for questions from remote audience, please?

Operator: Thank you, and as a reminder for everyone on the phone, if you wish to ask a question now you may press "star," "one" from your telephone key pad and wait for your name to be announced. If you wish to cancel your request, you may press the "Hash" key. And, your first question comes from the line of Marcin Jabłczyński. Please ask your question, your line is now open.

Marcin Jabłczyński: I have a question on the BPH impact for next year. And the question, actually this is a twofold question, number one, BPH Core profitability so far in the three quarters of this year, it's PLN 2 million negative. To what extent we have already seen the impact of PLN 160 million cost reduction during the first three quarters of this year?

And secondly I think to Dariusz questions you've replied that you're not going to be loss-making next year, yet with all the integration expenses to be booked next year, my question is, is it contingent on you being able to offset part of those integration expenses with your negative goodwill? Or would you still consider yourself profitable as a combined entity even if you're not able to book, or to offset, any of the integration expenses for next year against the negative goodwill? Thank you.

Witold Skrok: I'll answer to question two. Of course, there is a certain risk but a scenario which I'm behind this reallocation of the integration cost, based on the

assumption that we will be able to convince at least partially, auditor, and part of the goodwill will offset this integration cost. Please don't treat this number as a certain indicator of profit which we expect for 2017 but... because it's really... but important factor is to have at least part of the goodwill, badwill, to be recognized and approved by the auditor.

Question number one, to what extent PLN160 million has been already recognized in the first three quarters' results, I think that only one-fourth of that amount has been already recognized in the financials for three quarters of this year.

Marcin Jabłczyński: One-fourth meaning like 25 percent, right?

Witold Skrok: Yes.

Marcin Jabłczyński: So, we should see much more coming, due later, fourth quarter and next year?

Witold Skrok: Yes.

Marcin Jabłczyński: OK. Thank you very much.

Operator: Jovan Sikimic.

Jovan Sikimic: Actually I would have two questions. Can you explain once again, I think you mentioned once the decline of Tier 1 capital and capital ratios, quarter to quarter. And the reason for, let's say, lower deposits. I think so far you didn't have like a quarter with contracting deposits, and what was the reason behind this? Thank you.

Witold Skrok: OK. So on page 18, we have development of the Tier 1 and TCR. And I remember that when we met last time, I pointed out the difference between quarter by quarter, and then structure of our balance sheet. And if you look at the second quarter balance sheet, you can see that we have a huge amount of treasury bonds which, on the asset side, was treated as a collateral for tender offer, which we announced in June.

So we collected deposit. Those deposits were converted into (TB) bonds with a zero risk-weighted asset. And when we acquire shares from BPH the T-bonds were repriced by the shares with a 100 percent risk weight. So this is why, without any changes, but without changes of the structure of our assets, that Tier 1 and TCR went down.

Jovan Sikimic: OK. Thank you.

Operator: We have no further questions at this time. You may continue. Thank you.

Piotr Bystrzanowski: OK. Thank you very much, everyone. That concludes our today's results announcement.

Witold Skrok: Thank you very much.

Operator: That does conclude the conference for today. You may all disconnect. Thank you all for participating.

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