



ALIOR BANK S.A. Q1 2015 Results Announcement

Conference call held on 15 May 2015

Edited transcript

Corporate Participants

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Alior Bank S.A. , Deputy CEO

Niels Lundorff

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

Presentation

Host

Good morning, ladies and gentlemen, I would like to welcome you to Alior Bank's Q1 2015 results announcement. Today, our speakers are Wojciech Sobieraj, CEO, Witold Skrok, CFO, and Niels Lundorff, Management Executive Advisory.

First, we will start with the presentation, then, as usually, we will follow with Q&A. Regarding the Q&A, I have a kind request to all of you: please, if you may not ask any questions regarding Carlo Tassara sell-down issue, because we may not comment it. The answer would be simply that we may not comment. Thank you very much. I give the floor to our speakers.

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

Welcome, I present the first and the last three pages. Niels will help me with the rest of the presentation. I am on page 2. These are the highlights of our achievements and business in Q1 2015. I would say 85m net excluding the Meritum merger is in line or even slightly above our expectations. It represents 25% y-o-y growth. At the same time, the positive development of both sides of the balance sheet continues with a positive impact of the entire Meritum integration that is on track. Both, costs and synergies involved in the process are confirmed. Also we believe we can achieve as a matter of professional pride, the fastest merger process done in Poland. We believe that after the General Assembly meeting that is scheduled on 25th May, the decision from KNF will follow very soon to allow us to conduct the legal merger. And I would like to confirm that operational merger between the two banks can be done in September–October this year. From signing to joint Banks the entire process will take us slightly above or even less than one year.

T-mobile banking services are on track with one negative aspect, only today, which is not a coincidence; only today we are starting the first loan campaign. It is going to be a very strong six-week ATL campaign designed to sell lending products in all T-mobile branches. NIM impact of the rate cuts is visible, but it remains strong and best-in-class: 4.3% for Alior and 4.6% together with Meritum.

On page 3, there are details on the merger with Meritum. PLN 36 m of integration synergies and results this year, PLN 77 m is planned for the next year, and 87 for 2017. I would like to confirm that the Management Board and all employees in Alior will make all the effort needed to synchronise the PLN 36 m of expected synergies this year with the costs of PLN 50 m. I do not want to confirm 100%, but there is a big probability that net impact of the synergies and costs of Meritum [integration] will be close to zero.

The HR optimisation programme is already underway, all regulatory bodies are informed, agreements with the trade unions in Alior and Meritum have been signed, and the new organisational structure is in place. I am really proud to announce that we will have now three centres of operations: Warsaw will practically stay untouched, Kraków is the centre of our operations and IT, and on top of that we are adding Gdańsk team. We move our consumer finance business to Gdańsk using the know-how, expertise and people there. We will use the IT engineers and experts from Meritum to help, compete and support our colleagues in Kraków, so that you will not be surprised by a lack of innovations from Alior on IT side.

KNF approval, as I mentioned, it is very difficult to say how quickly the regulators will provide KNF approval, because it can be used against us. Judging by the current communications, the questions

asked and the dialogue, we do expect that the legal merger approval might take place relatively soon after 25 May.

Page 4. This is usually my favourite... I would like to focus on some of the numbers. Net profit grew by 34% y-o-y, and without Meritum impact, the growth was 25%. All the lines show strong double-digit growth: loan increase – by 31%, deposits – by 27%. These are the two things that I would like to highlight. Costs are under control, and we are on the way to achieve this cost level as we announced earlier or even faster. Now, it is well below 50%, and we are on track to get it to 48%. These are the highlights of this page, and then the details will be presented by Niels.

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

Thank you, Wojciech. On page no 5, we would like to highlight PLN 1 bn loan growth for Alior standalone, and adding PLN 1.8 from Meritum, that is 11% added to the loan book. What is interesting in Meritum, we are adding 25% on cash loans and credit cards to Alior's book, and 8% to the corporate portfolio. This corporate is purely micro business. We confirm our growth target this year – PLN 5 bn plus, of course, the PLN 2.8 bn added from Meritum. After consolidation and we will have the legal integration, it will be part of the combined bank.

Page 6. PLN 400 m of deposit growth fo Alior value standalone. Very strong retail growth in Q1. With the new interest rate environment, we started a lot of campaigns for retail deposits, and we are of course strengthening relations with clients. Meritum adds PLN 3 bn of deposits, i.e. 12% added to the deposit base of Alior in the consolidated [financials]. In Meritum it is interesting to see that there is almost PLN 1 bn of retail current account – a very strong relationship with a number of retail customers.

Page 7. In corporate NPLs we have seen a good recovery of a few large cases, reducing NPL. Retail NPL growth is in line with our calculated cost of risk, which we are booking, and we are putting in our calculations for ROE in various customer segments. There was no sale of retail NPL in Q1. In mortgage NPL, we had three cases, PLN 4 m, with a very good LTV coming into NPL. That is why we see a reduction in the coverage ratio for mortgage. It is nothing worrying us. Meritum impact was 0.7% NPL growth for corporate, and 0.4% NPL growth for retail, and both of them with a very good coverage.

On page 8 NIM is down in Q1 mainly due to the rate cuts we experienced in Q4 and in March as well and partly also due to the strong sale of market loans with lower NIM but very good ROE. The impact from the rate cuts has to a high degree been mitigated and now is still being mitigated by a number of actions which we have listed up, which entails an immediate re-pricing of loans and we are continuing part of

that. As you may recall, we delayed term deposit campaign for retail. We have taken part of that up again. Now we believe we have a more stable interest rate environment in front of us potentially increasing in a year from now. And we have a very strong focus this year on further growth of cash loans and of micro-lending. And this should give us a good basis for believing we will see a NIM increase throughout 2015. Witek?

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

Slide 9. Fee and Commission Income. We earned PLN 93 m in Q1 – almost the same result we recorded in Q4 2014. And this is a very good result. In the circumstances when the interchange went down, the steps which we have taken in 2014 allowed us to repeat very good results in the line Fee and Commission.

Slide 10. ROE – 12.2 versus 12.4 driven mainly by the increase of the equity through the redistribution of new shares and retained earnings and very good equity. Tier1 at the level of 11.2, Tier2 at the level of 2.8. We see that in the future we will need additional sub-debt. We are preparing that and in the course of Q2–Q3 we would issue PLN 150–200 m new sub-debt.

Slide 11. Cost at very moderate growth rate – 12% and revenue by almost 20% allow us to keep cost/income ratio below 50%. Integration costs in Q1 were only PLN 1 m but we expect the bulk of the Integration costs to come in Q3–Q4.

Slide 12. We are acquiring the number of customers at a very high speed which we showed last year and this year and we expect that this pace of growth will be able to continue in the course of this year. As you remember we already launched the restructuring process of distribution network as a consequence of the merger with Meritum Bank. Having the 4th largest distribution network we have to scale them down to our appetite.

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

So in pages 15 and 16 you see two projects of our growth with T-mobile. I have mentioned earlier that we finished or we are about to finish the process of installing our employees' store-in-store concept. In 135 of our locations we have already our people. We will increase this number to 180. And we are investigating further 60 locations. There is a lot of traffic in T-mobile branches. The equipment is becoming more and more expensive – the Smartphones, the tablets and so on. It looks like a perfect place to talk about consumer finance for these people. We discovered that it is better when the financial

issues are discussed with people who are trained in financial matters rather than with people that are experts in telecommunications. People are trained. All T-mobile staff is motivated. There is a sale-incentive programme with them to refer clients to our representatives. What was missing was the strong ATL support. Today you will see. It is not Robert Lewandowski this time, but a person equally known to the general public in Poland. I think it would be a success. That is why we know that after 15 May we will have all the components ready to start full cooperation with T-mobile, not only customer acquiring. So, I hope at the next conference you will see strong financial results from this cooperation. So far, we can say that the break-even will be faster than we expected, but it is definitely not the goal of the entire cooperation. We need much more in terms of the clients' revenues and clients' revenues will come with a successful sale of the lending products and refinancing of the existing financial obligations of T-mobile clients.

Then the very short review of our consumer finance performance. We have mentioned that the instalment loans average is practically stable at around PLN 700 m. Yet, the cross-sale growth to this client has grown substantially, and we will continue this business using the IT systems, know-how expertise, financial modelling that was accumulated in Meritum for the last years. We combined it with what is the best-in-class in Alior, and it allows me to be very positive that we will be the number 2 player in consumer finance in Poland after Santander. That is our goal – I think quite achievable.

On page 18 there are highlights and probably that is the most difficult page of the presentation. The easy part here is NIM. We started the last year with 4.5 and we ended up with 4.6. We are starting this year with 4.6. We believe we will end up with 4.7. Cost of risk is nothing special. We do not expect any deterioration. The increase you see here is practically 100%-related to the consolidation of the Meritum business. Loan growth of PLN 400 m per month is still the target. I think we will end up with PLN 4.85 bn C/I ratio and it is on the way to be below 48% this year. It all depends on the speed of execution of the synergies that were mentioned earlier.

The most difficult is the first part, which is the consensus. We are not giving the guidance, but my problem is the following. When I looked at the analysts' report, looking at us together with Meritum, the consensus was at PLN 353 m. Last year, Alior without one-off impact of Polbita was PLN 357 m – alone, without Meritum. In Q1 this year, we stand between PLN 91 m and PLN 92 m. Witek had to correct the numbers, because yesterday it was PLN 91,67 m and now it is PLN 91,43 m, so it has become PLN 91 m. So, PLN 357 m for last year (without Meritum) and PLN 91 m for Q1 this year. These are two numbers mean that PLN 353 m is... I feel, we all feel very comfortable with this number. But we are still in a very uncertain environment, and I think that I would look for the results of Q2 to be more than very

comfortable with this number in Q2. That is all that I can say about this first line. Thank you very much, and we are open for questions. Thank you.

Host

Thank you, gentlemen, for the presentation. Now we are to follow with the second part of the meeting, the Q&A session. Those willing to ask a question, just let me know. We have one question.

Dariusz Górski - *Analyst - DM BZWBK*

Dariusz Górski, BZ WBK. I have a question on net interest income, that of Alior standalone. It is a bit tricky, but it looks from your numbers that your income was up but your costs were also higher, by around PLN 30–50 m. Why was that, if you were not chasing or seeking new deposits? Because it looks like your cost of funding has been up in this quarter.

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

We have mentioned that we have not run any special campaign for the deposits, and that is true. We were not chasing deposits in January and February. We do not have a parent company, and we maintain our philosophy of self-financing, so there was not a single day that our loan-to-deposit ratio was above 100%. It is true, that the cost of funding, reflected in the costs of the deposits that we pay to the clients, has increased.

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

Just one sentence to add to what Wojciech has said. MPC cut the rate in March, and within this one-month period, we were not able to reprice the deposits of our customers with maturity longer than one month. This is the main reason to explain why net interest expenses went up relatively significantly, I would say.

Dariusz Górski - *Analyst - DM BZWBK*

I have a follow-up. Meritum results. You provided us with two sets: one for the full quarter, one for Meritum results since you technically acquired it. They are a little bit different. The interesting thing is that the one since February is higher than in the one for the full quarter, so which ones do you consider as recurrent or are they recurrent?

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

We became the owner of Meritum on 19 February, and since then we started to consolidate it. So, for consolidation and to show the impact on the consolidated results, we took only this period, 19 February – 31 March. And just for representation, we also disclose the full quarter results of Meritum.

Host

Do you have any following questions?

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

I can say it is nothing unusual, because we took Meritum in the situation where business foundations was very solid, yet they were missing capital, and liquidity base, deposit base. They would be able to grow their loan volumes, and as soon as appropriate agreements could be found between us and Meritum, they got the fuel for doing business as usual. In March alone, they immediately got themselves to the levels of sales that were similar to those of September and October last year. The first two months for Meritum were lower in sales, and the loan loss provisions that they made in January were high. To answer your question, I believe that Meritum is now back on track. They have both the capital and deposit base that will allow them to grow at the speed that is reflected in the latter part.

Iza Rokicka - *Analyst - Ipopema Securities*

Iza Rokicka, Ipopema Securities. I have a question on slide 18 to this loan growth for 2015 including Meritum Bank. How we should we read these PLN 5 bn? Is that including Meritum Bank or without?

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

As I have mentioned PLN 5 bn plus PLN 2.8 bn we are just consolidating.

Iza Rokicka - *Analyst - Ipopema Securities*

Ok, and my second question will be on outlook on the net interest income for the Alior Bank standalone for Q2. You have mentioned you did not have enough time to reprice deposits after the March cut. But how the cut in the lombard rate would affect you net interest income in Q2? So, basically whether the loan growth will outpace the pressure on NIM that at least I foresee or expect to see in the sector in the second quarter.

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

We have two elements here. So the first one which we have just mentioned is pure technical reduction of the lombard rate and the impact on the NIM. That is one part of the story. And the second, which you can see in Q1 is the increase of mortgage loans in the overall portfolio. Mortgage has a three times lower margin than a cash loan. What we are doing to offset this effect and to improve in Q2, we are focusing on the cash loan. Also [we hope] that the mortgage will not limit the growth in the mortgage portfolio, but the primary target is to support and increase sales of cash loans.

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

I think it is worth to say that Q2 this year will be the most difficult in protecting our NIM levels, because later one of these elements will be easier for us to handle, which was linked with the impact of interest rate cut on the deposits. So, do not expect miracles on the NIM in Q2, but we are confirming that the year-end will come back the same path as it did last year to 4.7 – obviously under the assumption that there will not be any further rate cuts.

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

And one more thing adding to that – the mitigation actions we have taken on introducing a number of different fees are periodised as interest income. So, it is not only the LOMBARD, but which is the factor down. We have actions taken which will increase the NIM also in the second quarter.

Iza Rokicka - *Analyst - Ipopema Securities*

But now, basically looking at Meritum's Q1 results, we should see a bigger pressure on NIM in Meritum than in Alior on the standalone basis in Q2.

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

Not really, because what Niels mentioned, is a change of the pricing structure. The component of the net interest income is much lower and the bulk of...

Iza Rokicka - *Analyst - Ipopema Securities*

Just on the new sales, right?

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

Right. Plus offering the same customer a higher volume loan.

Iza Rokicka - *Analyst - Ipopema Securities*

Well, I do understand the actions you are taking in order to increase fees at the expense of the interest, what will have an impact on net interest income. What I am trying to get a feeling whether the net interest income in Q2...

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

...should not be lower than in Q1. We are focusing on the additional measures to improve them also in Q2. As Wojciech mentioned we should not expect a miracle. Please remember that this repricing was introduced on our side both in Meritum and Alior in October.

Iza Rokicka - *Analyst - Ipopema Securities*

So, this is a declaration about non-drop in the net interest income both for Alior and Meritum?

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

I would not say a declaration but an intention.

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

Perhaps one more information to that. We can reveal that Meritum in the month of April had a good result that is giving us comfort in the statements...

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

One more sentence about Meritum. We have a feeling that we have bought a very good machine that had a lack of fuel. When fuel of capital and deposits were pumped in March, to our surprise the effects of pumping fuel came almost immediately and the volumes of new sales came back to the levels before the Meritum crisis that started in Q4 last year.

Marcin Jabłczyński – *Analyst – Deutsche Bank*

I have a question on this slide in terms of outlook, because I think some people may take it the wrong way. A quarter ago, you showed a similar slide which showed 2015 market consensus which was higher excluding Meritum. Now I think you are showing the figure that is a bit lower and includes Meritum. Some people may read into this that you are kind of diminishing or reducing your expectations for the full year.

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

These people are reading this wrongly. I am not increasing, but I would like to say that Alior is definitely not decreasing its goals. We looked deliberately very carefully through your reports. And in those reports we took those that include Meritum. Some of you are so pessimistic about the NIM and structure of the market, which basically got us worried. Maybe our internal forecasts are too optimistic versus your expectations. That is why there was a pressure to announce that this number is too low, but I think that we refrained from this at this quarter.

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

This issue was very important for us and we did not put just PAP consensus but we took your figures.

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

But if we take those with Meritum and without Meritum, because some of the analysts reports exclude Meritum, then the difference is PLN 4 m because the consensus without the Meritum is PLN 357 m, consensus with Meritum is PLN 353 m. Obviously, it is not that the Meritum is some kind of value destructor, it is the fact that some of you are much more negative on the general macroeconomic situation. That is it.

Marcin Jabłczyński – *Analyst – Deutsche Bank*

Can I have one more question on Meritum, because you say the April was good for them although it was the first full month of the even lower LOMBARD – from 12 to 10. So, how do they do that, so that they have no pressure? It is practically impossible to immediately reprice the bank book to compensate for it.

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

What I was referring to is our questions, because they changed the pricing for the customer in October. So, after the October reduction they increased net interest margin to 10% offsetting an increasing Fee and commission because of IFRS this fee and commission is recognised in the net interest margin line. And because of that incremental profitability is even higher than in October before MPC cut the rate.

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

And we in Alior were proud that we have good front office systems at the branches and in general, we are quite good at IT system infrastructure. Yet what we discovered in Gdańsk in terms of the especially for front office systems for intermediaries is by far better from what we had in terms of the speed of reaction, multiple levels of individual pricing for intermediaries in terms of risk control per intermediary. That is why we are building a hub with IT solutions based on what we had in Gdańsk. The truth is that Meritum was able to develop the system where they were number one for all the intermediaries they worked with in pricing, in speed of reaction, in “time-to-yes”, “time-to-cash”. We would like to apply these technologies from Gdańsk into the entire franchise network of Alior and consumer finance of Alior and our all intermediaries. That is why using these techniques allowed them to be faster in repricing in the situation where repricing is needed.

Iza Rokicka - *Analyst - Ipopema Securities*

I will also have a question with a regard to net fees. I remember that last quarter we discussed that you made some upward revision in your pricelist and that should have a positive impact on fees. My question is whether we already see in Q1 the full impact of that and whether you are progressing with further increases in fees?

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

Yes, we announced this at the beginning of November having a two-month period to inform the customers. If you look at slide 9, you will see that the other grew by PLN 5 m – almost 10% to offset the drop of the income from interchange.

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

But that was done together with sending to our clients, to all of them we sent the new fees and commission tables in November. It was then only part. Part of this repricing happened in December, part – in January. So, you do not see the full results yet. I can say that you are seeing a very small portion that is linked with a new pricing scheme on loan consumer lending. But the full impact on charges for

accounts and monthly fees is visible here in a very, very small fraction. In Q2, you will see it to a larger extent.

Iza Rokicka - *Analyst - Ipopema Securities*

One more question on slide 10 with regard to the Tier-1 ratio. It is 10.4 together with Meritum. Is there a full 2014 earnings in that?

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

Yes.

Iza Rokicka - *Analyst - Ipopema Securities*

Going forward in the coming quarters, it will be just improving by retention of the earnings. Do you feel comfortable at this level of T1 ratio?

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

Yes, bearing in mind our net profit expectation for this year and PLN 4.5 bn portfolio growth we are comfortable with this – those two figures – to keep T1 at the safe level.

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

But having said so, we are looking at it very carefully. If I have to sacrifice something, it will be the volume of loans. It will not be any reckless lending from our side with the low margin, lending just to satisfy a PLN 5 bn growth of lending volume and then be in trouble with net profit, which would translate into the capital. The capital with this level we feel confident that will reach the net earnings which allow us to live without the capital increase, and we are balancing the loan growth volumes to manage very carefully not to go into the lower margin volumes. And at the same time, in Q1 we did not see a single non-performing loan portfolio (for a single zloty). We in Alior are preparing for the first large sale in Alior in the next quarters.

Iza Rokicka - Analyst - Ipopema Securities

Ok, would you be retaining earnings quarter after quarter?

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

No, half a year.

Iza Rokicka - Analyst - Ipopema Securities

And what is the minimum ratio you would not like to drop below.

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

Our internal target is 9.5%.

Iza Rokicka - Analyst - Ipopema Securities

And you have mentioned the sale of NPLs. How large transactions should we expect?

Wojciech Sobieraj - Alior Bank S.A. – CEO

I think it is too early to say. We are now looking... The issue is that we are quite efficient in our own collection. At the same time when getting older and older, so these two things end in a very dynamic pricing situation, pricing competition among the threshold companies that are managing those funds. So, depending on that level we can set up portfolios – very small or quite significant. It should be known to the market – I think in the Q2 – maybe not... on the brink of Q2 and Q3.

Iza Rokicka - *Analyst - Ipopema Securities*

When you are mentioning the sale of NPLs in the context of the capital position, to me it is just that expecting some extra earnings or extra profits from the sale of this portfolio, because otherwise it would not have an impact on the capital of the bank.

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

But it might. We do not want to go in details yet.

Iza Rokicka - *Analyst - Ipopema Securities*

And this guidance on the cost of risk? Is it with or without the sale of NPLs?

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

That is including all actions we are taking.

Iza Rokicka - *Analyst - Ipopema Securities*

Ok. Thank you.

Kamil Stolarski - *Analyst – Espirito Santo*

A number of questions. First of all. A number of banks have updated the guidance on the cost of risk meaning that they have seen positive developments on the loan book. They for example BZ WBK and PKO BP they said that now they expect a lower cost of risk than they had expected previously. And my question will be whether you see that sort of development in your book or it is not happening?

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

If we have a homogeneous structure of the loan book, I would subscribe to what they said. They are much bigger. They know what they are doing and PKO BP and BZ WBK they see the whole spectrum of lending including large corporate, mid, small and consumer lending. I would say that our increase of cost of risk here is the reflection of the changing of the structure, but if we go line by line, I would say that I do not see any phenomenon that would call for the increase of the cost of risk. So, they are right.

Kamil Stolarski - *Analyst – Espirito Santo*

Commenting on consensus of guidance my question will be: comparing to the meeting we had a few weeks ago when you commented on full year results, is the outlook for standalone Alior right now brighter, better than it was a few weeks ago or the outlook is the same, and you are just commenting on it and the whole discussion is just the reason of Meritum?

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

Yes, it is brighter than a few weeks ago.

Kamil Stolarski - *Analyst – Espirito Santo*

And in what lines then... in what aspects?

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

Net profit. (laughter)

Kamil Stolarski - *Analyst – Espirito Santo*

But do you mean the sales, or the net interest margin, or the pricing, or the cost of risk, or the fees repricing?

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

You have mentioned all of them.

Kamil Stolarski - *Analyst – Espirito Santo*

Ok.

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

What I am trying to say is that we feel very comfortable with the CI ratio, with the cost structure of the bank. Why is the outlook brighter than a few weeks ago? For instance, because we finished the discussions with the trade unions. It is something that we remembered from the past but we have not had an experience of discussions with trade unions while we were in Alior. Now this is over. We have excellent relationship with both unions. It put me in a more concrete mode. I know now what is going to be my cost base. I think that some of the measures on repricing to get to defend the net interest margin work. That makes me a little more optimistic. I see the appetite for loans growing. My only concern is to balance the loan book in a way that we are not chasing the volumes at the price of profitability. Fees and commission re-pricing started to show its impact on the fees that clients pay. Yet, we were able to maintain number two position in net client acquisition on the market despite the repricing. All in all, I am more positive than I was a few weeks ago.

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

Perhaps adding from the strategic project as well. We launched consumer finance project in Q4 last year that it is in itself bringing positive contribution throughout 2015. The skills that we have managed to achieve in cooperation with T-mobile is also giving us some comfort, and until the year-end we are going to see some good results here.

Kamil Stolarski - *Analyst – Espirito Santo*

Another... maybe two technical questions. First, can you remind us what is the percent or the number of shares held by the vehicle controlled by the management of Alior.

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

Roughly 1.5 million. It is in the financial statements.

Kamil Stolarski - *Analyst – Espirito Santo*

Thank you. And what is the percentage of votes at the shareholder meeting that you need to vote an issue of shares' swap with another bank? What was the percentage you needed to have this Meritum deal approved? 80–85%?

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

80%. But this is a different issue because the decision of the General Assembly was to approve an increase of equity by issuing new shares. That is why we needed to qualified majority.

Kamil Stolarski - *Analyst – Espirito Santo*

And if there will be a different sort of transaction?

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

We said at the beginning that all questions related to new transaction shall be postponed at least.

Kamil Stolarski - *Analyst – Espirito Santo*

And my last question will be that this anti-usury bill is evidently not working meaning that the lower rates are not translating into lower cost of loans for the clients. My question is: are you in a sort of discussion with UOKiK maybe right now? Or are concerned that something may come from the regulator that may make the life of bank like a Santander Consumer Bank, like Meritum, more difficult? Or do you think that this structure of new consumer loans is to stay?

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

Let me repeat it once again in public. We are really longing and waiting for the set of regulations that are considered to curb the reckless lending and anti-usury or whatever. All in all, I think that in Alior we have pricing for the clients that is still below anything that is typical for non-banks attacking the client with these products. We have only a small proportion – just 3% – in our portfolio of consumer lending with APR 's higher than 25% – all in, including fees and commission. My simple answer to your question is: we do not believe or expect that something would affect our business in consumer lending.

Marta Czajkowska-Bałdyga- *Analyst – DM BPS*

Marta Czajkowska. Can I just confirm with you one thing about Meritum? In your report, you showed that net profit is PLN 8 m for the period between February and March, and in the presentation you are showing PLN 6 m. The difference comes from lower funding from Alior. Is that correct?

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

No. That is just what we consolidated and Q1 results.

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

The difference is that these are very high loan growth provisions in the first half of this quarter before we consolidated.

Marta Czajkowska-Bałdyga- *Analyst – DM BPS*

And maybe just one more question on costs. Excuse me if I understood it wrong, but I believe that you mentioned that the delta between synergies and the cost of integration should be close to zero. Yet you are showing that it should be PLN 14 m in the presentation – that cost of synergies is PLN 36 m and integration costs – PLN 50 m. Should I read into that that other initiatives should kind of cover that?

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

No. We are confirming the level of synergies at 36–77–87. These are all synergies that we will have from the merger with Meritum. We are confirming the one-off costs of this exercise is PLN 50 m. I am promising to do the best that this PLN 50 m will offset the PLN 36 m. It can be done in two ways – the saving from 2016 can be achieved faster. So this PLN 50 m offset it is not going to be PLN 36 m, but PLN 50 m for this loan savings or it can be the part of the costs. If, for instance, we fire or close some of the branches a little bit later – part of the costs in our current plan we have for these PLN 50 m will be incurred not in this year but in 2016. I am working only on the time scale – not the money scale. No magic. Nothing we have discovered is beyond the expectations. We confirm what is there. It is just the matter of appropriate synchronising of these two streams.

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

And as you have seen, we will quarterly report what the spending and the synergy levels have been at least, until we reach the levels which we are expecting. Later, there will be of course the mixing of their business and our business, but we have systems set up to identify and be able to report.

Marta Czajkowska-Bałdyga - *Analyst – DM BPS*

Ok, perfect. Maybe just a follow upon costs. I believe it was mentioned that you are downscaling your network. Would you provide details on the timing or attitude of that?

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

We announced that – let's call it - project with the target to upgrade some of our regular branches. Some of them will be downgrade to the Alior Express design, and they will provide the same limited number of products as they do currently. If you look at the number of branches, the process has been started the bulk of the branches we expect to be shut down in Q3. We are taking about around 40 branches.

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

It is a mixture. Some of them will be converted into a franchise. Some of them will be upgraded into what we called Alior Premium. Some of them will be shut down. Witold just reminded me that managing these 36 and 50 I mentioned earlier in a big portion it depends on what to do with these 40 branches. There are some discussions, and someone can come and take the whole bulk because they are modern and located in high-traffic areas. It just happened that we have two branches next door, so we do not need two branches in the same shopping centre. If we, for instance, are able to sell this package to some investor, you will see much lower costs. This PLN 50 m will not be there – the penalty fees for exiting the locations. What we are presenting now is the worst-case scenario. You can see that on the cost-side of the locations.

Marta Czajkowska-Bałdyga- *Analyst – DM BPS*

What I am looking for is whether at the end of the day it will positively influence your P&L or not. Because you are moving around them, and whether the impact will be positive at the end of the day.

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

As I have mentioned, 36 plus 77 plus 87 minus 50 is a positive income. If you ask me, if it is going to be this year I am saying I am trying to make it zero. It is not magic. I am not moving around.

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

Please remember that we have two components of the merger with Meritum. First is daily business. The net profit which is expected to be earned in 2015 which will be fully consolidated plus the effect of the integration process. In the integration process we have the costs and the synergies. As Wojciech mentioned, it is the worst-case scenario. It would be a negative impact of PLN 40 m. But there are a lot of things to do on our side to make this negative impact zero.

Dariusz Górski - *Analyst - DM BZWBK*

To follow up on the branches on page 12, you are showing the customer split. It looks like the branches are actually starting to lose customers. Five thousand difference Q-o-Q. Is this a structural thing or the market is saturated or is it cannibalisation of T-mobile that is actually continuing to add customers.

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

No, I think it is the gradual impact of the repricing. We offered the clients at the branches a very simple deal. Either we become your first the bank of choice and then you enjoy everything you have had so far for free – ATMs, no cuts in service level, no cuts in packages for clients. Some of them wanted to use us a free ATM facility, while banking with our competitors. We are patient with them, we were patient with them for one, two, three years – now time to go and make a decision. And (that is why I am referring here to the previous question) we are positively affected with the number of clients that accept Alior as the bank of the first choice. You can expect a marginal drop of the number of clients per branch if this is going to have a positive impact on our business in P&L. I think this is all the explanation.

Dariusz Górski - *Analyst - DM BZWBK*

And to conclude the synergies discussion, the PLN 50 m cost of integration – is that going to be OPEX or... OPEX through P&L?

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

Yes.

Dariusz Górski - *Analyst - DM BZWBK*

Ok.

Host

Are there any following questions? If not, then I suggest for an operator open the line for the questions for the conference call attendees.

Operator

Thank you. To ask a question, please press “*” and “1” on your telephone and wait for your name to be announced. To cancel your request, press “#”. It is “*” and “1” to ask a question. Our first question comes from the line of Ivan Bokhmat from Barclays. Please, go ahead.

Ivan Bokhmat – Analyst - Barclays

Hi, good morning, thanks for the call. I have two questions. Number one: In the impact of Meritum for your Q1 earnings, I saw that the actual input of fee income is quite low. I was wondering whether this is just a temporary effect or there have just been some shifting around. The second question – it refers to something that you have disclosed earlier – the standalone financial plan for Meritum. I was just wondering if following the rate cut and integration, what are your feelings regarding those earlier projected numbers. Thank you.

Wojciech Sobieraj - Alior Bank S.A. – CEO

Answer to your first question about fees and commissions and the impact on Meritum. It is not a mistake. The impact of Meritum on the line of fees and commission from Meritum because of their business will be very small. They have 250 thousand clients, but most of them are clients in the consumer lending. All fees and commission that are charging on consumer loans clients are added into the net interest margin line. They do not have a lot of fees and commission. We will be working to increase that, to change that, but it will take some time. So, do not expect any impact of Meritum on this line especially. The second part of your question is that when we looked at the level of net income and the forecasts that the management of Meritum made and we announced in our previous presentation it was PLN 85 m net profit for Polish accounting standards, before the rate cuts, before all

these negative changes. We believe that after all these changes including the translation into the IAS we still are very positive, and I think they will end up around PLN 50 m.

Ivan Bokhmat – *Analyst - Barclays*

Thank you very much.

Operator

There are no further questions.

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

..Which made this transaction with Meritum, after we paid all PLN 300 m – 6 times the earnings – the whole transaction with Meritum is not a bad deal, I guess.

Host

We have no further questions. Thank you very much for attending our presentation. Thanks to our speakers. To our shareholders I would like to remind you that on 25th of May, we have an AGM, and for remaining participants we will see each other in August at our semi-annual results. Thank you.