Transcript of Q3 2017 results conference of mBank

October 26, 2017

[edited version]

Joanna Filipkowska, Deputy Head of Investor Relations: Good afternoon everyone and welcome to this conference that will summarise the Q3 results of mBank Group. The presentation comes from Vicepresident, Head of Finance, Andreas Boeger, then we will hear from the Chief Economist, Ernest Pytlarczyk, about macroeconomics. Apologies for the absence of CEO, Mr. Stypułkowski, he is away today, taking part in workshops for managers of Commerzbank Group, where Mr. Stypułkowski represents mBank. Over to you, Mr. Boeger.

Andreas Boeger, CFO: Welcome to all of you, thank you very much for coming. I would like to guide you a bit through the slides, through the storyline of our Q3 figures and afterwards I will hand over to Ernest. So let me start with the key highlights of the quarter, which was the quarter in which we have seen very solid development of business and also of the financial results. The net profit in the quarter increased 8% compared to the second quarter of this year and it was especially remarkable that this was done thanks to record high core income. The core income was supported by both dimensions: net interest income and also net fee and commission income with net interest income rising by nearly 11% YoY and net fee and commission income rising by roughly 9.5% YoY. Against this background we also have a cost to income ratio of 42.3% in the quarter which I think is a very solid number to have. In terms of the development of the portfolios and of the loans finally in the quarter we have seen the pick-up that we were expecting on the corporate side so basically the most of the business development and of the growth of the portfolio we see for corporates. And on the retail side we are now experiencing what we have been working on and what we have been expecting – we have a further structural shift in the asset mix – so we are managing down the Swiss franc portfolio and replacing these amounts with Polish zloty mortgage and also non-mortgage loans which are actually higher margin. And we are not only substituting what we are managing down but we obviously overall the bank is also growing. This was the dynamic on loans. When it comes to the capital ratio – capital ratio very solid, slightly down in the quarter due to business growth but I think 4.6 p.p. above the regulatory minimum which is a very solid number. When it comes to loan loss provisions we have this quarter evidenced what we also spoke about in the last conference – we are now seeing this normalisation of the loan loss provisions. LLPs for the first nine months are now at 59 bps and for the quarter they were at 78 but we will actually talk about this in bit a more detail. Finally to say as one of the highlights – we have also been active in the capital markets in the quarter and also in October in both instances via our subsidiary mBank Hipoteczny – we issued covered bonds – one 5-year 500 million and one 6-year 1 billion zloty bond which is showing that we are also working towards the stability of the balance sheet, of the funding, while also doing it in a very cost efficient manner.

So I would like to go to the business development on slide 4. You know, following our digital strategy we have, we continue to offer our clients innovative products and solutions with which they can better interact with us and which builds a better basis for us to do business. We've given you some examples here – on the left side you can see the Android Pay for Visa card holders, you see a channel that is actually giving access to public administration but we've also listed that this mobile channels are not only there for convenience purposes, it is also for us mobile as a sales channel. It's not about that the client take the mobile phone and is just having a nice convenient look at his or her account statement – we're really also selling and contracting here and some examples are given here – so travel insurance, also cash loans. Because I think that the very important part of the mobile story is that it's also used as a sales channel. Speaking about mobile, you might know that in July for the first time we had more logins on the mobile phone than on the Internet. That was the first time that our clients chose that this is their preferred way of communicating with us if they don't come to the branches and we've also seen this trend further materialising in August and September so in the last three months we had more mobile logins than logins via the Internet. With the mobile strategy, mBank is exactly on the right track. When it comes to number of clients, let's start with the retail business. Retail business, number of clients – this quarter is up by 25 thousand which for mBank is quite a low number, that number is lower than you're used to it because we've also actually closed some accounts due to inactivity so it's a net number here. I think the closing of accounts in August was 70 thousand, it was planned to be around 90, I'm not sure but this is roughly the run rate of the closing accounts. When you look at the overall number of clients in retail segment, you also see a small adjustment here because we have taken an adjustment when it comes to counting the number of clients. The background here is – we have microfirm current accounts where you have private individuals who are registered as customers, we need to know your client, processes etc. but we have decided, even thou in the system they're registered as clients, they do not have individual banking products with us, we actually don't count them as clients any more. So there you also have an adjustment. Coming to the number of clients on the corporate side, there in the quarter, the lower part of the presentation, 325 more clients, I think this is the average growth rate which was also helped by the digital capabilities we have when it comes to corporates.

On the next slide which gives the financial summary – next two slides actually – don't want to spend too much time on because we will anyhow go into the matter a bit deeper – but maybe some comments. I think this overview is showing you the very good revenue dynamics on the one hand, on the other hand it's showing you that cost is under control and net profit, maybe here, the blue line, I have spoken about this some minutes ago, is up by 8% QoQ but YoY, when you compare Q3 2017 with Q3 2016, it is up by more than 26%.

So let's go to page 8, the development of loans, development of loans you can see here – we had a strong development in the corporate segment and as I said we had a structural mix we are seeing further materialising on the retail side. Overall loan growth here in the quarter at nearly 3% which is a stronger dynamic than over the full year and talking about stronger dynamic especially on the right upper side, the blue bars, for corporates 5.9% in the quarter, if you annualise this, you come at more than 18% growth rate on annual, so basically we have there more momentum now and this is exactly what I was alluding to and we were also hoping before summer or basically saw the first signs of this that corporate demand is picking up. And we also expect this corporate demand to be healthy also going into the year 2018. Retail, maybe to look at the number a bit closer because there's always the thing if you look at the green bar the mortgage loans to individuals, the number is slightly down, but you know this is the core story on which we're working. That number is on the one hand down because we have repayments in the Swiss franc portfolio, these repayments in the quarter were as usual 90 million Swiss francs, plus we saw the Polish zloty appreciating against the Swiss franc in the magnitude of 2.7%, that obviously brought the overall down, the rest was basically filled with new business on the Polish zloty mortgage business. Non-mortgage loans up by 4% in the quarter, I think this is exactly showing this.

On the next slide we have a bit more of the new business dynamics we want to show you because these were obviously before just the overall numbers. New business dynamics, and maybe we start on the lower left with the corporates – corporates new sales up in the quarter by 25%. The 25%, if you look on the percentage basis, what was the biggest driver – the biggest driver was this time the K1 segment so basically you have the highest delta in this from the K1 segment but if you look who is the largest contributor still to our new business - it is K2. So you see K2 here with 1.4 billion still has the highest contribution but we see the very healthy dynamics on corporates. Retail – on the right upper side - retail non-mortgage loans YoY up by 6% the new sales in the quarter actually down by 13, we also see some seasonality here, last year also in the same quarter, in Q3 we actually had a drop of nearly 10% there when it comes to non-mortgage loans. Similar picture to the left side on mortgage loans where we also have less and last year we had also less sales of 9% in Q3 but I think the important dynamic is YoY still plus 18%. And I think this shows a very good effort here.

Let's go over the development of deposits. Development of deposits - a bit of a similar picture to what we've seen in loans – volume growth on the corporate side and structural mix change on retail. Overall the quarter without repo is plus 2%. Let's go into the segments – corporate without repo is 4%. This time in corporate we've actually experienced that term deposits have been sought after by our clients more than current accounts so we had a higher growth rate in term deposits. You know that this was something that we were towards getting the term deposits actually down but I think the important thing here is that the net interest margin on the corporate side was constant even though we had higher term deposits. I think it's very important. We want if our clients want the term deposits, we are in business with them, the important thing is that this is not distorting our NIM and this was demonstrated nicely here in the quarter. When it comes to retail, retail transactional accounts in the quarter up by roughly 2%, term deposits down by roughly 5. I think here interesting if you take YoY over the full year the transactional accounts are up by 18% and the term deposits are down by nearly 21. This was intentionally done in terms of pricing , we want our clients to be transactional, we want our clients to have a prime relationship with us and basically have the account as the basis for what we're doing.

So much to the development of the loans and deposits which obviously transposes then into income so let's look at income on page 11. And I've already said, important here, core income at a record level – core income in total quarter up by 3.5% and YoY up by more than 10%. So on the next slide I will have more on the NII but maybe to go through – we have net fee and commission income, you see here also a growth. I would like to comment also on net trading income which is up in the quarter but was down in the quarter before. You know we experience some volatility there, obviously the important point is always what is the client business behind it – the client business behind it, especially on the foreign exchange side was positive, we saw FX movement and we saw client activity there. On the other hand we had some positive effects because we have some cross currency interest rate swaps which we use for hedging which are fair valued though P&L and they also contributed positively to the trading result.

So let's go to page 11 to look a bit closer into net interest income. You see on the upper right hand, the red bars, you see the 10.9 YoY and 4.2 in the quarter. I would like to explain to you where the 4.2 is coming from. So on the one hand, on the positive side interest income, the blue bar on the left – income up by 3.3% - obviously helped – the quarter had one day more – the day is always a bit more than 1% dynamic – but if you look at the income from loans and advances, it's up by 4.8%, so basically there a good dynamic, the drivers there are higher loan volume, also Swiss franc mortgage is down, non-mortgage loans up – you see this here. And then, the other side of it – obviously the interest expense – and you know, it's something we closely monitor and manage. I think even though we had higher deposits in the quarter, it's a very good sign that the interest expense only went up by 0.2% so a negligible amount and this shows that we are going in a good direction – you see this also on the right side here when we look at the net interest margin that we have a situation where the loan yield is improving and also the deposit cost is improving, then fast leading to an improved margin of net interest margin of 250 bps and there the 250 bps – you know we always like to look at the numbers how they would be without Swiss franc mortgages, that number actually increased to 283 bps so it would be 283 without the Swiss francs.

That was the interest part, let's go to the cost part on the next slide. As I said, cost being under control. If you look at the drivers here or overall development maybe first, is rather flattish, up by 0.5%. Overall drivers – a bit more expenses for staff, in a magnitude of nearly 4 million zlotys, that is due to performance-related pay. And if you look at material costs, material costs are down by nearly 5 million zloty. That is a mix of various things – less logistic costs, even less IT costs in the quarter, because IT costs sometimes are bit higher, sometimes a bit lower. Marketing costs were a bit down, they were a bit higher quarter before. But obviously you have some costs that increased, for example we had nearly 2 million more in consulting costs – this is regulatory projects, IFRS 9 etc. It shows that costs need to be properly managed because in some instances you just have some drivers which you need to compensate. But I think this is seen that this was done nicely in the quarter. As I said, this resulted in a 42.3% cost to income ratio for the quarter. I think it's good to look at the Cost to income ratio for the first 9 months – and if you normalise the cost/income ratio, i.e. if you take the BFG charge we have taken in Q1, you divide this into the 4 quarters, our adjusted cost to income ratio is 45.9%. I think it's interesting to compare the 45.9% to the year before when we have been at 45.3 but the 45.3 of last year was mostly driven by the one-off we have with the Visa transaction. So I think it's fair to say that this year we were able to compensate on a cost/income level also the missing one-off effect on the Visa because if we not would have had Visa last year the cost/income ratio would have been 49.0%. So we've added some efficiency there which is driven by cost under control but obviously very strong income.

Let's go to the loan loss provisions. And there, in loan loss provisions, that is the theme we told you in July, this is the normalisation we see, I've already mentioned this at the beginning, the quarter, in basis points terms, cost of risk was 78 bps which brings the overall 9 months result to 59 bps. But let's look a bit closer into the drivers: let's start with corporates. In corporate loans we have 34 million more loan loss provisions. The basic driver here was also that we had two larger exposures in the K2 segment on which we took loan loss provisions but I would say it's also the usual kind of business you just have if you are in the business of banking and you had out loans and with these loans you generate margins, you will also have loan loss provisions. On Retail we also have higher loan loss provisions when it comes to absolute amount and also in basis points. Maybe before a general remark – with the business strategy that we have and that we have communicated of getting down the low risk but low-yielding Swiss franc mortgages, going into non-mortgage loans and basically appropriately priced polish zloty mortgages you would expect as net interest margin is increasing that also the basis points of cost of risk in the retail business is just increasing. This is a fact and I think this is a positive sign even that the strategy we are having is actually… we are putting that into work. The numbers on a QoQ basis - you might remember that in Q2 we sold some non-performing loans and we had some releases which we didn't have in Q3 that is why you actually have a jump of 10 million zlotys when it comes to the zloty amount and of 8 bps when it comes to cost of risk.

Going over to non-performing loans. I think on NPL there is not too much to be said. It's slightly up but fully in line – if you look at the right side, the red dots – fully in line with 5.2%, also here you have the history over the last year and also if you compare this with the market, the market in Poland to my knowledge is at 6.9% so we're well below the market here. And also if you look into segments below this, both are at similar numbers so there is not one segment which stands out and also we don't see any negative signs here on the mortgage portfolio.

Coming to capital ratios – as I said capital ratios slightly down due to business development etc. You see, if you compare the capital ratios to the regulatory minimum you see a space of 4.6% of Tier 1 so I think this is a very solid capital basis.

This would be it from my side. I would maybe briefly summarise what my key takeaways are because I would actually see 5 really important points that I stressed: I think on the one hand it's the record core income fuelled both by NII and NFC, that is net profit that is up by 8% QoQ and 26 YoY, C/I at 42.3%, LLPs – normalisation materialising but you can see that this is perfectly digestible – I think this is the important message - plus still a very strong capital base. And I would hand over to Ernest and obviously I'm happy to take your questions afterwards.

Ernest Pytlarczyk, Chief Economist, Head of IR and Group Strategy*:* Good afternoon everyone. This positive picture of the Bank, as just discussed, corresponds to the general trends in the economy. What we can see is that forecasts are rather optimistic and now they materialized in the growth rate of investments and the numbers that we see at the Bank. The annualized growth of corporate loans is close to 20%, while the other components were growing as well at close 8 to 9%.

These are very good numbers, which confirm that the economic momentum is strong and we are moving out of growth with more difficult labor market and increasing consumer sentiment supported by 500+ social programme into investments more and more. We have quite a lot of experience with comments that we have from employers – we could say the same. Well, employers say labor is hardly available, so they want to invest more to be more productive. All in all, we are quite optimistic about 2018. We believe that the growth rate of investment will be a double digit rate, especially now when the investment cycle of public investments and absorption of EU funds has become unlocked. In 2018-2019 there will be a lot of absorption of EU funds, as we saw before they did support the economic growth adding more than one percentage point to GDP growth. The labor market sees salaries growing at about 8-9% and public research institutions are looking into the Ukrainian phenomenon, while Ukrainian workers exerted pressure on salaries to go down, there is less impact these days and so the labor market in longer under pressure.

All in all we believe that inflation will growth next year and by the end of this year we will exceed the inflationary target. Being conservative we believe that interest rates in Poland will normalize, I think that in the second half of next year the rates will normalize, even though the monetary Policy Council is being very dovish, I think things will change. One of the arguments here is that the savings in the banking sector are not growing fast at low interest rate environment and this takes me to the monetary aggregates.

Indeed, with the low rates, money is looking for alternative savings and the housing market has warmed up. It is really hot rate now. It is now one of the vehicles for investments of savings. In addition, corporate lending has accelerated, especially large caps, because large-caps in Poland use investment loans, while mid-caps invest rather own resources.

Financial markets – very briefly- to be more forward looking we still believe in good lending in Poland, we still believe that the spread to no-risk assets should narrow down or should stay stable if we have good credits That is because the fundamentals have improved. The ECB decision right now goes hand in hand with the improving fundamentals and we have seen good dynamics in the context of our CHF portfolio. The exchange rate of the CHF has dropped to a record low level and the CHF is further depreciating due to a stronger EUR and it will probably help in valuation of the banks with CHF portfolios. So, the cost of repayment of CHF loans is historically low and the pressure on quick legislative solutions has been also mitigated. Thank you very much.

Andreas Boeger: Thank you, and now we are ready to take your questions.

Dariusz Górski, DM BZWBK: If I may start from the end. We more or less know what is going on with the banks, which use standard method for RWA. What are your thoughts on the Q4 developments in your case, the buffers and potential other measures?

Andreas Boeger: You are right**.** There will be a change in RWA calculation and for the banks which apply the standardized approach we already know that it will be 150%, but a very small proportion of our loans is under the standardized approach, as you know that we use the Advanced Internal Rating Based approach. There, should be so called LGD floor implemented. On the LGD floor we do not have clarity yet when it is set. But obviously, if the LGD floor comes and it is higher that the LGD that we are currently having, then we will have higher RWA or TREA.

I think, it not something that I can now give you a number, anything that we calculate internally here is, yes, there will be shift that you can see, but it is nothing that really should move a lot when it comes to capital ratios. But the LGD floor is something which is to monitor and there will be higher RWA most likely, because otherwise I think does not make sense for the regulator to have a floor. When it comes to capital buffers, the one thing is the recalculation of the capital buffers for the CHF portfolio. There, we do not have clarity from the regulator yet where this is set. There might be a change, a change also to the upside, but also there, I think we expect currently this to be in some basis points area and not in a larger magnitude. The other unanswered question we have in Poland is obviously the planned implementation of the systemic risk buffer and we also spoke about it last time. The systemic risk buffer is a tool that is there on the international and European level to foster for basically systemic issues, which the local regulator sees and this is why this can be imposed. I think it was said to be implemented in Poland from the next year onwards. From my logical point of view, it shall replace what is sometimes called the KNF black box, i.e. a 3% surcharge we have on Tier 1 and 4% we have on total capital. But I do not have clarity yet, if it will really be a replacement, or somehow be on top. I just think that it would not be logical to have a systemic risk buffer and to leave the other things we have just as they are.

Dariusz Górski: On your net interest margin. I recall the conversations with your predecessors a few quarters back and they were rather reluctant for guiding for the improvement and so far NIM is performing very well. Do you see further continuation of the trend?

Andreas Boeger: Obviously it is not easy to guide on this. But I think if we first look at the general dynamics we maybe will come to something that gives you a clear picture. The first thing that we have already come a long way, so also in the last 12 months we increased NIM by 19 bps, but also 250 we now have, without the CHF portfolio we would be at 283. So, somehow, I think there should be for mBank a natural trajectory going up, because with going down with this business, we more replace with just normal business. That is the one side.

On the other side, what has actually helped improve NIM a lot in the past, and especially in the last 12 months, was the development came from two sides. The one was actually coming from loans and the others from deposits. With loans, I do not want to repeat myself, but we want to come into higher margins – that is clear. With deposits - we have already done a lot when it comes to interest expense. Our interest expense, also on an absolute level, has really decreased and to some extent there is obviously an end, because we cannot have all the money we have in mBank for free. You know that mBank also has a clear strategy that we want to be active in capital markets, we do not think that it is actually the wholly grail to only go after deposits, we do think that it adds us the stability, basically taking the money in our hand and spending it on structurally, having sound balance-sheet is the right thing to do. When it comes to the mix of deposits, term deposits and the current accounts. I think our clients know that the if they come to us and if they want to hunt for the best deposit rates they might not get the purposed term deposit rates. We are closely monitoring this here in steering, but on the other hand we are a universal bank and you know we have empathy even in our strategy, we do not send clients away. If a client wants to place a term deposit, and we had it in the corporate sector this quarter, he should get one. And in the corporate sector NIM margins were stable, but I think to some extent the story of basically getting interest expense also absolute down with rising volumes is coming to an area, which has less magnitude. It is not ending, but it just has less magnitude. So I would expect the main driver to be loans, but the trajectory for me is clear that it should be upwards. But I can tell you where it will be at the end of 2018, but there is the upward direction.

Dariusz Górski: Have you increased base interest rates last quarter? One of the Bank complained that you have increased prices of deposits last quarter.

Andreas Boeger: I am not aware of this, but maybe for some new customers, whatever, but maybe Joanna?

Joanna Filipkowska: We had higher rates only for new customers or new money, but not for the existing ones.

Andreas Boeger: Because, from the management prospective, it is something that we, when we steer the bank, we closely look, we look how do we pay, how much our competitors pay. etc. It is not that it is happening somewhere, the top management looks if it is doing the right thing, it is obviously the mix of business lines, Treasury and Finance, so if there was a real shift I would be able to report, but I also have not seen this in our internal discussions.

Kamil Stolarski, Pekao IB: Maybe a question about cost of risk in the corporate segment. Can you tell us in what sectors were these two cases? Because you said there were two cases.

Andreas Boeger: Yes, there were two larger cases. I do not want to reveal the specific sectors here. We had a similar question this morning. I think the important thing is that these two sectors are not related, so we are not talking about something, where in one sector we see a massive problem, and anyhow you know our portfolio is granular.

Kamil Stolarski: What is bank's assessment in the wind farms. Do you expect any provisions in this segment in the nearest future?

Andreas Boeger: Generally our exposure to wind farms is quote small, roughly at PLN 100 million gross. I have not further background information, but for mBank it is not a major topic.

Kamil Stolarski: You colleague has just became the CEO of BGŻ and there were articles that some experts were telling that the German government has some plans on the merger between Commerzbank and BNP Paribas. My question is, what is your assessment of potential match or mismatch between mBank's operations in Poland and what BGŹ is doing here in Poland. Any thoughts on potential synergies, anything you can share.

Andreas Boeger: First of all I think, I struggle to see the personal connection of my colleague and the discussions there, but I think generally, I am also reading the press, coverage on this, what is happening there, I think the ideal counterparty to ask on this would be Commerzbank, if there are any talks on that at all, etc. So, I have nothing to comment on this situation and even when looking at Poland, I would actually also not like to play around now with some thoughts of who could be with whom etc. I can speak for Poland, and to my knowledge, I think there is nothing on the cards here.

Kamil Stolarski: Question of IFRS 9. Do you have any comments for us on the future cost of risk or the impact on capital? Do you give up some sort of operations because of this?

Andreas Boeger: So IFRS 9, various things we cay about this, obviously there will be an effect at the beginning. I think it is very clear. We think this effect is obviously important for capital ratios. The effect on our capital ratios will be moderate, so nothing to worry about at all, especially given our very high capitalization. To give you a number here would be premature. I think that at upcoming conferences like this we will have more reliable data on this point also and we will share with you obviously. Generally, when it comes at IFRS 9 we will expect, or we will see higher volatility of loan loss provisions going forward, I think this is a part of the concept and having that criticism that too little, too late, so now they want just more very early, so that will just happen. On the one hand -

volatility plus also there will be for each new business a higher stock of LLPs. So I think they will be main drivers of IFRS 9. Also there, the best thing to go into is to have very strong capital ratios.

Sometimes in these regulatory and accounting things, it makes sense to have an economic view. So let's have you have a loan and that loan has a five year tenor and within that five year tenor there is a deterioration of the credit in two years' time. Well, and there is in the end two possible outcomes: the one is – the client repays, or the client defaults. Maybe there is also restructuring in the middle, but let's talk about these two archetypes. This is what economically happens, this is when the cash at the end ends. If under IRS 49 or IFRS 9 you take some provisions early, not early, if they are volatile or whatever, in the end it is important that if you do the right business, that you realize losses from this, other losses you actually want to have (we are not talking about zero losses, because we are in business of taking risk) and that you are once you go into this dynamics, will you go there with a strong capital ratio, because I think you don't want to go in, especially if you are a bank that grows and you are shy if you think that IFRS 9 is a threat to your business, because it isn't if you are well capitalized. It is just a different dynamics and we will all experience how to live with this, and especially when at the beginning or if you have higher LLPs at a certain point of time, once a client at the end of the loan repays, you will also have higher releases. So I expect a bit going up in LLPs, a bit more volatility, but it is not going up like this.

Joanna Filipkowska: Are there any further questions? Well, so I will read the questions which came on line. Anna Marshall - JP Morgan - about the CHF proposals. Could we have a definitive solution in place by the year-end effective from 2018 onwards?

Andreas Boeger: Very difficult to count how many proposals we now had. I think, now we are talking about that which is intensively discussed and which had the first reading in the Parliament and it is very difficult to guess, whether it is coming through or not coming through, etc. So maybe to start answering the question, I will start a bit with our situation on my view on this this, because our CHF portfolio is of a very good quality. That is the first thing to mention. The interesting thing we have, and I hope it is also seen by politicians, I mentioned it when it came to the portfolio, Ernest has also mentioned it, CHF and PLN – the FX rate, I think we are back to the rates we had six years ago and six years ago the CHF LIBOR rate was 1 percentage point higher. So our clients are now on the loans enjoying the lowest instalments in Polish zloty terms, they ever had on this portfolio. So I think you have to somehow find the problem, but O.K. - there are clients who have problems and I think there is a very clear commitment of every bank, and also of mBank, that if a borrower is in need, we should help the borrower. If that is via the existing mechanism, and I think there have been various things next to the Fund, the famous six-pack that was offered even two years ago or if it is via a new Borrowers Fund, let's see, I think that it something that I would also support, people in need should get help. My understanding actually stops when it comes to people, who actually bought a third apartment in Warsaw to rent out. Let's come what is in the law - my understanding stops at this mutualization point, because as you know there is a point in this law that banks pay into a pot. The pot will actually have separate compartments for each bank, and if you do not use the money within six months it is mutualized. That's to me, also being a bit new to this country, maybe I have to know the dynamics a bit more, I think it is not the way it should be done in this environment.

So coming back to the question I cannot say how probable that is and it is difficult for me to find this pressing problem that needs to be addressed because of the facts that I have mentioned before.

Joanna Filipkowska*:* We have another question from Sobiesław Kozłowski from Raiffeisen: In your opinion – will IFRS 9 cause a quicker disposal of non-performing loans by banks?

Andreas Boeger: I think it's a very good question. One that I like, because in theory it should if you look at the accounts. Because what is happening – you have the loans there and the loans which have deteriorated you actually took, if they are in so called stage two, I do not want to be too technical, basically when they are defaulted, it is the same as it is now, so stage three so called, NPL is the same, is the similar treatment, so basically the financial impact is the same, but the question is obviously there, if some of the non-performing loans or nearly non-performing – if there is an incentive to sell them. Financially it might be there. We didn't have the discussion here, we didn't have something on the table to decide. But if that will be on my table, I would always say, similar to the example I said before, "Let's look at the economics" and if we think the portfolio is worth the money and only because we took accounting hit, to some extent that might be released in 2-3 years' time, you really have to think if you want to sell that portfolio. So I think, there will be situations that may be attractive to think about them from the pure financial point of view. I will always take a real economics view to take a decision at the end.

Joanna Filipkowska: Another question from SocGen. Year to date cost of risk is near to the upper 55-60 bps range guidance for the year. What are your expectations for Q4 and can we expect to remain within your CoR guidance for 2017? Any guidance for next year will be helpful.

Andreas Boeger: I will see the cost of risk for the full year at slightly above 60 bps, so a bit higher. If you have this, you will see that obviously also the fourth quarter will be above 60 bps then and is the guidance I would like to give for Q4. For next year – I think it is the normal level, the basis points we are talking about – there is nothing wrong about this. We have always said that cost of risk for mBank is somewhere between 50 and 70 bps and that was also historically. So we have this shift in the portfolio when we say we want to go for business and structurally we go for business which has higher cost of risk, so we are gearing towards a business model with a higher cost of risk and it is really still modest what we now have here. That is the one thing- 60 bps or a bit more will continue plus also under IFRS 9 next year we have the possibility that we will just see higher LLPs due to IFRS 9 and then maybe next year or the year after we will have to examine how much of that were really economic losses and how much of that was just something we in accounting had to book.

Joanna Filipkowska: Another question from SocGen. Corporate lending was driven mainly by large corporates this quarter. Historically we have seen shift from lower yielding large corporates to mid-size corporate segments. Was there any change in the strategy here?

Andreas Boeger: The strategy here is not changed. The important thing is K2. That is why I stressed the biggest driver in new business were still K2 (PLN 1.4 bn in new business in Q3). We had a very strong dynamics in K1, which is also obviously one of the businesses we do in the same manner and if they have the need, we are quick to react and we want to be there for our clients, but it does not shift our focus.

Joanna Filipkowska: And the next one from GP Morgan on IFRS 9. Will the capital charge be recognised all in one go in 2018 or phased in over time?

***Andreas Boeger**:* That is something that we have not decided yet. We will have to see, but as I said the overall effect I would expect will be really moderate.

Joanna Filipkowska: Are there any other questions from the floor?

Kamil Stolarski: I do not know if you want to share with this, but have you checked what would be the cost of risk in the first three quarters of 2016 if you had already been in the regime of IFRS 9?

Andreas Boeger: There are various ways of assessing the impact and obviously there are various ways of trying to look at what-if calculations, but it is nothing that we can actually share with you.

Kamil Stolarski: And the last question concerning selling of NPLs. Do you have a sort of frame agreements based on which you automatically sell NPLs to a debt collector company without auction or a debt bidding process or do you always sell huge portfolios inviting potential buyers to bid for the portfolios?

***Andreas Boeger**:* I am not aware of the automatic process, but I am happy to ask IR colleagues?

Joanna Filipkowska: We have some framework agreements, but I am not sure if it goes automatically via these agreements, but we have some.