



Bank Polski

# Financial Results of the PKO Bank Polski Group for 3Q 2014

Warsaw, 6 November 2014

# Executive summary



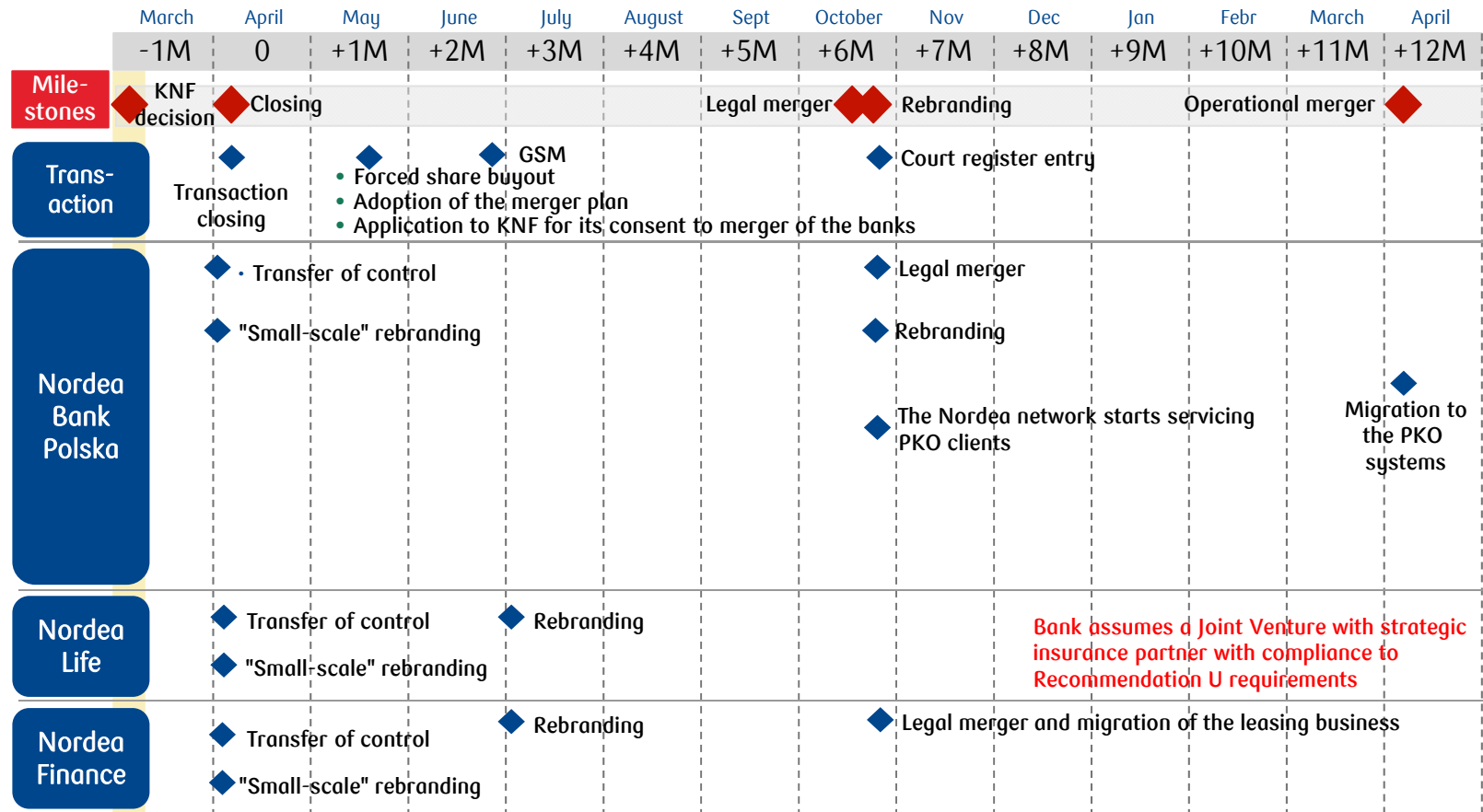
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- **Strong capital position of PKO Bank Polski confirmed by the Assets Quality Review and Stress-tests.** Bank has achieved one of the best score in the Polish banking sector and the high 11th place among European banks
- **Consolidated net profit of the first 3 quarters of 2014 reached PLN 2,532 million (y/y growth of 10.5%), including PLN 873 million being net profit achieved in Q3 2014 (q/q growth of 2.1%)**
- **Consolidated net income on business activity of the first 3 quarters of 2014 reached PLN 8.4 billion (+11.4% y/y) and was determined by:**
  - 13.0% y/y growth in net interest income and 1.1% y/y growth in net commission income
  - 55.4% y/y growth in other net income
- **The market position strengthened in 'leap-frog' fashion**
  - asset base increased to PLN 244.4 billion (+21.5% y/y) with net loans growing to PLN 178.3 billion (+19.2% y/y); funded with customer deposits, which rose to PLN 171.2 billion (+13.5% y/y)
  - 1.9 pps y/y growth in market share of the loan market to 18.0%
  - 1.2 pps y/y growth in market share of the deposit market; to 17.4%
- **Portfolio quality improved**
  - risk cost declined by 20 bps y/y (-12 bps q/q) to reach 109 bps
  - coverage ratio increased significantly: by 6.7 pps y/y (+2.4 pps q/q) to reach 58.1%
  - NPL ratio declined by 1.6 pps y/y (-0.1 pp q/q) to reach 7.1%
- **High operational efficiency retained**
  - Cost to Income ratio (C/I) at 44.0% (C/I for PKO Bank Polski: 41.0%)
  - Return on Equity (ROE) at 13.5%
  - Return on Assets (ROA) at 1.6%
  - interest margin at 3.6%
- **Strong liquidity and capital position**
  - Loans / Stable funding resources at 87%
  - Capital Adequacy Ratio at 12.7% (Core Tier 1 at 11.5%)

# Plan for integration of the Nordea assets assumes finalizing the main stage of works in Q2 2015



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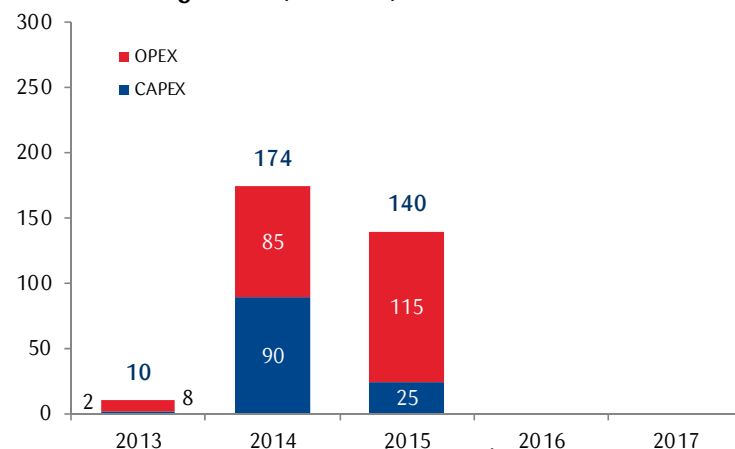
Bank assumes a Joint Venture with strategic insurance partner with compliance to Recommendation U requirements

# Integration synergies and costs in the years 2013-2017



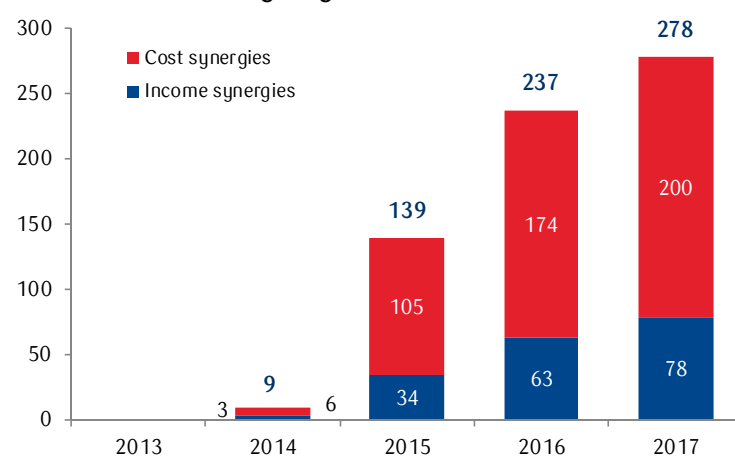
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Costs of integration (PLN mn)



- PKO Bank Polski has assumed the total integration expenditures over four years to close at PLN 325 mn;
- Opex will represent over 64% or PLN 208.4 mn of those expenditures;
- Capex will thus stand at close to 35% of the integration expenditures;
- The key integration budget items will include: IT system migration (over 56%), personnel costs (19%), marketing and communications (6%), real estate (5%) and other (13.8%);
- The assumed integration expenditures are equivalent to average in comparable transactions in both Poland and the international markets, even though the cost structure is somewhat different on account of the cost of unbundling of the IT area.

Income and costs synergies (PLN mn)



- After a detailed verification exercise, the Bank now expects the cost saving synergies to be higher than originally assumed;
- The Bank expects to realise the IT area related synergies rather rapidly: at termination of cooperation with the supplier of the IT services carved out of Nordea Bank Polska;
- Total acquisition synergies are estimated at PLN 278.0 mn (gross); as of 2017, i.e. counting from completion of the integration process;
- Key synergies will be delivered through: integration of the functions such as IT, support and cross-selling; acquisition of new clients and customers; and bancassurance in the retail banking business;
- The transaction will have a positive impact on the PKO BP Group's net financial result as early as in 2014;
- At completion of the integration process in 2017, estimated increase in EPS attributable to the transaction will reach nearly 9%, with ROI of around 13%.

# Selected Business Initiatives of Q3 2014



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## Integration of Nordea Bank Polska

The Polish Financial Supervision Authority issued a permit for the merger of Nordea Bank Polska and PKO Bank Polski. The decision opens the way to the actual merger of the two banks, with the Bank taking over all the rights and obligations of Nordea Bank Polska. The legal transfer of all of Nordea Bank Polska's assets and liabilities to PKO Bank Polski took place as of the date of registration of the merger by the National Court Register - 31 October 2014.



## Mortgage Bank in the PKO BP Group

PKO Bank Polski has obtained the permit of the Polish Financial Supervision Authority for establishment of a mortgage bank; a new entity expected to come into operation at the turn of 2014-15. Through its establishment, the Bank aims to: lower the funding costs of its long-term mortgage loan portfolio through issuance of secured mortgage bonds; and to reduce the mortgage loan portfolio risk through improved matching of funding and lending maturities.



## PKO Bank Polski's international expansion

As part of its ongoing support for Polish companies with international operations, PKO Bank Polski will offer its services through outlets abroad. It plans to open its first corporate branch in Germany, reaching out to a market characterised by very strong activity of Polish companies.



## The EFFIE Grand Prix for effective communication

PKO Bank Polski won the 'Long term marketing excellence' category Grand Prix for the highest effectiveness in communication at EFFIE, one of the marketing industry's most prestigious global competitions. Through its effective communication the Bank has been successful in attracting new customers and has rejuvenated its customer base by nearly 20%. It has also witnessed further increase in spontaneous brand awareness while registering improved frequency in its perception as a modern, innovative and customer-friendly entity.



## Listed by Forbes as the Best Companies Bank

The Bank received the highest marks for its corporate offer and accolades for its branch level customer service. PKO Bank Polski was also recognised for: one of the most accessible baskets of banking services; provision of mobile apps tailored to the needs for corporate clients; and the easy access to its diverse financing solutions, including loans with the *de minimis* guarantees.



## PKO Bank Polski's special offer for the large family

The Bank has developed an offer for all holders of the Large Family Card, which includes free-of-charge personal accounts and mortgage and cash loans on special terms. Just one child using the Bank's savings and checking account entitles the parents to a free 'Konto za Zero' account and a debit payment card. The Bank also offers this customer group: a revolving credit facility with a 50% origination fee discount; cash loans with up to 3 pps interest rate reductions provided that 50% of the loan proceeds are used for child education related purposes; and a housing loan with a 50% origination fee discount.



## Innovative gadgets for up to 26-year-old students and graduates

The Bank has been encouraging the young to take advantage of its offer. It refreshed its offer for students and young graduates at the beginning of the year. The 'PKO Konto dla Młodych' student account can be maintained free of all charges and includes commission-free cash withdrawals from all ATMs around the globe. The latest step in the direction of the young customer has been the new range of mould-breaking forms of payment: the MasterCard branded proximity key rings and stickers, and more recently proximity watches.

# Financial Summary



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	3Q'14	3Q'13*	Change y/y	Q3'14	Q2'14	Change q/q	
<b>P&amp;L items (PLN mn)</b>	Net interest income	5 658	5 007	+13.0%	1 979	1 939	+2.0%
	Net F&C income	2 216	2 191	+1.1%	727	784	-7.3%
	Result on business activity	8 390	7 531	+11.4%	2 891	2 950	-2.0%
	Administrative expenses	-3 806	-3 341	+13.9%	-1 337	-1 343	-0.4%
	Net impairment allowance	-1 446	-1 355	+6.8%	-475	-558	-14.8%
	Net profit	2 532	2 291	+10.5%	873	856	+2.1%
<b>Balance sheet (PLN bn)</b>	Assets	244.4	201.3	+21.5%	244.4	242.3	+0.9%
	Net loans	178.3	149.6	+19.2%	178.3	178.0	+0.2%
	Deposits	171.2	150.9	+13.5%	171.2	171.4	-0.1%
	Stable financial resources	203.8	165.7	+23.0%	203.8	203.7	+0.1%
	Total equity	27.0	24.2	+11.7%	27.0	26.0	+3.8%

The Nordea transaction contributed to an increase in consolidated net profit of ca. PLN 41 mn\*\* and an increase in total assets of ca. PLN 34 bn in Q3 2014

\*) Due to a change in the accounting principles applicable to recognition of insurance products related revenues and expenses, relevant data in respect of the previous periods have been restated to ensure comparability.

\*\*\*) Net profit of the Nordea Bank Polska including integration costs amounted to PLN 57.7 mn in Q3 2014

## Key performance indicators



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		3Q'14	3Q'13*	Change y/y	1H'14	Change q/q
Basic financial indicators	ROE net (%)	13.5	12.9	+0.6 pp.	13.4	+0.1 pp.
	ROA net (%)	1.6	1.6	+0.0 pp.	1.6	-0.0 pp.
	C/I <sup>1)</sup> (%)	44.0	44.7	-0.7 pp.	43.4	+0.5 pp.
	NIM <sup>2)</sup> (%)	3.6	3.9	-0.3 pp.	3.6	+0.0 pp.
Quality of loan portfolio	NPL ratio <sup>3)</sup> (%)	7.1	8.6	-1.6 pp.	7.2	-0.1 pp.
	Coverage ratio <sup>4)</sup> (%)	58.1	51.4	+6.7 pp.	55.7	+2.4 pp.
	Cost of risk (bp.)	109	129	-20 pb.	121	-12 pb.
Capital position	CAR (%)	12.7	13.7	-1.0 pp.	12.3	+0.4 pp.
	Core Tier 1 (%)	11.5	12.6	-1.1 pp.	11.1	+0.4 pp.

\*) Due to a change in the accounting principles applicable to recognition of insurance products related revenues and expenses, relevant data in respect of the previous periods have been restated to ensure comparability.

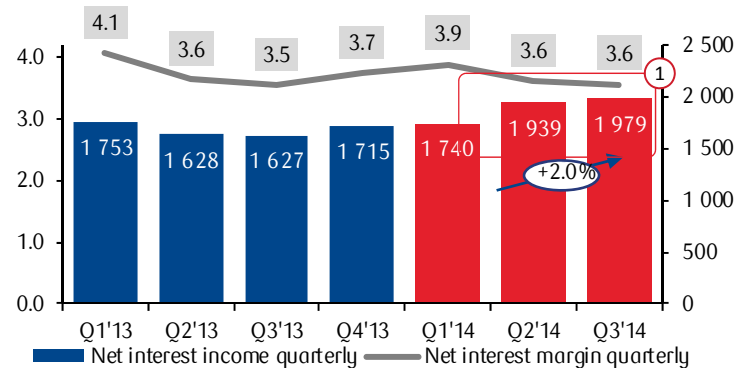
- (1) Administrative expenses of last 4 quarters / result on business activity for last 4 quarters
- (2) Net interest margin = net interest income of last 4 quarters / average interest bearing assets at the beginning and the end of the period of last 4 quarters (formula consistent with that applied in the PKO Bank Polski Group Directors' Report)
- (3) Share of loans with recognised impairment in total gross loans
- (4) Coverage of loans with recognised impairment with impairment allowances

# Net interest income

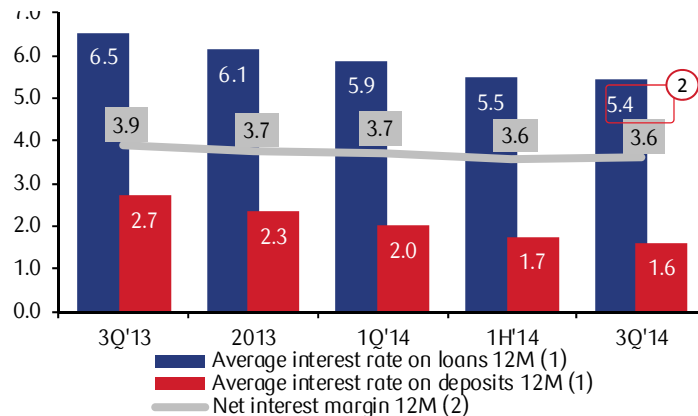


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Net interest income (PLN mn)



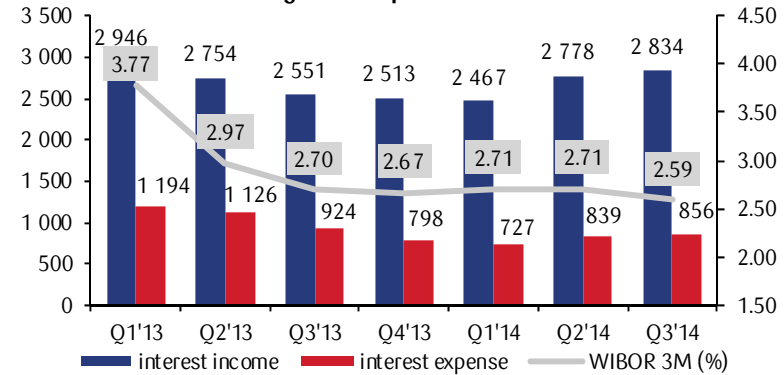
Net Interest margin and average interest rates on loans and deposits (%)



(1) Interest income (expense) for last 4 quarters / average net loans (deposits) at the beginning and the end of the period of last 4 quarters

(2) Net Interest income for last 4 quarters / average interest bearing assets at the beginning and the end of the period of last 4 quarters (formula consistent with that applied in the PKO Bank Polski Group Directors' Report)

Interest income and expense (PLN mn) and WIBOR 3M average in the period



1 Over the first 3 quarters of 2014 net interest income increased by PLN 650 million (+13.0%) y/y, primarily due to interest expense declining by PLN 822 million; resulting mainly from adjustment of the deposit offer terms trailing the decline in market interest rates and the PLN 172 million decline in interest income that resulted from that decline in market interest rates. Another factor driving the increase in net interest income was the inclusion of the effect of Nordea Group totalling PLN 285 million from the beginning of Q2 2014.

2 After Q3 2014 interest margin declined by nearly 0.3 pp y/y following from the decline in the annualised net interest income; effect of a decline in market interest rates while average interest bearing assets grew by 14.3% y/y (primarily in the loans and advances to customers portfolio). Excluding that of the Nordea Group companies, interest margin after the 3Q 2014 rose by 0.2 pp and reached 3.8%.

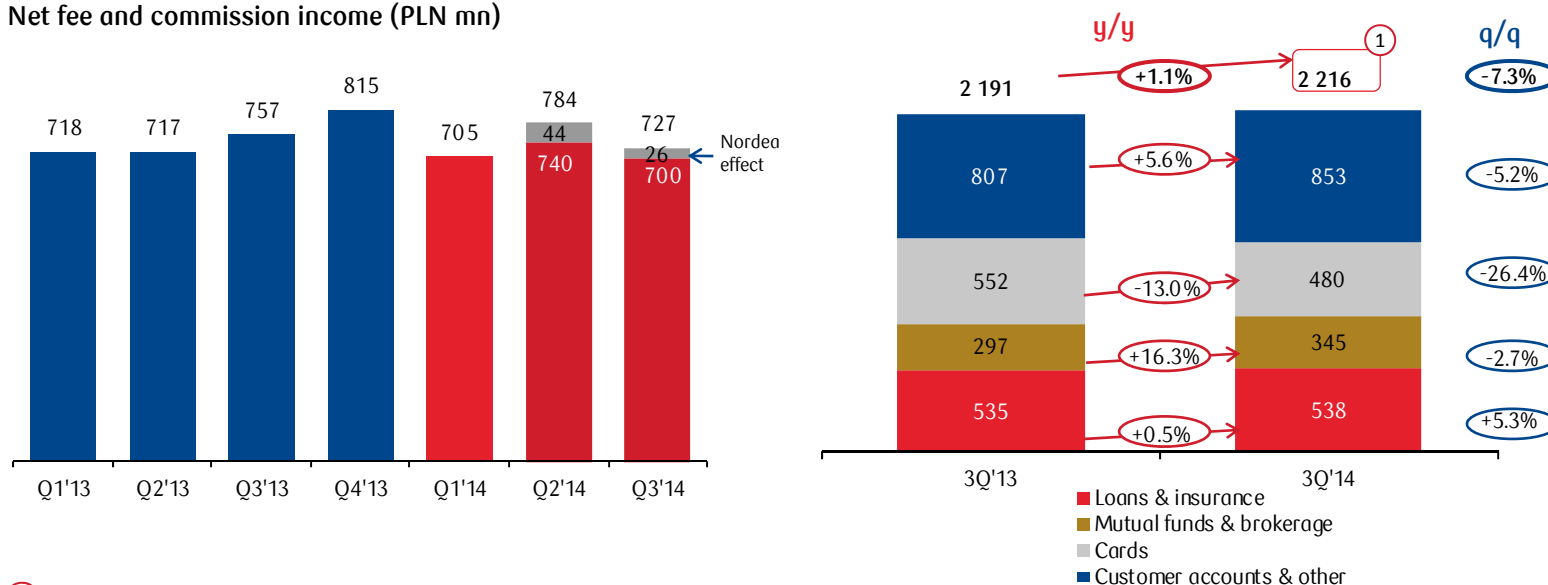


# Net fee & commission income



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Net fee and commission income (PLN mn)



<sup>1</sup> Net fee & commission income was primarily determined by:

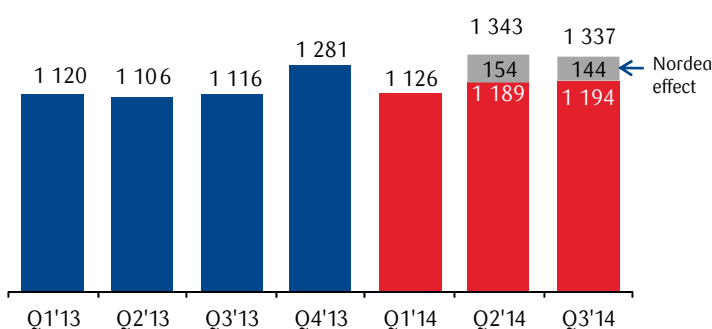
- an increase in commission income from origination of loans and advances
- an increase in commission income from loan insurance
- an increase in commission income from maintenance of bank accounts, a result of an adjustment in the tariff of fees and charges introduced in 2013
- an increase in commission income from securities transactions
- an increase in commission income from servicing of Investment Funds and Open Pension Funds; resulting from the national pension system changes introduced at the beginning of 2014, which translated into lower value of the mandatory deposits transferred to the Guarantee Fund
- a decline in net commission income from payment cards, primarily due to a decline in income from rental of transaction approval devices; a result of the divestment in Q4 2013 of a 66% stake in the eService company.

# Administrative expenses

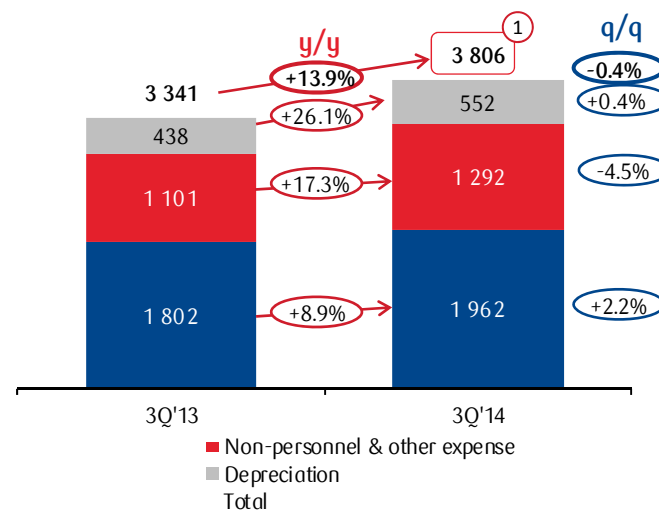
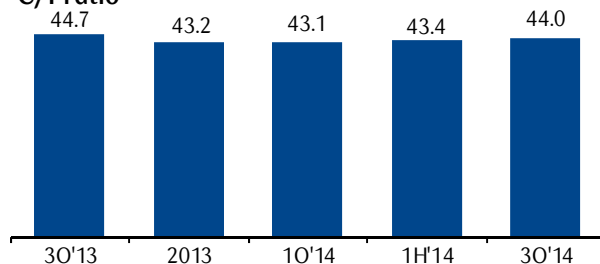


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Administrative expenses (PLN mn)



C/I ratio



Employment (FTEs) eop

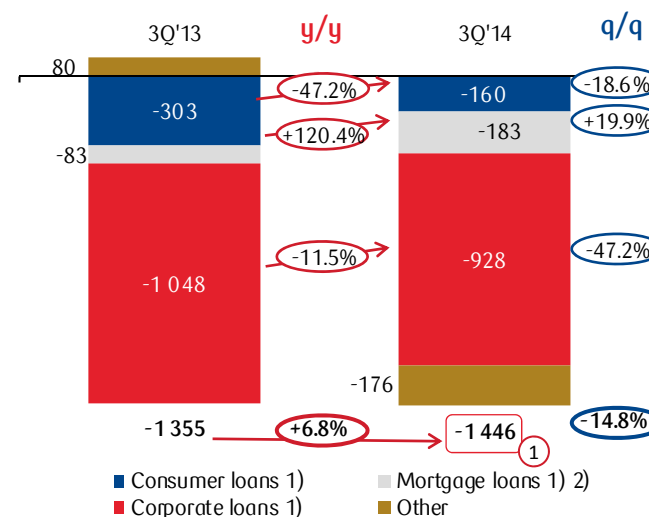
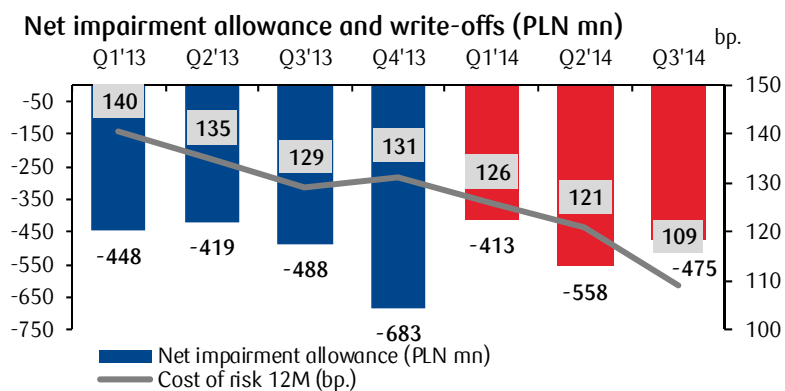
	3Q'13	3Q'14	Change y/y	
			FTEs	%
Bank	24 646	24 398	-248	-1.0%
Group	27 814	29 143	1 329	4.8%
of which Nordea companies	x	1 820	x	x

<sup>1</sup> The level of administrative expenses was mainly determined by changes in the PKO Bank Polski Group structure in 2014, chiefly the purchase of the Nordea Group companies, which caused the operating efficiency of the PKO Bank Polski Group, as measured by the annualised C/I ratio, to move to 44.0% (-0.7 pp y/y). The value of this indicator should come down as the Bank realises the synergies from integration of the Nordea Group operating companies.

# Net impairment allowance



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## Share of loans with recognized impairment<sup>3)</sup>

	3Q'13	3Q'14	Change y/y
Consumer loans	9.8%	8.7%	-1.1 pp.
Mortgage loans	3.6%	3.0%	-0.6 pp.
PLN	3.2%	2.7%	-0.5 pp.
FX	4.5%	3.5%	-1.0 pp.
Corporate loans	13.2%	11.4%	-1.8 pp.
<b>Total</b>	<b>8.6%</b>	<b>7.1%</b>	<b>-1.6 pp.</b>

<sup>1</sup> The 14.8% q/q improvement in net impairment allowance compared with the previous quarter is mainly a result of a decline in net impairment allowance on the consumer and corporate loans portfolio. Impact of the Nordea Group impairment allowance on the Q3 2014 consolidated net impairment allowance amounted to PLN (-)20 million.

(1) management accounts data (2) Housing loans to individuals

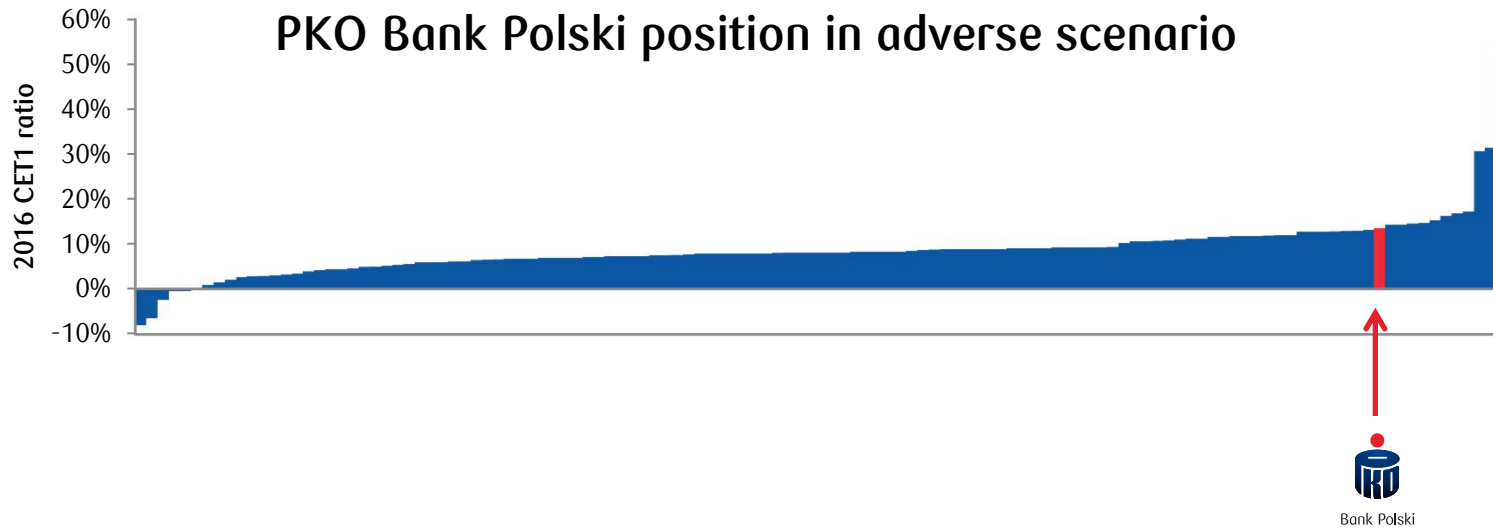
(3) Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers

## Results of 2014 EU-wide stress-tests and AQR (1)



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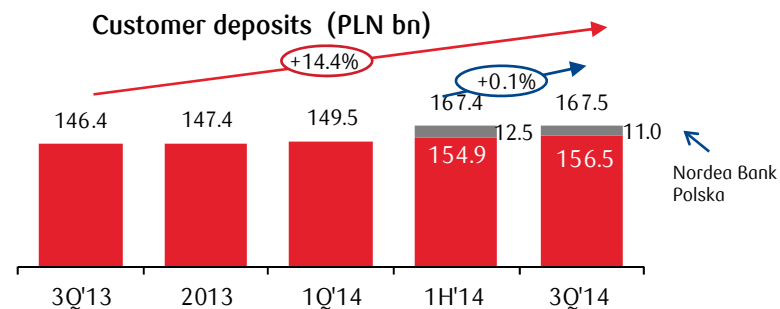
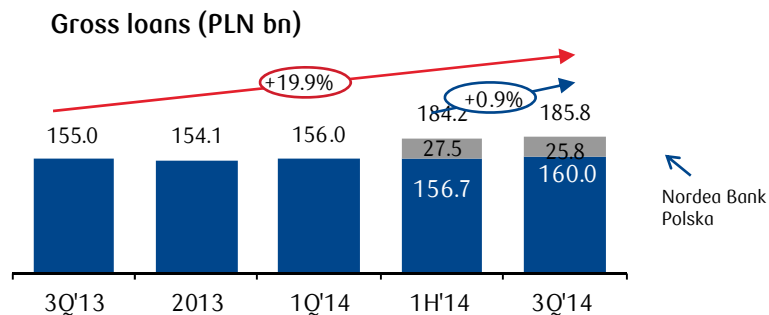
- Regulatory Comprehensive Assessment has confirmed strong financial standing of PKO Bank Polski, proven also by previous stress tests and credit ratings.
- Bank is very resilient to adverse market conditions due to its leadership market position, diversified balance sheet structure, stable LT funding (primary retail deposits and LT bonds), high quality capital and the strongest profitability among its Polish peers (ROE 13.5% as at 30.06.2014).



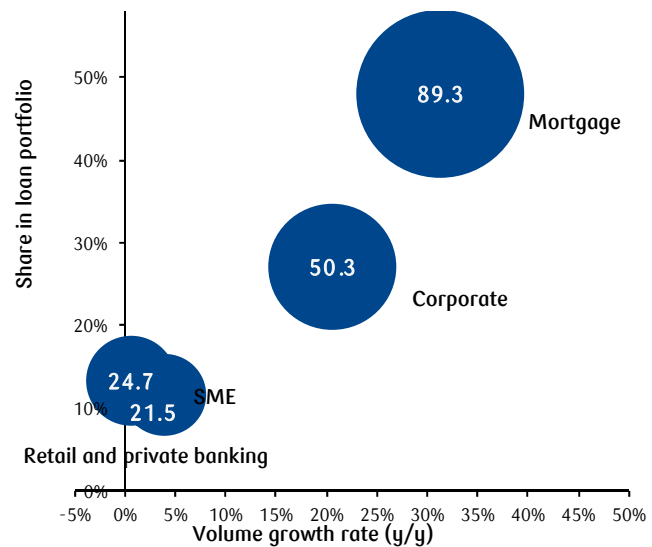
# Business activity - volumes



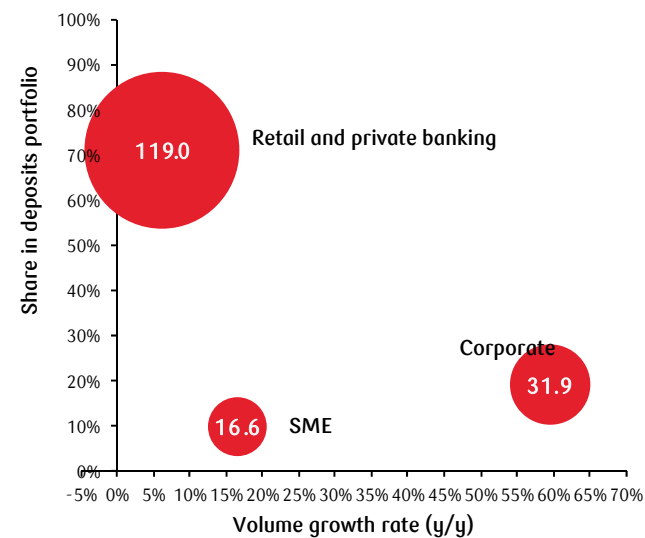
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### Gross loans by business lines (as at 30.09.2014)



### Customer deposits by business lines (as at 30.09.2014)

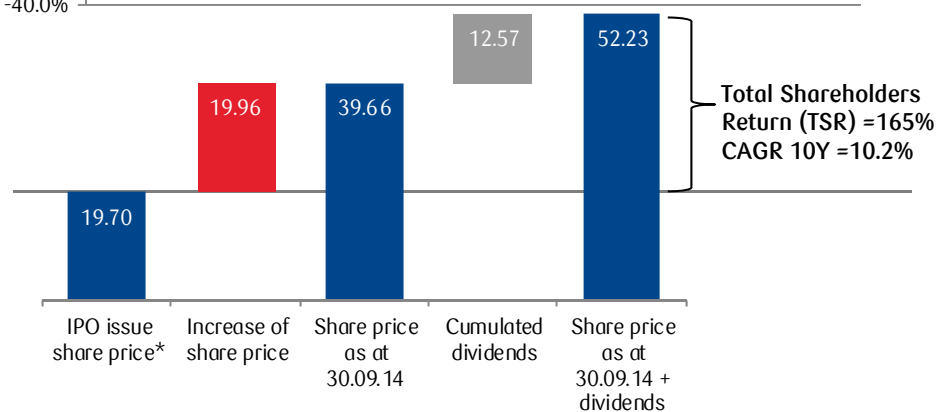
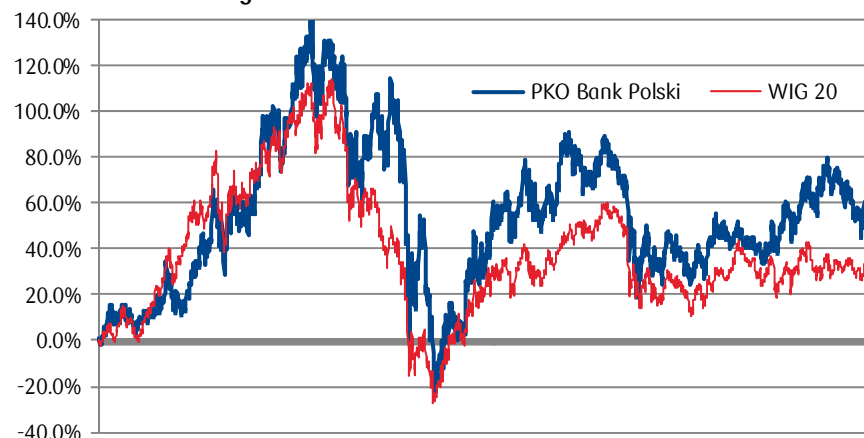


# 10 years since the WSE listing of PKO Bank Polski shares



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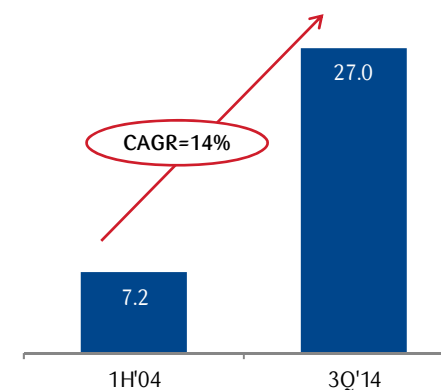
Change of PKO Bank Polski share price between its IPO (10.11.2004) and 30.09.2014 against the index WIG20



Growth of the Bank's market value

	PLN bn
The Bank's capitalization as at IPO day: 10.11.04	24.5
The Bank's capitalization as at 30.09.14	49.6
The increase in capitalization	+25.1
Total dividends paid	+14.5
The increase in Bank's value for shareholders	+39.6

Growth of total equity



\*) Price at a 4% discount the issue price of PLN 20.50 for Bank Customers Sub-tranche and the Retail Investors Sub-tranche in early subscription („the first period orders“)