



Bank Polski

Financial Results of the PKO Bank Polski Group for 3Q 2015

Strong earnings recovery due to revenue growth and synergies
from Nordea integration

9 November 2015

Selected business achievements in Q3 2015



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PKO Bank Polski selected to process transactions of the Social Insurance Institution for the next four years

PKO Bank Polski was selected in the tender procedure to maintain the consolidated accounts of the Funds and Social Insurance Institution accounts as well as make bulk payments. The Bank will run and service consolidated accounts of the Social Insurance Institution, Social Insurance Fund and Bridge Pension Fund for the next four years. Thanks to their well-stocked offer, modern transactional and clearing systems, tailored approach to clients' needs and professional service, PKO Bank Polski is the leading partner to the top companies and entities from the public sector.



Kredobank remains the safest bank in Ukraine with ROE in 2015 above 15%

Kredobank, a member of the PKO Bank Polski Group, has been listed first for the second consecutive time in the ranking of Ukrainian banks compiled by the local Forbes edition. The aim of the ranking is to select the safest institutions in the market that have the largest potential to live through the current period of financial system turbulence in Ukraine. The high score received for credibility of Kredobank confirms that the restructuring actions taken there by PKO Bank Polski are effective. The Bank has a stable financial standing in 2015 (in 3Q'15 net profit of PLN 18.4 mn and ROE at 27%).



Wrocław Payment Card

On 10 September, together with the Wrocław Municipality PKO Bank Polski launched the Wrocław Payment Card. It is a card with the personal account at PKO on which periodical public transport tickets can be coded. The new card is offered with all clearing accounts. Clients can use all the payment functionalities of the card. They can also code periodical public transport tickets in Wrocław there and use other URBANCARD services.



PKO Bank Polski a beneficiary of the acquisition Visa Europe by Visa Inc.

On 2 November 2015 Visa Inc. concluded the agreement concerning the acquisition of Visa Europe Ltd. The transaction is expected to be closed in Q2 2016 and under the terms of the agreement, the value of the transaction amounts up to euro 21,2 billion. PKO Bank Polski being a member of Visa Europe Ltd. – as a beneficiary of the transaction - will participate proportionally to the share of the Bank in the adjusted revenues of the Visa Europe Ltd. Because of this share, Bank expects significant income from the closing of the transaction.



Mobile Package for Companies at PKO Bank Polski

PKO Bank Polski offers entrepreneurs a new Mobile Package for Businesses which complements the umbrella of multiple business packages. It is an ideal solution for natural persons who are sole traders and who want to manage their business finances end to end in a state-of-the-art mobile application. With the package, clients can have their account maintained for free. They can use their account easily via the electronic banking iPKO functionality and in the mobile application iPKO. Further, the package offers free transfers to the Social Insurance Institution and Revenue Office via the online service iPKO, free transfers to phone numbers in the mobile channels IKO and a free debit card.

Executive summary of financial performance



Bank Polski

- Consolidated net profit achieved in the third quarter of 2015 amounted to PLN 815 mn and was 16% higher than in previous quarter mainly due to increase in net interest income and lower administrative expenses, among others thanks to the realization of synergies from the integration of Nordea
- Consolidated net profit earned in 3Q 2015 amounted to PLN 2,165 million and was under pressure of an increase in BGF contributions, reduced limits on interchange fees and historically low market interest rates, which negative effects were largely offset by the effective risk management resulting in significant improvement in net impairment
- The Q3 2015 consolidated result on business activity of PLN 2.7 bn (+4,0% q/q) was determined by increase in net interest income (+8.0% q/q) mainly due to increase in interest revenues by 3.3% q/q and reduced interest expense of 8.4% q/q
- **Maintaining a leading market position**
 - asset base increased to PLN 254.9 bn (+4.3% y/y) with net loans growing to PLN 185.2 bn (+3.8% y/y), funded with customer deposits, which rose to PLN 178.3 bn (+4.1% y/y)
 - maintaining a high market share of loans (17.5%) and deposits (16.8%) as well as increase in market share of consumer loans
 - high new sales of consumer loans as well as loans for SMEs and corporates
- **Portfolio quality improved considerably**
 - risk cost declined by 31 bp y/y (-4 bp q/q) to reach 78 bp on annual basis
 - coverage ratio increased significantly by 5.4 pp y/y (+0.6 pp q/q) to reach 63.5%
 - NPL ratio declined by 0.11 pp y/y (+0.08 pp. q/q) to reach 6.94%
- **High operational efficiency retained**
 - Cost to Income ratio (C/I) at 52.2% (49.5% in Q3'15)
 - Return on Equity (ROE) at 10.2% (11.1% in Q3'15)
 - Return on Assets (ROA) at 1.1% (1.3% in Q3'15)
 - interest margin at 3.1% (3.1 in Q3'15)
- **Solid liquidity and improving of capital strength**
 - Loans / Stable funding resources ratio at 88%
 - Capital Adequacy Ratio at 14.5% and Core Tier 1 at 13.2%; (for the Bank: 15.0% and Core Tier 1 13.7%) - an increase of 0.6 pp. q/q resulting from the implementation in the Q3 2015 initiatives concerning capital optimization, which allowed for the reduction in risk-weighted assets and, consequently, decrease in the total capital requirement of 4.1% q/q.
- **The fulfilment of the additional capital requirements of PFSA allows payment of dividends in subsequent years**

Financial summary



Bank Polski

	3Q'15	3Q'14	Change y/y	Q3'15	Q2'15	Change q/q	
P&L items (PLN mn)	Net interest income	5 172	5 658	-8.6%	1 818	1 683	+8.0%
	Net F&C income	2 157	2 216	-2.6%	721	757	-4.9%
	Result on business activity	7 873	8 390	-6.2%	2 698	2 594	+4.0%
	Administrative expenses	-4 113	-3 806	+8.1%	-1 335	-1 372	-2.7%
	Net impairment allowance	-1 111	-1 446	-23.2%	-362	-375	-3.4%
	Net profit	2 165	2 532	-14.5%	815	703	+16.0%
Balance sheet (PLN bn)	Assets	254.9	244.4	+4.3%	254.9	255.5	-0.2%
	Net loans	185.2	178.3	+3.8%	185.2	185.3	-0.1%
	Deposits	178.3	171.2	+4.1%	178.3	179.1	-0.5%
	Stable financial resources	211.2	203.8	+3.6%	211.2	213.0	-0.8%
	Total equity	29.6	27.0	+9.5%	29.6	28.7	+2.9%

Key performance indicators



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		3Q'15	3Q'14	Change y/y	Q3'15 ⁵⁾	Q2'15 ⁵⁾	Change q/q
Key financial indicators	ROE net (%)	10.2	13.5	-3.3 pp.	11.1	9.9	+1.2 pp.
	ROA net (%)	1.1	1.6	-0.4 pp.	1.3	1.1	+0.2 pp.
	C/I ¹⁾ (%)	52.2	44.0	+8.2 pp.	49.5	52.9	-3.4 pp.
	NIM ²⁾ (%)	3.1	3.6	-0.5 pp.	3.1	2.9	+0.2 pp.
Quality of loan portfolio	NPL ratio ³⁾ (%)	6.94	7.05	-0.11 pp.	6.94	6.85	+0.08 pp.
	Coverage ratio ⁴⁾ (%)	63.5	58.1	+5.4 pp.	63.5	62.9	+0.6 pp.
	Cost of risk (bp.)	78	109	-31 pb.	63	80	-16 pb.
Capital position	CAR (%)	14.48	12.72	+1.77 pp.	14.48	13.88	+0.60 pp.
	Core Tier 1 (%)	13.17	11.50	+1.67 pp.	13.17	12.60	+0.57 pp.

(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

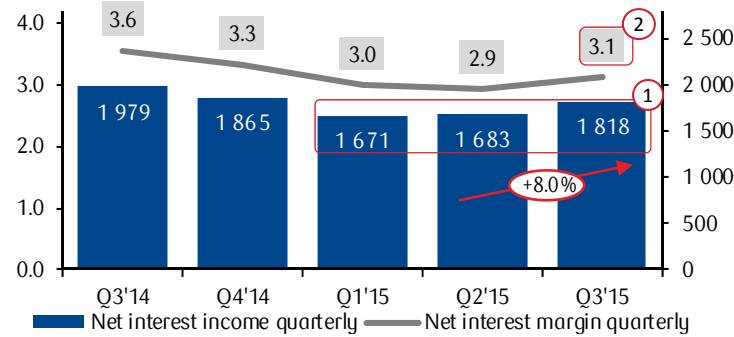
(5) Ratios on quarterly basis; ROE, ROA, NIM and cost of risk - annualised

Net interest income

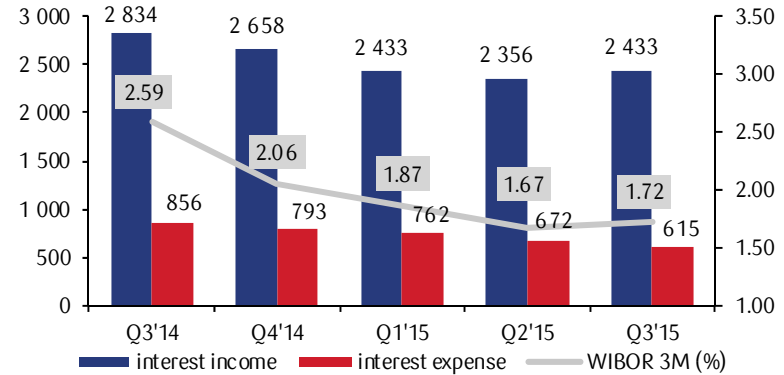


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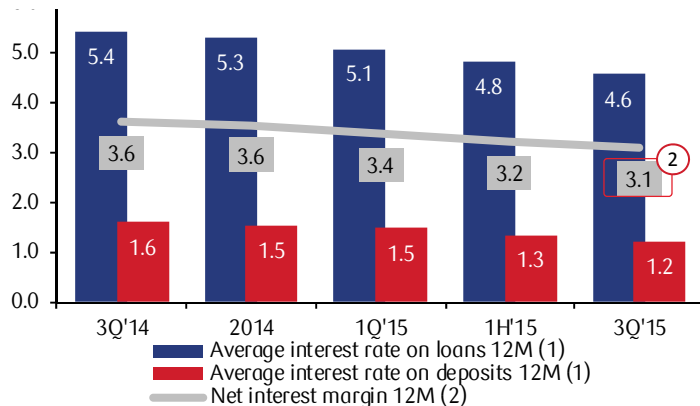
Net interest income (PLN mn)



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



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



1 In 3Q 2015 the net interest income decreased by PLN 485 mn (-8.6% y/y) mainly due to a decrease in interest income by PLN 857 mn, which is assessed a decrease in the level of market interest rates and lower interest expense of PLN 372 mn, mainly in effect bring offer to decrease market interest rates.
The increase of result in Q3'15 by 8% q/q mainly due to: the expiration of long-term deposits offered in higher rates period, increase in the volume of consumer loans with higher margins and a higher number of interest days

2 Drop of net interest margin by 0.5 pp. y/y due to decrease in annualized interest income (effect of decreased market interest rates) with increase of interest-bearing assets (mainly of housing loans and advances)
An increase in interest margin of 0.2 pp. q/q thanks to growth of net interest income in Q3'15 of 8.0% q/q, at a stable level of interest-bearing assets.

(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

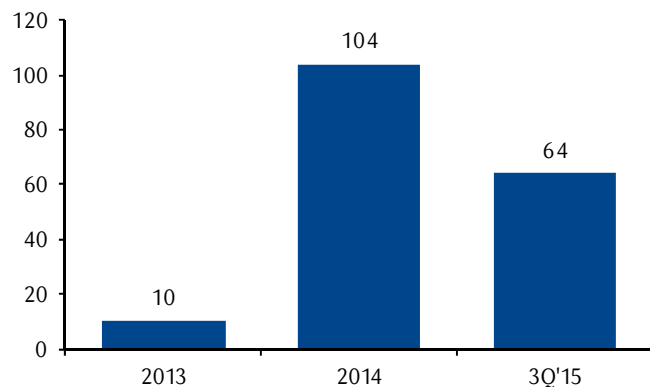
(2) Net Interest income for last 4 quarters / average interest bearing assets at the beginning and the end of the period of last 4 quarters (formula consistent with that applied in the PKO Bank Polski Group Directors' Report)

PKO Bank Polski and Nordea integration cost and synergies



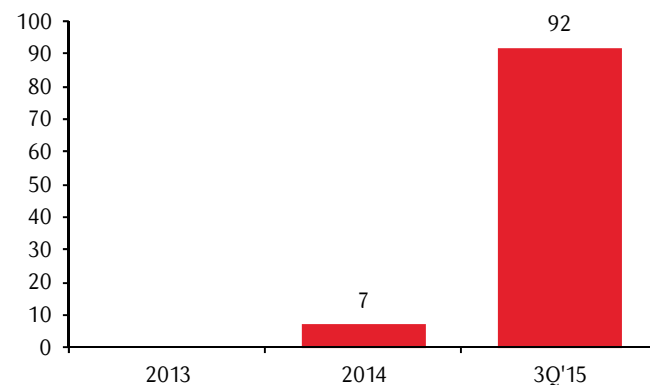
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Integration expenditures (PLN mn)



- PKO Bank Polski foresees that the total expenditures on integration will be less than the assumed PLN 299 mn by around PLN 65 mn. In the years 2013-2015 total integration expenditures recognised in administrative expenses will amount to PLN 151 mn
- During 3Q 2015 expenditures on integration amounted to PLN 64 mn, of which PLN 43 mn recognised in administrative expenses (in 2014 PLN 104 mn and PLN 53 mn respectively)
- The key integration budget items include: IT system migration (over 44%), personnel costs (19%), marketing and communications (6%), real estates (5%) and other with a provision (26%)

Cost synergies (PLN mn)



- During 3Q 2015 cost synergies were realized in the amount of PLN 92 mn
- The Bank estimates that in 2016 the total cost synergies will amount to PLN 187 mn, and at PLN 220 mn per year as of 2017
- Key cost synergies will be delivered through: integration of the functions such as IT and support and reducing personnel costs

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