



Bank Polski

# Financial Results of the PKO Bank Polski Group for 1H 2016

The best results in the financial industry and the highest level of  
safety

29 August 2016

# Highlight of business initiative in 2016 Q2



## Successful issue of PKO Bank Hipoteczny bonds

In April 2016, PKO Bank Hipoteczny ran its first benchmark issuance of mortgage bonds addressed to institutional investors. The worth of the issue amounted to PLN 500 million, maturity of five years plus one day, and the interest rate was set at 0.65 p.p. over WIBOR 3M. On 11 May PKO Bank Hipoteczny bonds debuted on the parallel market of the Warsaw Stock Exchange. The second issue was carried out on 17 June. In December 2015 the Issuance Programme of PKO Bank Hipoteczny bonds was rated Aa3 by Moody's



## Innovative banking services for ORLEN gas stations customers

Strategic cooperation between PKO Bank Polski and PKN ORLEN aims to create the offer addressed to VITAY program participants. ORLEN gas stations customers will be able to open up a bank account and use the payment system combined with the loyalty program functionality. Additionally, they will enjoy access to a wide range of banking products, and their activity will be rewarded with VITAY credits. Access to the service will be provided through Internet and mobile channels developed by the Bank for the needs of PKN ORLEN. Innovative banking model for clients of the Company will be the first service of this character in Europe



## PKO Bank Polski supports the expansion of Polish business in China and in the Far East

PKO Bank Polski has entered into a cooperation agreement with one of the largest Chinese banks. The cooperation includes direct settlement of payments in PLN and Yuan, trade finance transactions and commercial service. The agreement complements the Bank's activity in China where cooperation has been established with approx. 70 correspondent banks. The Bank is rapidly entering also other distant markets. It cooperates with 11 Japanese banks, including the largest bank serving the corporate sector in the country and in the New Zealand. As from 1 June 1 2016, the Bank has launched direct settlement in the New Zealand dollar. With the development of the network of correspondent banks, Polish companies may make foreign payments faster and cheaper.



## New offer of business accounts at PKO Bank Polski

27 June saw a change in the offer of business accounts for micro, small and medium-sized enterprises. The existing packages (Pakiet Mobilny dla Firm, Debiut, Rozwój, Komfort Plus i Sukces Plus) has been replaced by the two: PKO Konto Firmowe and PKO Rachunek dla Biznesu. The most important element of the change is the introduction of tender accounts for PLN 0, once simple conditions have been satisfied.



## PKO Bank Polski Supports Digital Economy

The Chapter of XI Congress of Electronic Economy has awarded the Bank as a Partner of the Year 2015. The award was due to the involvement of the Bank in the integration of the banking sector around the digital economy. PKO Bank Polski is collaborating with government agencies in the "Rodzina 500 plus" scheme, allowing filing applications through the services of iPKO / Inteligo. In addition, 7.8 million customers of the Bank may use the Electronic Services Platform of ZUS – by opening up their profiles from the transactional systems of the Bank.

# Executive summary of financial performance



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- In 2Q 2016 the net profit of the PKO Bank Polski Group amounted to PLN 874 mn and was higher by 36.8% compared to the previous quarter, mainly thanks to the significant increase in the consolidated result on business activity
- The 1H 2016 consolidated result on business activity of PLN 5.83 bn (+12.7% y/y) was determined by the increase in net interest income (+12.2% y/y), mainly as a result of reduced interest expenses (-24% y/y), and by a one-off event, i.e. the transaction with Visa, whose impact on the Group's profit before tax amounted to PLN 417.6 mn. Excluding that one-off event, the increase of the half-yearly result on business activities would amount to nearly 5% y/y
- The net profit generated by the PKO Bank Polski Group in 1H 2016 amounted to PLN 1.51 bn and was by 12.0% higher than the net profit generated in 1H of the previous year. The impact on the transaction of the acquisition of Visa Europe Limited by Visa Inc. on the Group's net profit amounted to PLN 338.2 mn.
- Administrative expenses in 1H 2016 were lower by 0.7% compared to the previous year, thanks to a decrease in overhead costs and depreciation and lower costs of the Bank Guarantee Fund
- **Strengthening a leading market position**
  - asset base increased to PLN 272.4 bn (+6.6% y/y) as a result of an increase in net loans to PLN 191.5 bn (+3.3% y/y), funded with customer deposits, which rose to PLN 199.4 bn (+11.3% y/y)
  - maintenance of a high market share of loans (17.6%) and deposits (17.3%)
- **Loan portfolio quality improved considerably**
  - cost of risk declined by 11 bp y/y to 70 bp on a year-to-year basis
  - a y/y 2.1 pp increase of the coverage ratio to 65.0%
  - the share of loans with recognised impairment declined by 0.3 pp y/y to 6.5%
- **High operational efficiency has been maintained**
  - The Cost to Income ratio (C/I) in 2Q 2016 at 51.4%, lower by 4.8 pp q/q (44.4% excluding bank tax)
  - Return on Equity (ROE) in 2Q at 11.2% (14.1% without bank tax)
  - Return on Assets (ROA) in 2Q at 1.3% (1.6% without bank tax)
  - Net interest margin in 2Q 2016 at 3.17%
- **Solid liquidity position and capital strength improvement**
  - The ratio of loans to stable sources of funding at 83.4%
  - Total capital adequacy ratio at 15.21% and Tier 1 Capital ratio at 13.86%; (for the Bank 16.11% and 14.72% respectively) - an increase of 1.33 pp y/y resulting mainly from the increase in own funds on account of retaining the 2015 profit
- **PKO Bank Polski is one of the safest banks in the EU. PKO Bank Polski was the only bank in Poland subject to direct stress test conducted by the EBA. The tests confirmed the Bank's high resistance to the occurrence of negative macroeconomic scenarios**
- On 30 June 2016 the Annual General Meeting of PKO Bank Polski adopted a resolution of a conditional dividend of PLN 1.00 per share.

# Financial summary



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		1H'16	1H'15	Change y/y	Q2'16	Q1'16	Change q/q
P&L items (PLN mn)	Net interest income	3 763	3 354	+12.2%	1 909	1 853	+3.0%
	Net F&C income	1 302	1 437	-9.4%	667	635	+4.9%
	Result on business activity	5 832	5 175	+12.7%	3 147	2 685	+17.2%
	Administrative expenses	-2 757	-2 777	-0.7%	-1 396	-1 360	+2.6%
	Net impairment allowance	-782	-749	+4.5%	-400	-382	+4.7%
	Bank tax	-369	—	x	-221	-148	+49.0%
	Net profit	1 512	1 350	+12.0%	874	639	+36.8%
Balance sheet (PLN bn)	Assets	272.4	255.5	+6.6%	272.4	267.1	+2.0%
	Net loans	191.5	185.3	+3.3%	191.5	187.9	+1.9%
	Deposits	199.4	179.1	+11.3%	199.4	194.9	+2.3%
	Stable financial resources	229.7	213.0	+7.8%	229.7	222.8	+3.1%
	Total equity	31.6	28.7	+9.9%	31.6	31.0	+1.8%

# Key performance indicators



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		1H'16	1H'15	Change y/y	Q2'16 <sup>(4)</sup>	Q1'16 <sup>(4)</sup>	Change q/q
Key financial indicators	ROE net (%)	9.2	10.7	-1.5 pp.	11.2	8.4	+2.8 pp.
	ROE net (%) excluding bank tax	10.4	10.7	-0.3 pp.	14.1	10.3	+3.7 pp.
	ROA net (%)	1.1	1.2	-0.1 pp.	1.3	1.0	+0.3 pp.
	ROA net (%) excluding bank tax	1.2	1.2	+0.0 pp.	1.6	1.2	+0.4 pp.
	C/I (%)	56.4	51.3	+5.1 pp.	51.4	56.2	-4.8 pp.
	C/I (%) excluding bank tax	53.1	51.3	+1.8 pp.	44.4	50.7	-6.3 pp.
	NIM <sup>(1)</sup> (%)	3.13	3.20	-0.07 pp.	3.17	3.12	+0.05 pp.
Quality of loan portfolio	NPL ratio <sup>(2)</sup> (%)	6.52	6.85	-0.33 pp.	6.52	6.60	-0.08 pp.
	Coverage ratio <sup>(3)</sup> (%)	65.0	62.9	+2.1 pp.	65.0	64.6	+0.4 pp.
	Cost of risk (bp.)	70	82	-11 bp.	76	70	+6 bp.
Capital position	TCR (%)	15.21	13.88	+1.33 pp.	15.21	15.44	-0.23 pp.
	Tier 1 capital ratio (%)	13.86	12.60	+1.26 pp.	13.86	14.11	-0.24 pp.

(1) 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)

(2) Share of loans with recognised impairment in total gross loans

(3) Coverage of loans with recognised impairment with impairment allowances

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

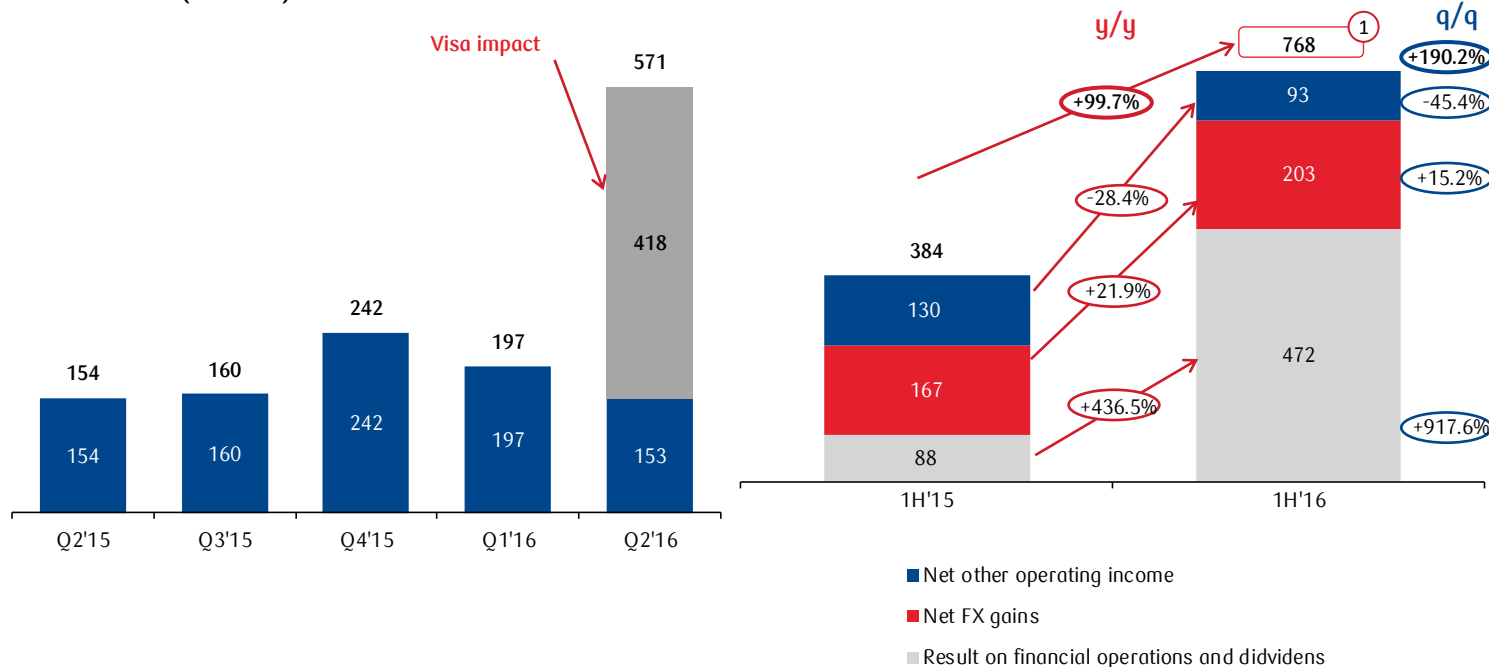
# Net other income

A significant increase in net other income, supported by income from the Visa transaction



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Net other income (PLN mn)



- <sup>1</sup> A nearly twofold increase in net other income in 1H 2016 was mainly impacted by:
- a higher result on gains less losses from investment securities, which was determined by the settlement of the acquisition of Visa Europe Limited by Visa Inc. The Bank participated in this transaction. As a consequence, PLN 417.6 mn was included in the Bank's result on revenue in gains less losses from investment securities. Excluding that one-off event, the result on investment securities in 1H would amount to 54 mn, which means a 39% decrease y/y

# Capital adequacy (2) -EU-wide stress test results

PKO Bank Polski on the 4 th place among 51 of the European banks that took part in the exercise

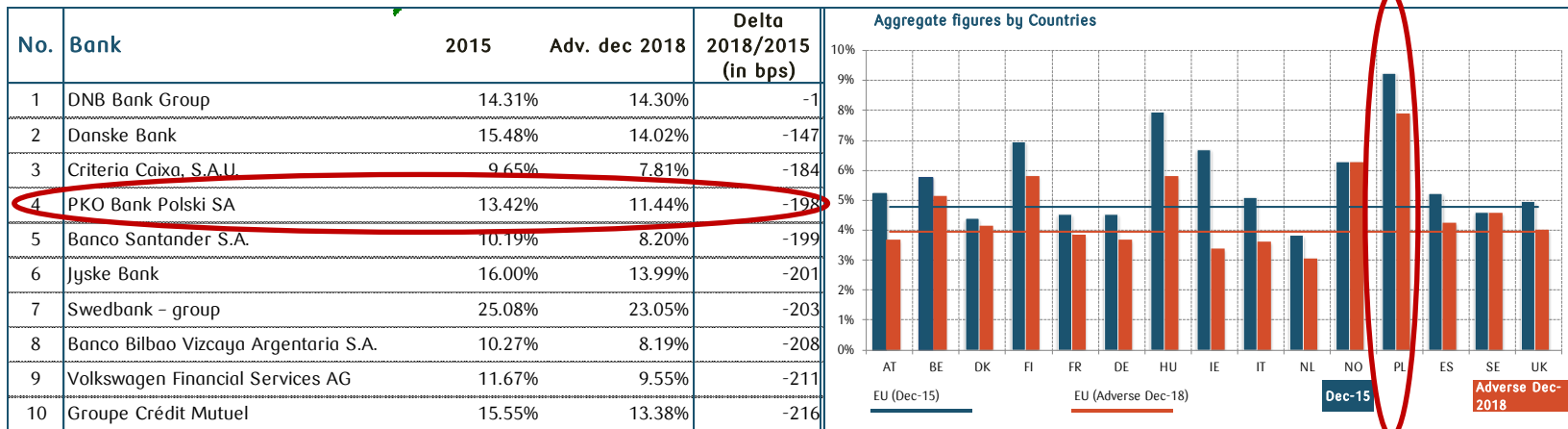


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- PKO Bank Polski was the only Polish bank subject to the EU-wide stress test conducted by the EBA.
- The aim of the exercise was to provide the supervisory authorities and market participants with consistent data on UE-banks' resistance to adverse market scenarios, under a common methodology prepared by the EBA.
- Under the adverse scenario, the Bank noted a slight drop by 1.9 pp of the CET1 ratio in comparison to its value for 2015, placing the Bank on the fourth place among 51 of the European banks that took part in the exercise.
- Poland, represented by the PKO Bank Polski, achieved the best leverage ratio amongst tested countries.

10 banks with the lowest change in CET1 ratio in comparison to its 2015 values

Leverage ratio by countries



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