



Bank Polski

Financial Results of PKO Bank Polski SA Group for 1H 2013

„PKO Bank Polski. The Best Every Day”

Warsaw, 29th August 2013

Executive summary



Bank Polski

- **Acceleration of growth by acquisition of Nordea assets in Poland**
 - ⇒ Banking business acquisition - 99.21% of Nordea Bank Polska, a Polish blue-chip corporate loans portfolio held by Nordea Bank AB and 100% of Nordea Finance Polska
 - ⇒ Acquisition of 100% of Nordea Polska TuNZ as the platform for development in bancassurance business
 - ⇒ Planned closing term - end of 2013, beginning of 2014
- **Cost discipline and improved cost of risk**
 - ⇒ Administrative expenses down by 1.2% q/q (-0.9 y/y)
 - ⇒ Cost of risk improved by 5 bp. q/q on net impairment allowances (down by 6.5% q/q, 21.3% y/y) and NPLs (down by 0.1 pp. q/q)
- **Net interest income down on lower interest rates, coupled with largest retail and term deposit base on the Polish market**
 - ⇒ Net interest income down by 7.2% q/q mainly on lower market interest rates (average 3M WIBOR down by 80 bp. q/q)
 - ⇒ Net interest margin down by 0.3 pp q/q, but still above 4%
- **High operating efficiency maintained**
 - ⇒ Cost to income ratio (C/I) at 42.7%
 - ⇒ ROE at 13.8%
 - ⇒ ROA at 1.7%
- **Strong liquidity and capital position**
 - ⇒ Stable development of balance sheet total on the back of growth in net loans (+5.5% y/y) financed by growing customer deposits and securities issues
 - ⇒ Loans to stable sources of funding ratio at 91%
 - ⇒ CAR at 13.5% (Core Tier 1: 12.5%)
- **AGM's decision to pay PLN 2,250 mn (PLN 1.80 per share) in dividend for 2012 (payout ratio of 61.12%, dividend yield of 5.1%, based on the share price as at 30 June 2013)**

Acquisition of Nordea Bank Polska, Nordea Finance Polska and Nordea Polska TUnZ



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- PKO will acquire Nordea's Banking, Leasing and Life Insurance operations in Poland ("Nordea Poland") for a total consideration of PLN 2 830 m after receiving proper KNF and antitrust approvals
- The acquisition of Nordea's banking operations in Poland represents an attractive opportunity for PKO to expand its leadership position in retail, grow its distribution network in large Polish cities, increase its affluent client base and significantly strengthen its corporate franchise
- The transaction perimeter includes a life insurance company that will serve as the platform for PKO's bancassurance strategy, taking advantage of PKO's large domestic distribution network and demonstrated cross sell experience
- The transaction is also consistent with PKO's strategy for 2013-2015 to deploy its surplus capital and strengthen its position in the Polish market through selected acquisitions, in addition it allows PKO to maintain high growth rates in a period of general economic slowdown and a low interest rate environment
- PKO remains committed to maintaining a strong capital and liquidity position and an attractive dividend policy for shareholders post transaction
- The transaction is beneficial for all stakeholders:
 - Shareholders: as it generates attractive return on investment (ROI), EPS accretion and synergies
 - Employees and clients of the enlarged organisation: by providing higher development opportunities and improved service levels in a stronger and more effective enlarged group
 - Additionally, the transaction brings together two leading European financial institutions and opens up further avenues for continued cooperation
 - The Polish banking sector as it strengthens Nordea Bank Polska's capital base and decreases its reliance on foreign capital

Key Business Initiatives Q2 2013



Bank Polski



Innovation and a joint local mobile payment standard

With the new uniform standard, over 12m bank customers will soon be able to make payments 'on the go' using their mobile phones. Alior Bank, Bank Millennium, Bank Zachodni WBK, BRE Bank, ING Bank Śląski and PKO Bank Polski have reached an agreement on strategic cooperation for the joint development of a uniform mobile payment standard. The project is a unique effort due to its scale, a result of the aggregate market share of the institutions involved, and also because of the sheer variety of possibilities it will offer to end users. The new mobile payment standard will be based on IKO platform, which PKO Bank Polski rolled out in March 2013



PKO Junior – Banking for children under 13 years of age

The Bank now offers one of the world's first Internet banking services for children, launched alongside a comprehensive financial education programme. The new service is a personal Internet account for children under 13, through which they can receive pocket money, make transfers, top-up their mobile phones, save for specific purposes or meet financial targets set by their parents. Within a month of the launch, PKO Bank Polski opened over 16,000 Junior accounts.



New Personal Banking Model

As part of the retail banking development strategy, PKO Bank Polski has begun roll out of the New Personal Banking Model. The aim is to create the best model of services for high-net-worth individuals, to be consistently placed first in satisfaction surveys and become the bank of first choice for this customer group, thus increasing the overall profitability of the segment. The New Personal Banking Model is planned to be fully in place from the beginning of 2014.



Account packages for SMEs and housing market

The Bank's new products include the *Biznes Debiut 18*, *Biznes Rozwój*, *Biznes Komfort Plus* and *Biznes Sukces Plus* packages, designed to meet the needs of the customers at each stage of their business development. Bank has also launched customised, trade-specific packages for SMEs, a novelty on the Polish market. For housing market customers we have been introduced new accounts tailored to the requirements of Residents' Associations.



PKO Bank Polski in the top three of 'Quality Bank 2013' poll

PKO Bank Polski ranked third in a poll run by TNS Polska and the *Puls Biznesu* daily. Bank's customer service quality standards were highly praised, with the score of 71.4 per cent taking us up four places on last year's result in the poll. Customer satisfaction and service quality improvement are among the key priorities of the Bank's strategy.



Basic financial data

		1H'13	1H'12	Change y/y	Q2'13	Q1'13	Change q/q
Financial result (PLN mn)	Net interest income	3 266	4 042	-19.2%	1 572	1 694	-7.2%
	Net F&C income	1 543	1 503	+2.7%	772	770	+0.3%
	Result on business activity	5 000	5 791	-13.7%	2 478	2 522	-1.7%
	Administrative expenses	-2 225	-2 246	-0.9%	-1 106	-1 120	-1.2%
	Net impairment allowance	-867	-1 101	-21.3%	-419	-448	-6.5%
	Net profit	1 534	1 953	-21.5%	753	781	-3.7%
Balance sheet (PLN bn)	Assets	198.2	190.4	+4.1%	198.2	197.1	+0.6%
	Net loans	149.1	141.3	+5.5%	149.1	147.5	+1.1%
	Deposits	149.2	147.0	+1.5%	149.2	148.4	+0.5%
	Stable financial resources	164.1	160.2	+2.4%	164.1	163.5	+0.4%
	Total equity	23.7	23.0	+2.9%	23.7	25.4	-6.9%
Quality of loan pottfolio	NPL ratio ¹⁾ (%)	9.1	8.7	+0.4 pp.	9.1	9.2	-0.1 pp.
	Coverage ratio ²⁾ (%)	51.1	47.0	+4.1 pp.	51.1	50.5	+0.6 pp.
	Cost of risk (bp)	135	139	-4	135	140	-5
Capital position	CAR (%)	13.5	13.0	+0.5 pp.	13.5	13.7	-0.2 pp.
	Core Tier 1 (%)	12.5	12.0	+0.5 pp.	12.5	12.8	-0.2 pp.

(1) Share of loans with recognized impairment in total gross loans

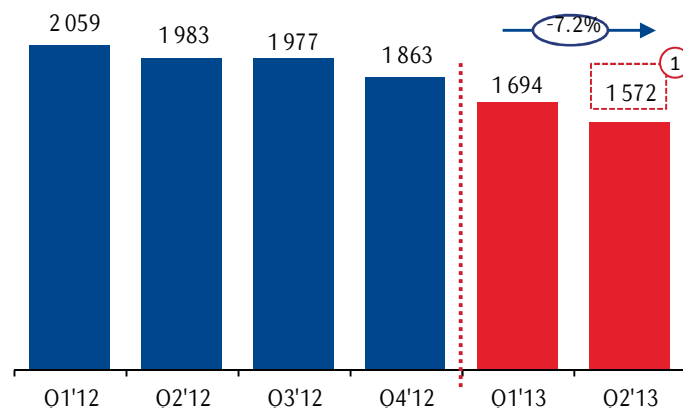
(2) Coverage of loans with recognized impairment by impairment allowances



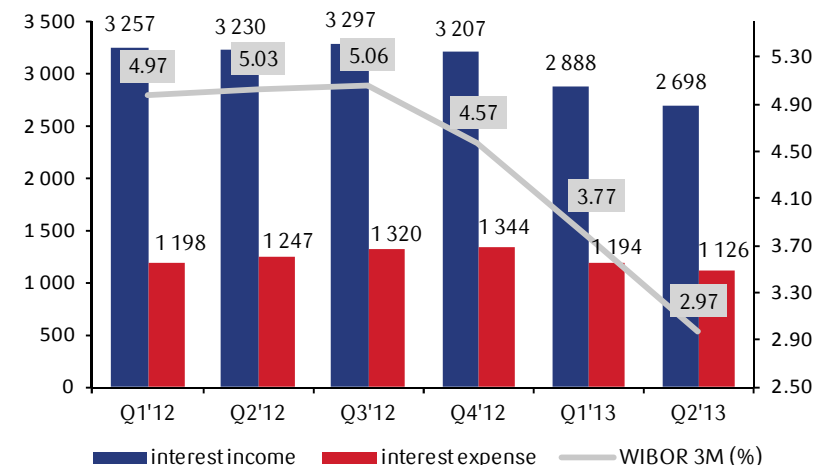
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Net interest income (1)

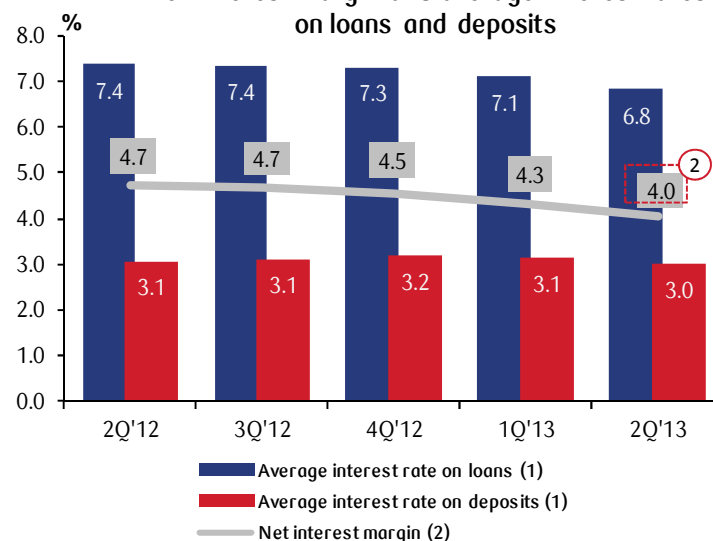
Net interest income (PLN mn)



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 Decrease in Q2'13 result mainly due to reduction of market interest rates (average WIBOR 3M lower by 80 bp. q/q)
- 2 Drop of net interest margin by 0.7 p.p. y/y to 4.0% as a result of a decrease in annualized net interest income of 12.0% y/y (mainly due to a drop in market interest rates), accompanied by an increase in average interest-bearing assets of 3.6% y/y (mainly the portfolio of loans and advances to customers)

(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)

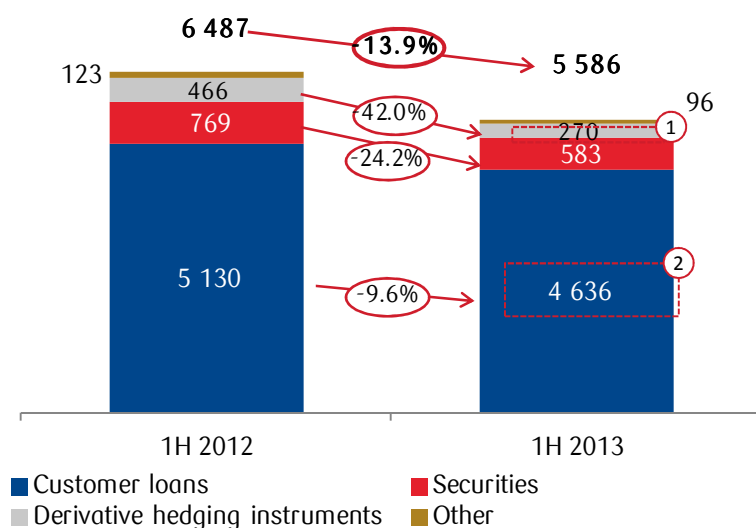
% Change y/y % Change q/q



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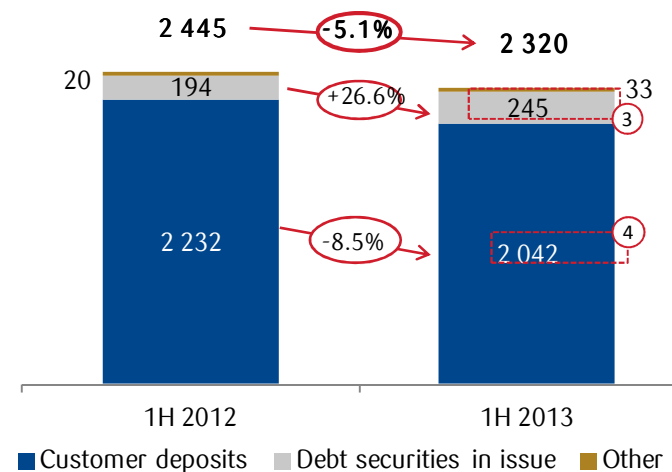
Net interest income (2)

Structure of interest income (PLN mn)



- 1 A decrease in income from derivative hedging instruments, resulting from narrowing the spread between the PLN and foreign currency rates as a result of the drop in the WIBOR market rates and the drop in the average volume of CIRS transactions covered by hedge accounting
- 2 A decrease in income in respect of loans and advances to customers - as a result of a drop in market interest rates, accompanied by an increase in loans of PLN 7.8 bn y/y

Structure of interest expense (PLN mn)



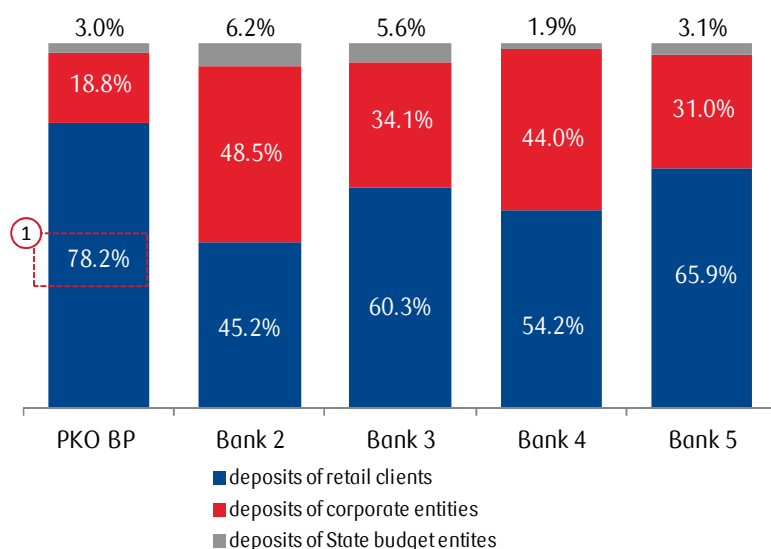
- 3 An increase in costs of debt securities in issue, which was related to an increase in liabilities in respect of bond issue on foreign financial markets, partly offset by a decrease in costs of servicing debt on the Polish markets as a result of a drop in market interest rates
- 4 A decrease in the costs of amounts due to customers, resulting from lower average interest rates on deposits due to a drop in market interest rates, accompanied by an increase in amounts due to customers PLN 2.3 bn



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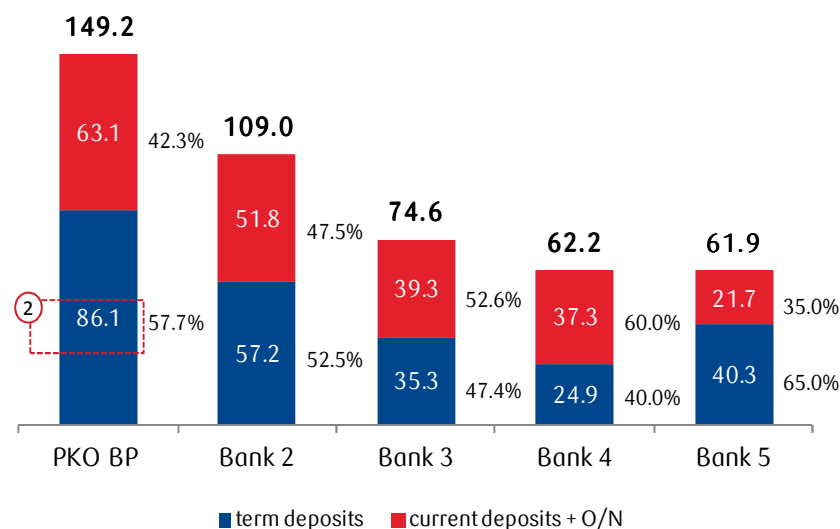
The safest structure of deposit base as compared to competitors, at the expense of higher sensitivity on interest rates changes in a short term

Subject structure of total deposits¹⁾
(as at 30.06.2013)



¹⁾ PKO Bank Polski has the highest share of retail deposits as compared to competitors, resulting in lower flexibility of changing financial conditions in a short time

Deposits structure in Polish banks
(as at 30.06.2013 in PLN bn)



²⁾ PKO Bank Polski has the largest volume of term deposits comparing to competitive banks, of which significant volume of deposits with maturity up to 12M, which in a short time affect growth of interest expense in conditions of interest rates decline

Source: banks' consolidated financial statements

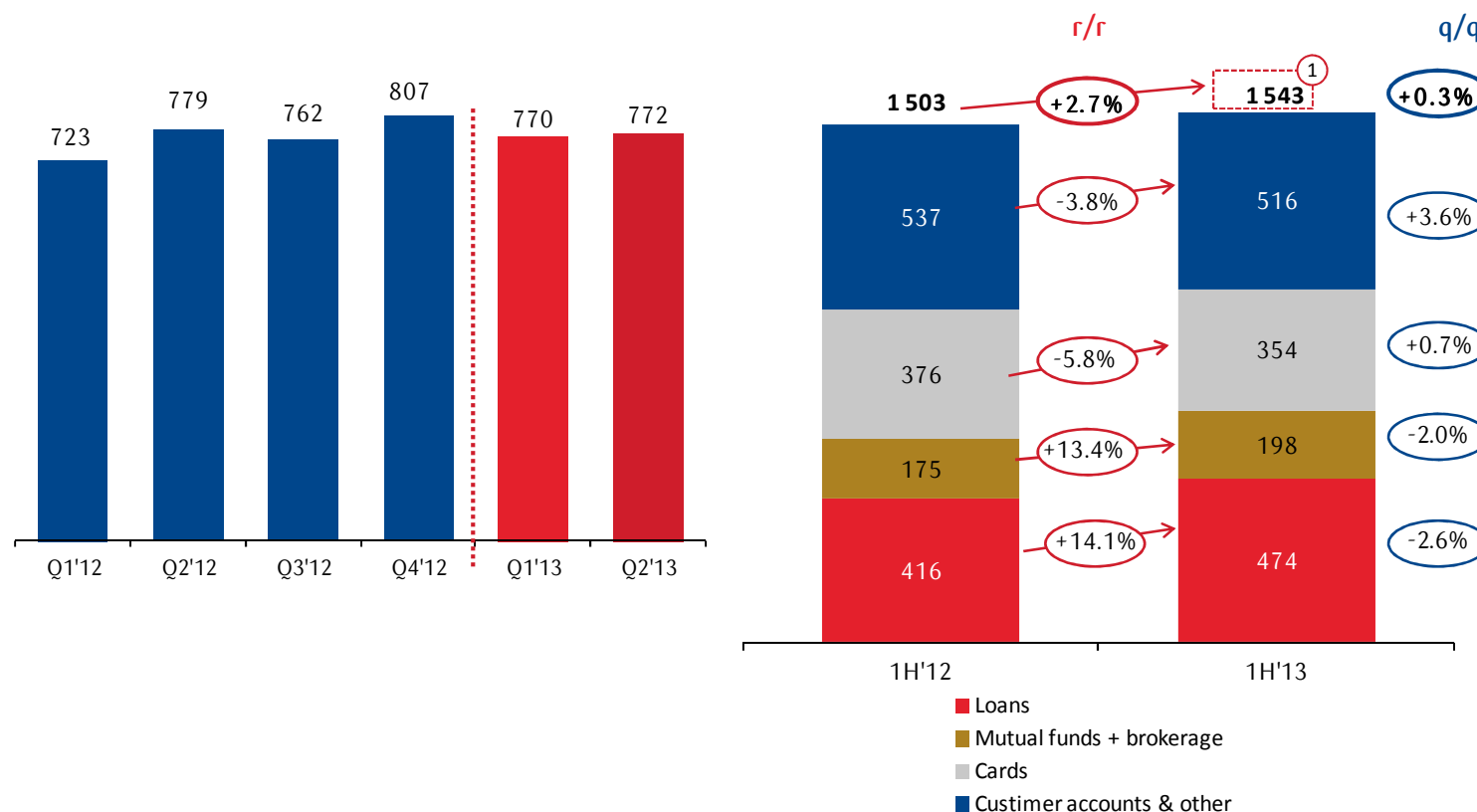
(1) Amounts due to customers



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Stable growth of F&C income despite of interchange fee drop and lower market growth

Net fee and commission income (PLN mn)



1

The level of net fee and commission income was largely determined by:

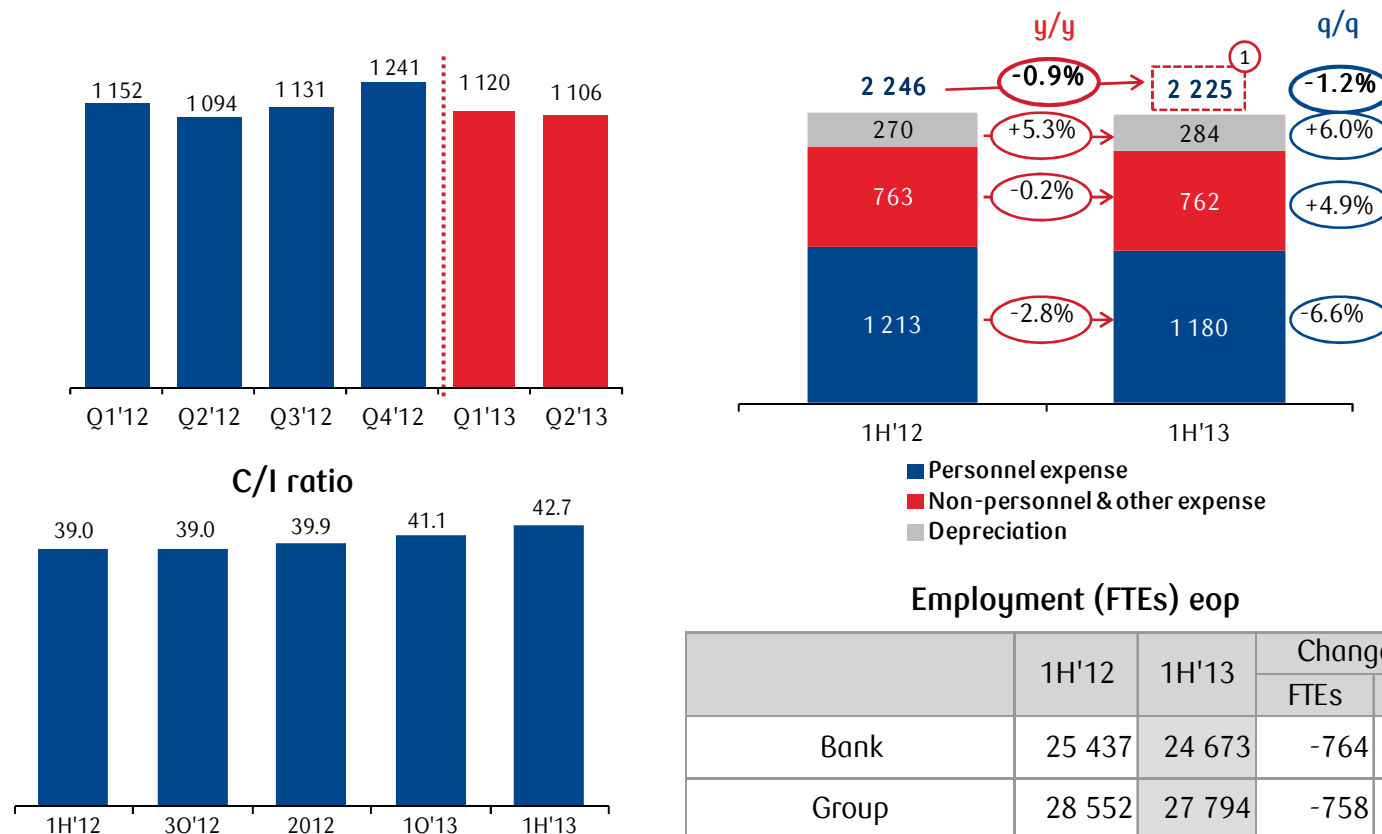
- an increase in net commission income in respect of loan insurance (+31.5% y/y), due to the increase in sales of loans, mainly housing loans and insurance saturation, supported by promotional campaigns, mainly covering consumer loans
- an increase in commission income in respect of maintenance of investment funds and OPF, due to an increase in management fees and an increase in handling fees related to sale and repurchase, accompanied by over 40% y/y increase in the value of assets of investment fund management companies;
- a decrease in the result on payment cards, mainly due to a decrease in the interchange fee (IF), in connection with a reduction of IF rates by Visa and Mastercard from the start of the year. Lower commission related to IF was accompanied by both the value and volume increase in card transactions.



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Administrative expenses

Administrative expenses (PLN mn)



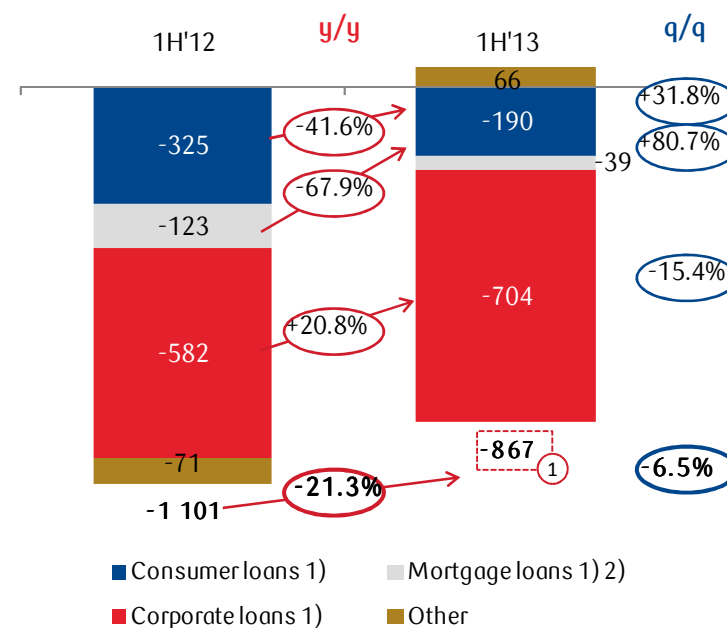
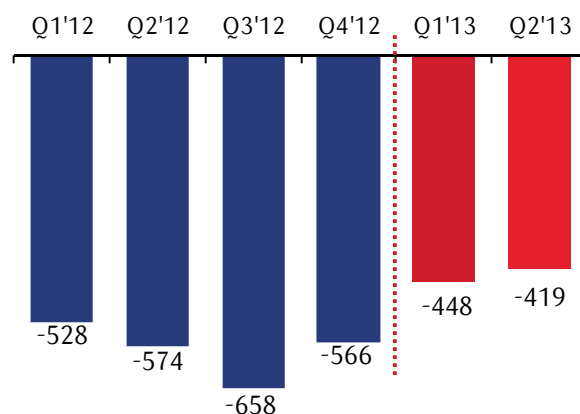
¹ Stabilisation of administrative expenses y/y thanks to one-off decrease in remuneration costs in connection with change of employee pension scheme (implementation of the Employee Pension Programme - EPP), maintenance of cost discipline and efficiency improvement



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Net impairment allowance

Net impairment allowance and write-offs (PLN mn)



Share of loans with recognized impairment³⁾

	1H'12	1H'13	Change y/y
Consumer loans	8.0%	10.1%	+2.1 pp.
Mortgage loans	3.7%	3.8%	+0.1 pp.
PLN	3.6%	3.5%	-0.1 pp.
FX	3.8%	4.2%	+0.4 pp.
Corporate loans	14.2%	14.0%	-0.2 pp.
Total	8.7%	9.1%	+0.4 pp.

(1) Management data (2) Housing loans for individuals

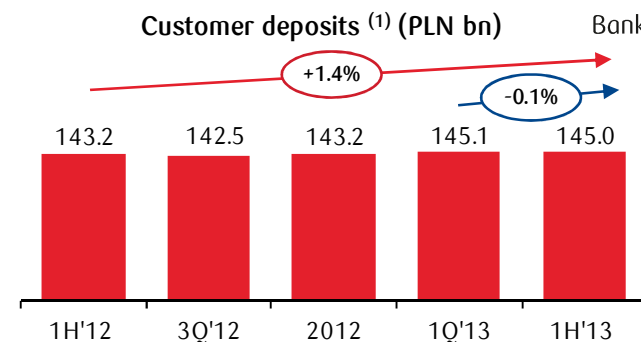
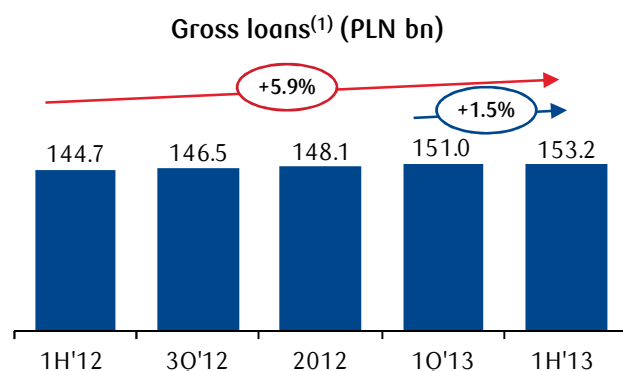
(3) Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers

1 Significant improvement of net impairment y/y is mainly a result of the decrease in the net impairment allowance on the consumer and housing loans portfolio

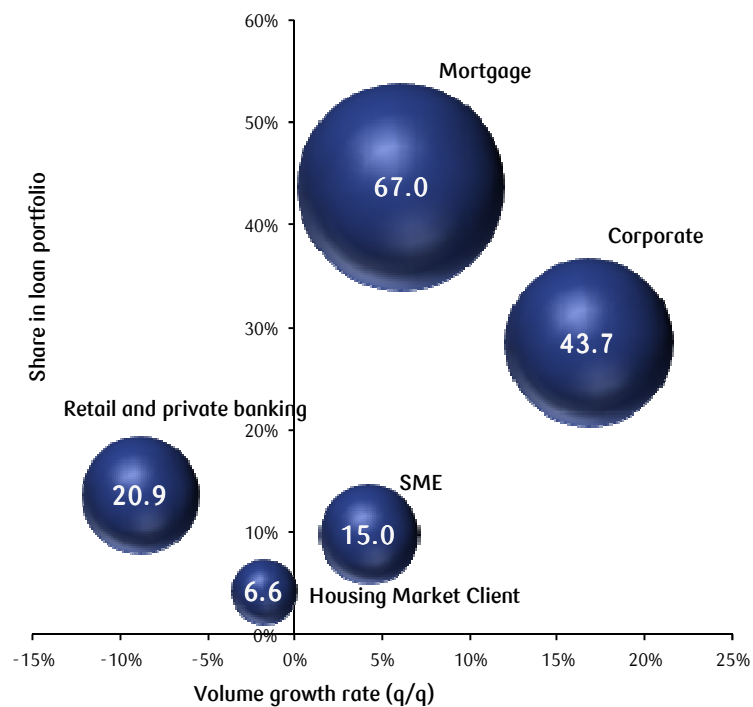
Business activity - volumes



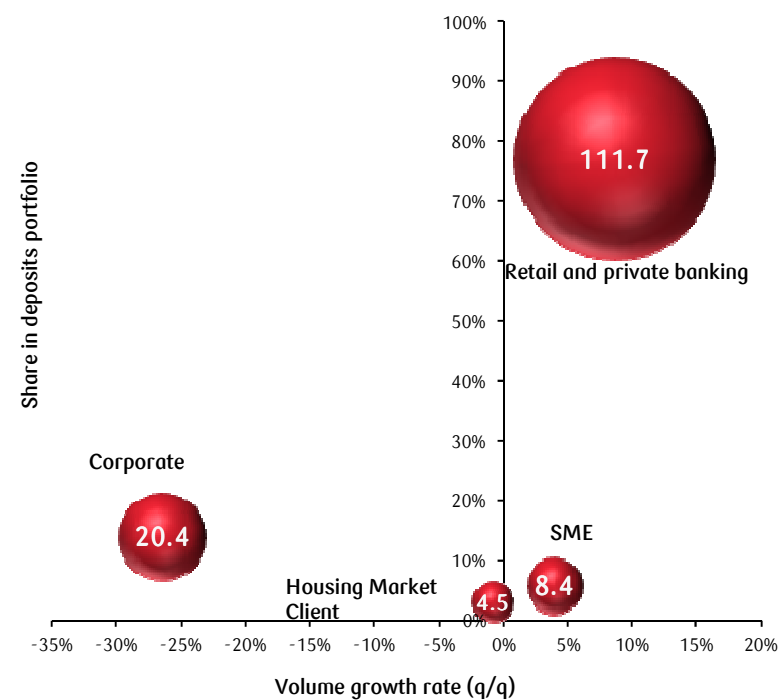
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Gross loans by business lines (as at 30.06.2013)⁽¹⁾



Customer deposits by business lines (as at 30.06.2013)⁽¹⁾



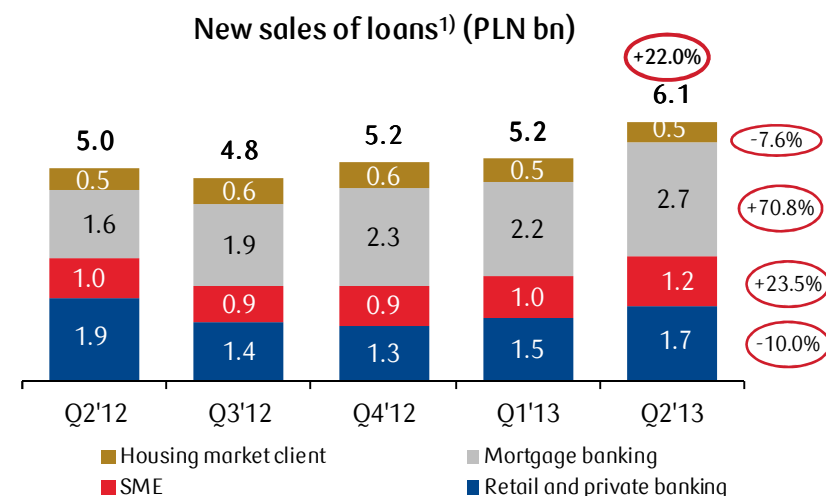
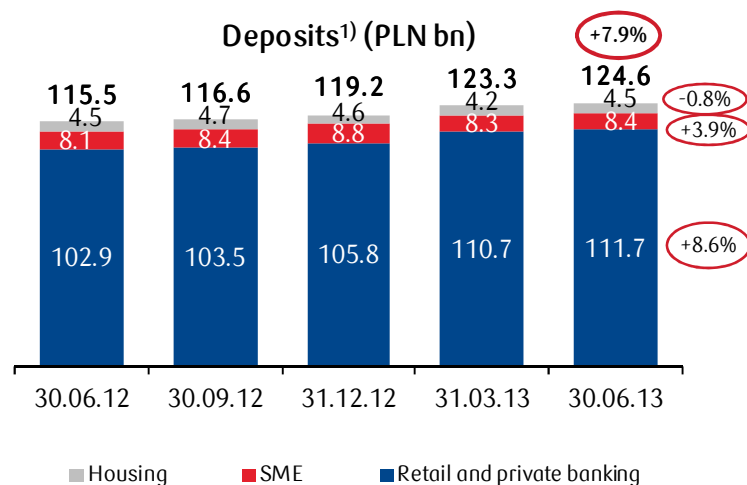
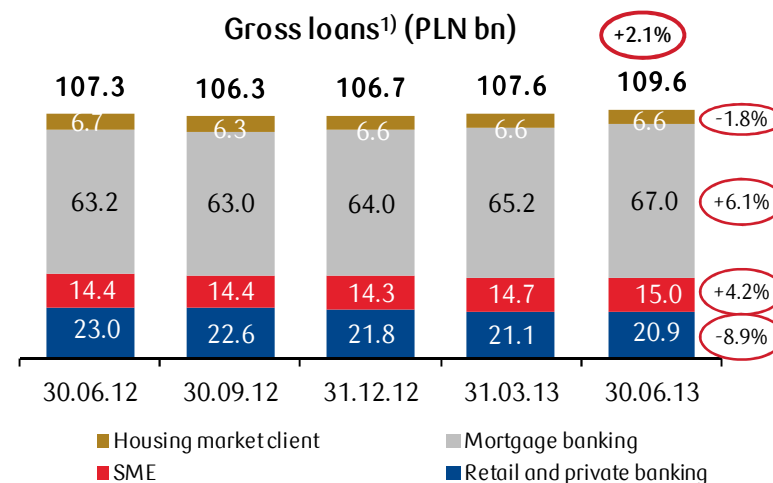
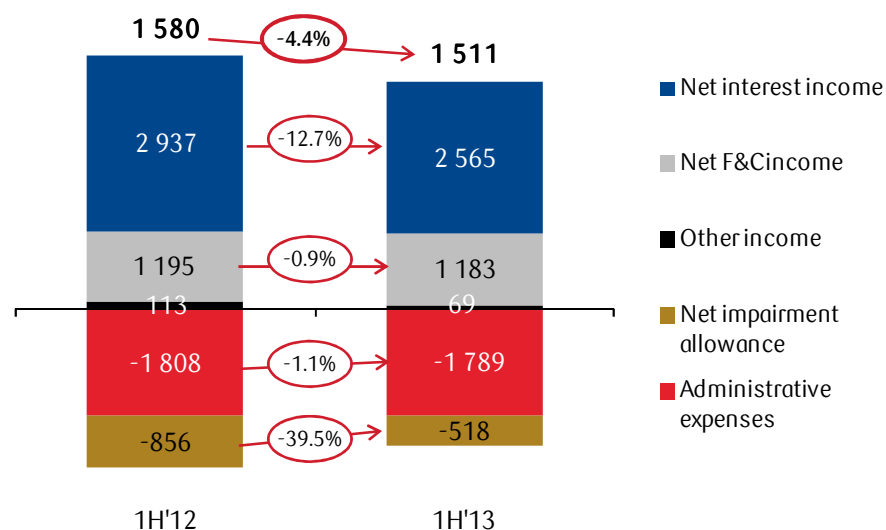
(1) Bank's management data



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Retail segment

Gross financial result of retail segment (PLN mn)



Change y/y

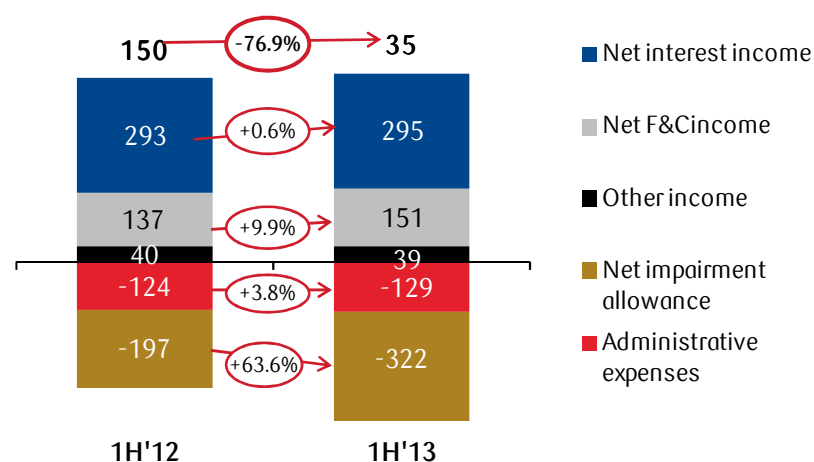
(1) Bank's management data. Change in relation to business volumes previously presented results from a change in presentation; i.e. volumes currently presented include valuation adjustments and accrued interest. Additionally, the mortgage loan for consumer purposes was presented in loans and advances of retail and private banking.



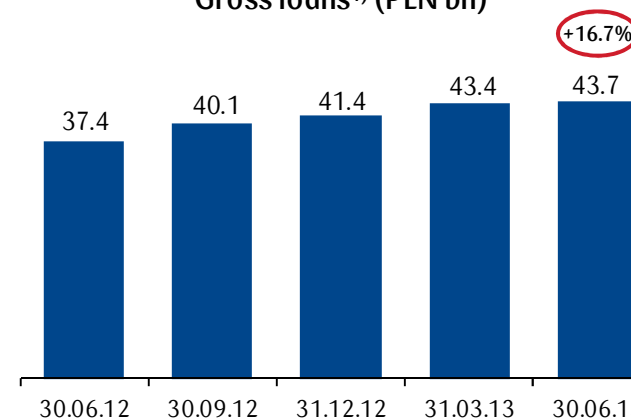
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Corporate segment

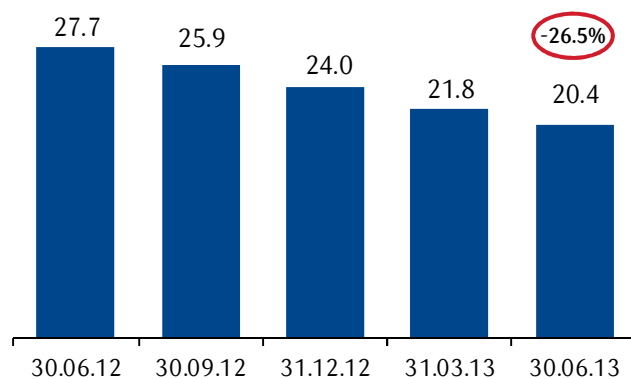
Gross financial result of corporate segment
(PLN mn)



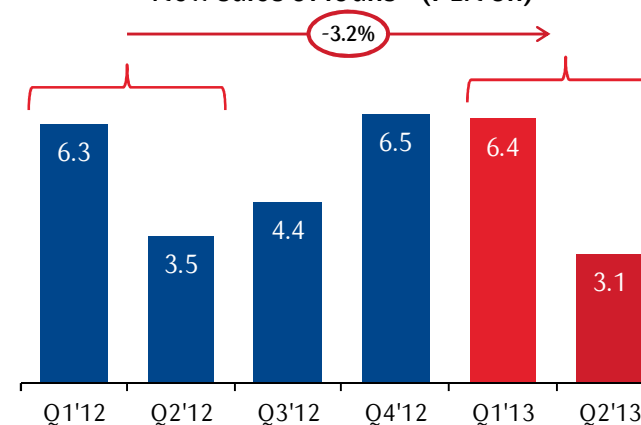
Gross loans¹⁾ (PLN bn)



Deposits¹⁾ (PLN bn)



New sales of loans¹⁾ (PLN bn)



Change y/y

(1) Bank's management data. Change in relation to business volumes previously presented results from a change in presentation; i.a. volumes currently presented include valuation adjustments and accrued interest.

Basic operational data



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Item (eop)	1H'12	3Q'12	2012	1Q'13	1H'13	Change	
						y/y	q/q
Number of current accounts ('000)	6 126	6 135	6 220	6 245	6 254	+2.1%	+0.1%
Number of banking cards ('000)	7 122	7 158	7 164	7 120	7 225	+1.5%	+1.5%
<i>of which: credit cards</i>	<i>977</i>	<i>978</i>	<i>980</i>	<i>938</i>	<i>919</i>	-6.0%	-2.0%
Number of branches:	1 197	1 196	1 198	1 199	1 177	-1.7%	-1.8%
- retail	1 133	1 132	1 134	1 135	1 138	+0.4%	+0.3%
- corporate	64	64	64	64	39	-39.1%	-39.1%
Number of agencies	1 218	1 210	1 208	1 202	1 149	-5.7%	-4.4%
Number of ATMs	2 525	2 569	2 803	2 911	2 945	+16.6%	+1.2%
Number of eService terminals	57 829	65 061	68 877	71 706	79 928	+38.2%	+11.5%