



Bank Polski

Financial Results of PKO Bank Polski SA Group for 3Q 2013

„PKO Bank Polski. The Best Every Day”

Warsaw, 14 November 2013

Executive summary



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- **Stabilization of net interest income and growth of assets to the level above PLN 200 bn**
 - ⇒ Stabilization of net interest income (+0.3% q/q) mainly on decrease in interest expense thanks to adaptation of price offer of deposit products and the change of structure in favour of current deposits
 - ⇒ Net interest margin at 3.8% down by 0.2 pp q/q
 - ⇒ Growth of assets to PLN 202 bn (+4.3% y/y) on the back of growth in net loans (+5.1% y/y) financed by growing customer deposits (+3.7% y/y)
- **Cost discipline and improved cost of risk**
 - ⇒ Administrative expenses down by 0.9% q/q (-1.1 y/y)
 - ⇒ Cost of risk improved by 15 bp. y/y on net impairment allowances (down by 23.0% y/y) and NPLs (down by 0.3 pp. y/y, -0.5 pp. q/q)
- **High operating efficiency maintained**
 - ⇒ Cost to income ratio (C/I) at 44.1%
 - ⇒ ROE at 13.0%
 - ⇒ ROA at 1.6%
- **Strong liquidity and capital position**
 - ⇒ Loans to stable sources of funding ratio at 91%
 - ⇒ CAR at 13.8% (Core Tier 1: 12.8%)
- **Increasing competitiveness of the Bank and eService through an alliance with an innovative and dynamic strategic partner**
 - ⇒ On 7 November 2013 conclusion of an agreement on strategic cooperation for a period of 20 years in the area of payment processing and acquiring
 - ⇒ Sale of 66% stake in eService by PKO Bank Polski to EVO Payments International
 - ⇒ Planned closing term - end of 2013, beginning of 2014

Strategic partnership with EVO Payments International in payment processing and acquiring



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Transaction

- Conclusion of an agreement on strategic cooperation for a period of 20 years in the area payment processing and acquiring
- Sale of 66% stake in eService by PKO Bank Polski to EVO Payments International
- Cooperation with customers will be based on tripartite agreements; PKO BP to remain a settlement agent

Price

- The total price for a 66% stake in eService is c. PLN 418 million (at the exchange rate PLN / USD of 3.10); the final price will depend on the amount of cash in the Company at the time of closing. PKO Bank Polski acquired a 100% stake in eService for PLN 57 million, resulting with an estimated gross profit from the current transaction of c. PLN 377 million
- PKO BP will also receive an advance dividend from 2013 profit amounting to PLN 17 million
- Implied EV/LTM multiple on normalized EBITDA of c. 9.2 x, P/E of c. 14.5 x

Earn-out

- PKO Bank Polski will have the right to participate in the additional upside based on eService's financial performance between 1st July 2014 and 30th September 2015

Put option

- PKO Bank Polski is entitled to a put option over its remaining 34% stake in eService
- Put option on 14% stake in eService is exercisable between 4th and 10th anniversary of the transaction with put option on the remaining 20% being exercisable between 6th and 10th anniversary of the transaction
- PKO Bank Polski has the right, but not obligation, to sell its remaining interest in eService during the above period and the price will be determined at the time of exercising the option based on an independent valuation prepared by a reputable consultant

Strategy

- The parties intend to further dynamically develop eService's position as a market leader in Poland, and to expand it into foreign markets, in particular Central and Eastern Europe
- Processing activity will be performed in Poland by eService; the Company is expected to become a leading center for payment processing in Europe
- eService's corporate governance will allow the partners to make jointly all strategic decisions on the development of the Company and on the business model

Business Overview in Q3 2013



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Polish anti-trust watchdog clears acquisition of Nordea's Polish assets

Work is under way to integrate Nordea's Polish assets into the PKO Bank Polski Group, as part of the Bank's first acquisition project of this size to-date. The integration process is being handled by a task force comprising teams from both the PKO Bank Polski Group and the target companies. The project will be implemented in three phases: transaction closing, legal merger, and operational merger. The acquisition was unconditionally cleared by UOKiK, Poland's anti-trust watchdog.



eService No. 1 on the market

eService's share in the Polish card transactions market has grown to over 30% in terms of both the number and value of transactions handled, making the company the market leader among merchant acquirers in Poland. In doing so, PKO Bank Polski has also met its objectives for eService, as set out in the Bank's strategy; also eService advanced in the Nielsen rankings of Europe's largest merchant acquirers from 37th in 2011 to 28th now. Currently, the eService network comprises over 80,000 card terminals, nearly 60,000 of which also support IKO mobile payments.



Current accounts can now be opened with fund transfers

A new exciting option for opening a current account with PKO BP – by transferring funds from an existing bank account – is now on offer. Currently, the service is available only at selected branches, and an account can be opened by making a fund transfer from a bank where the client already holds an account. Account creation by fund transfer is initiated immediately upon receipt of an online application. The client receives their account agreement online once the funds have been credited to the new account and the required verification process has been completed.



Portmonetka IKO – IKO mobile payments for all

PKO Bank Polski further expanded its mobile services by launching Portmonetka IKO, a special version of its smartphone payment app designed for non-clients. Portmonetka IKO users are given free access to a network of 3,000 PKO Bank Polski ATMs, as well as IKO payment points that span 60,000 eService terminals and several thousand e-stores.



PKO Bank Polski's service quality appreciated by Internet users

In the Internet Ranking of Banking Service Quality 2013, which takes into account the opinions of Internet users and the banks' activities on their public Facebook profiles, PKO Bank Polski has emerged as the undisputed winner. The Bank was also found to be the most popular bank with Polish internet users, according to the 'Banks on the Internet' report.



New Employee Pension Plan

PKO Bank Polski unveiled its new Employee Pension Plan. Designed to help the Bank's employees save for their future pension pot, and to better invest accumulated funds, the Plan accommodates contributions funded by the Bank itself, as well as employees' own contributions. Based on investment funds managed by PKO TFI, its long-term horizon will help participants to achieve tangible returns.



Basic financial data

	3Q'13	3Q'12	Change y/y	Q3'13	Q2'13	Change q/q	
P&L items (PLN mn)	Net interest income	4 844	6 020	-19.5%	1 578	1 572	+0.3%
	Net F&C income	2 351	2 264	+3.8%	808	772	+4.7%
	Result on business activity	7 527	8 716	-13.6%	2 528	2 478	+2.0%
	Administrative expenses	-3 341	-3 378	-1.1%	-1 116	-1 106	+0.9%
	Net impairment allowance	-1 355	-1 759	-23.0%	-488	-419	+16.4%
	Net profit	2 289	2 874	-20.4%	754	753	+0.2%
Balance sheet (PLN bn)	Assets	201.6	193.2	+4.3%	201.6	198.2	+1.7%
	Net loans	150.0	142.7	+5.1%	150.0	149.1	+0.6%
	Deposits	150.9	145.4	+3.7%	150.9	149.2	+1.1%
	Stable financial resources	165.7	161.8	+2.4%	165.7	164.1	+1.0%
	Total equity	24.5	23.8	+2.9%	24.5	23.7	+3.3%



Basic ratios

	3Q'13	3Q'12	Change y/y	Q3'13	Q2'13	Change q/q	
Basic financial indicators	ROE net (%)	13.0	16.6	-3.6 pp.	13.0	13.8	-0.8 pp.
	ROA net (%)	1.6	2.0	-0.4 pp.	1.6	1.7	-0.1 pp.
	C/I ¹⁾ (%)	44.1	39.0	+5.1 pp.	44.1	42.7	+1.5 pp.
	NIM ²⁾ (%)	3.8	4.7	-0.9 pp.	3.8	4.0	-0.3 pp.
Quality of loan portfolio	NPL ratio ³⁾ (%)	8.6	8.9	-0.3 pp.	8.6	9.1	-0.5 pp.
	Coverage ratio ⁴⁾ (%)	51.3	49.0	+2.3 pp.	51.3	51.1	+0.2 pp.
	Cost of risk (bp.)	129	144	-15	129	135	-6
Capital position	CAR (%)	13.8	12.9	+1.0 pp.	13.8	13.5	+0.3 pp.
	Core Tier 1 (%)	12.8	11.9	+0.9 pp.	12.8	12.5	+0.3 pp.

(1) Administrative expenses for last 4 quarters / result on business activity for last 4 quarters

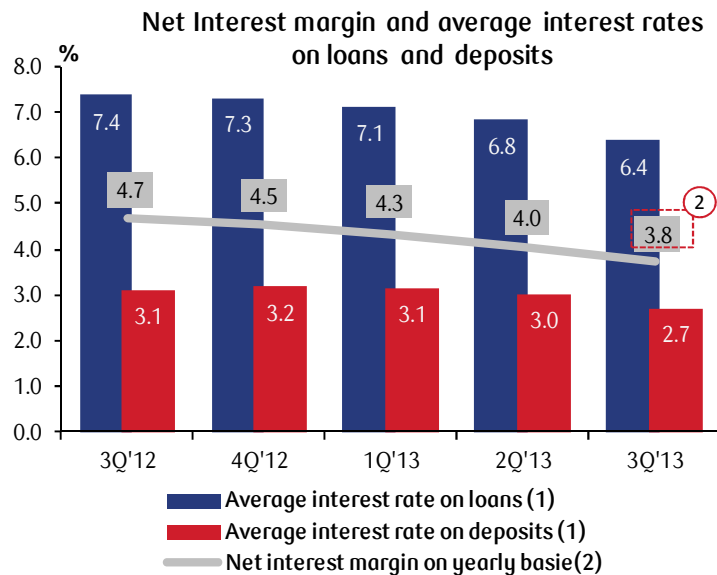
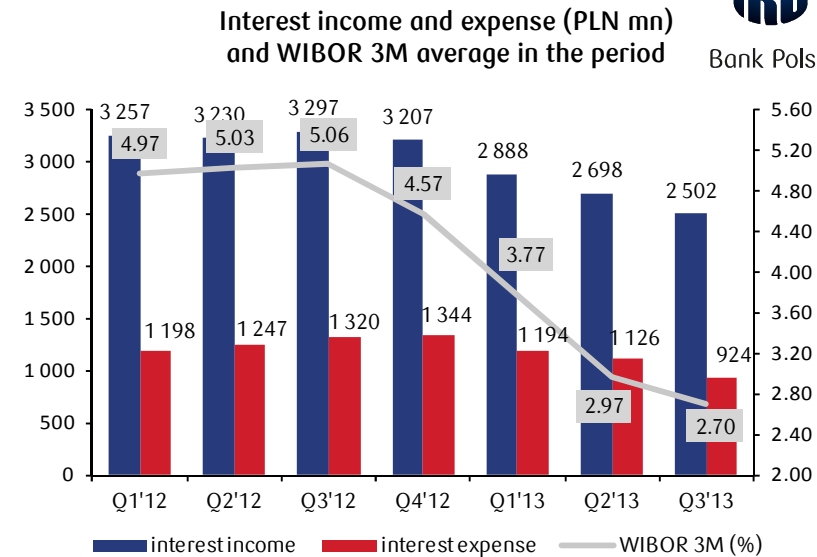
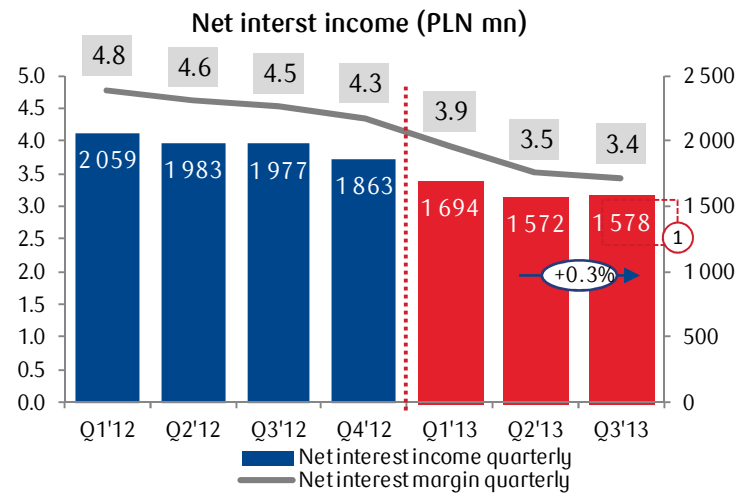
(2) Net interest margin = net Interest income for last 4 quarters / average interest bearing assets at the beginning and the end of the period of last 4 quarters (formula consistent with that applied in the PKO Bank Polski Group Directors' Report)

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

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



Net interest income (1)



1 Stabilization of NII and NIM in Q3'13 in conditions of further drop in market interest rates, mainly due to lower average interest rates on deposits, adaptation of price offer of deposit products and the change of structure in favour of current deposits

2 Drop in Interest margin by 0.9 pp. y/y to 3.8% as a result of a decrease in annualised net interest income (due to a drop in market interest rates causing directly faster decrease in interest-bearing assets mostly based on market rates than on the decline in interest rates of the deposit offer), accompanied by an increase in the volume of average interest-bearing assets (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)

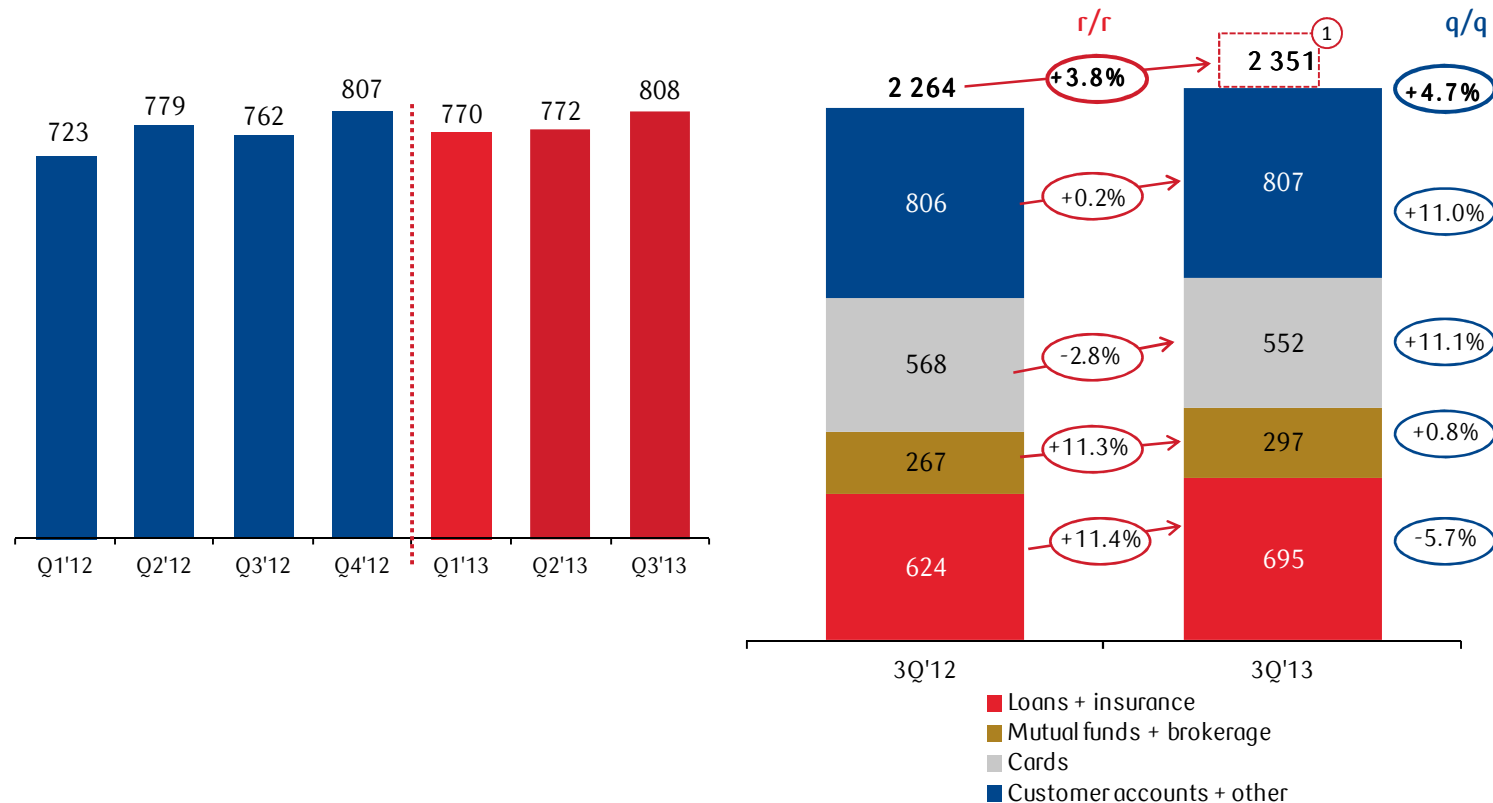
Ⓢ Change q/q



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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)



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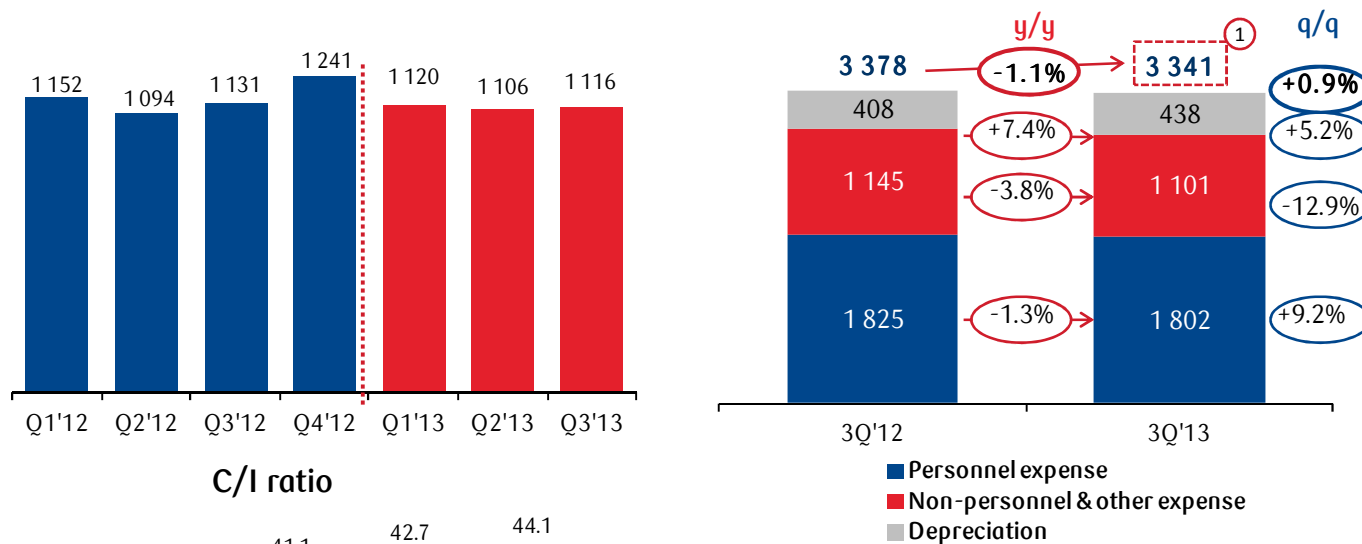
The level of net fee and commission income was mainly affected by:

- increase in net commission income in respect of loans granted and insurance sales due to the increase in loans sales (+15% y/y) and insurance saturation of loans,
- increase in commission income in respect of maintenance of investment funds (including management fees) due to more profitable sales structure of funds, and approximately 44% increase in the value of assets,
- 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 beginning of the year - lower commission related to IF was accompanied by the increase in card transactions,

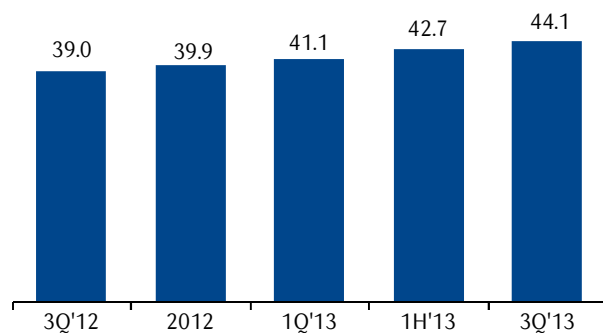


Administrative expenses

Administrative expenses (PLN mn)



C/I ratio



Employment (FTEs) eop

	3Q'12	3Q'13	Change y/y	
			FTEs	%
Bank	25 313	24 646	-667	-2.6%
Group	28 465	27 814	-651	-2.3%

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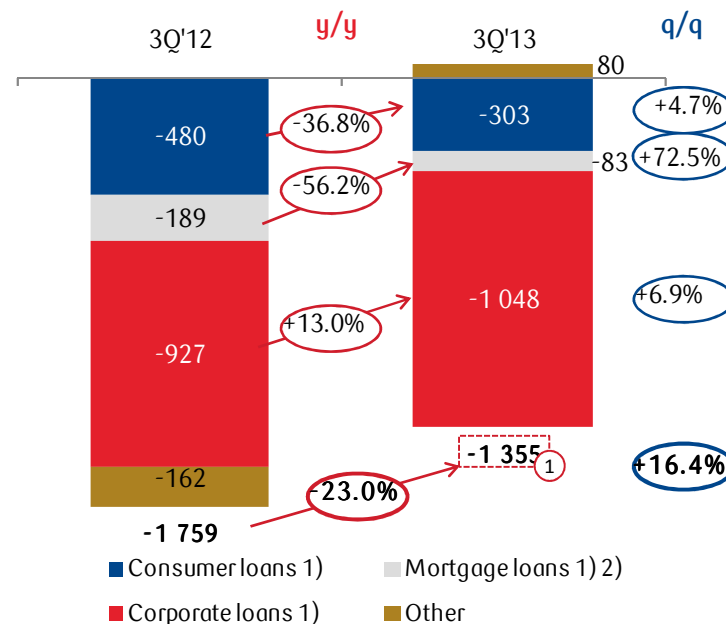
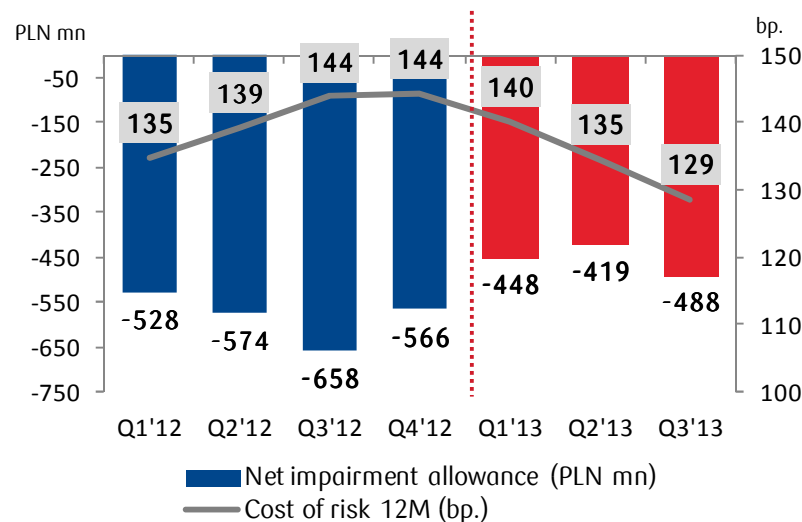
Lower administrative expenses mainly due to decrease in:
 – personnel expense, partly in connection with implementation in Q2'13 the Employee Pension Plan – EPP
 – overheads and other expenses, mainly due to the decrease in cost of maintenance and rental of fixed assets, promotion, advertising and telecommunication



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Net impairment allowance

Net impairment allowance and write-offs (PLN mn)



Share of loans with recognized impairment³⁾

	3Q'12	3Q'13	Change y/y
Consumer loans	9.0%	9.8%	+0.8 pp.
Mortgage loans	3.7%	3.6%	-0.1 pp.
<i>PLN</i>	3.6%	3.2%	-0.4 pp.
<i>FX</i>	3.9%	4.5%	+0.6 pp.
Corporate loans	14.0%	13.2%	-0.8 pp.
Total	8.9%	8.6%	-0.3 pp.

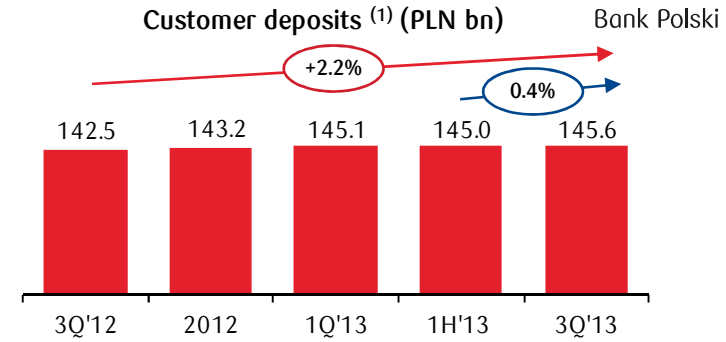
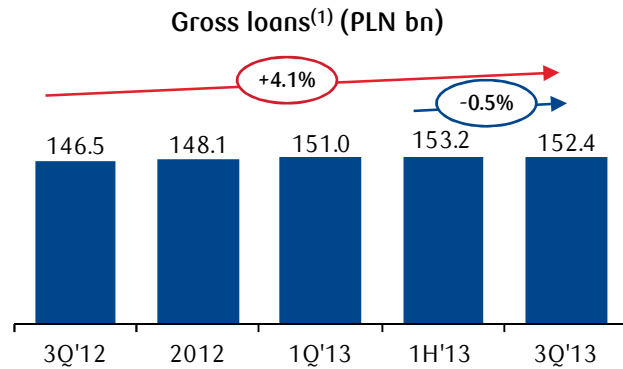
1) Significant improvement of net impairment is mainly a result of the decrease in the net impairment allowance on the consumer and housing loans portfolio as well as resolving provisions for legal claims, loan commitments and guarantees granted

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

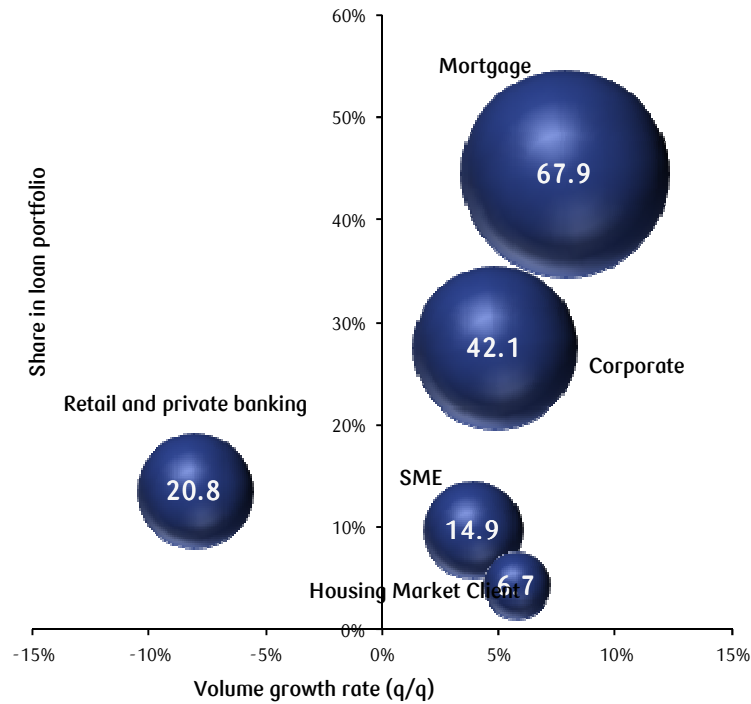
(3) Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers



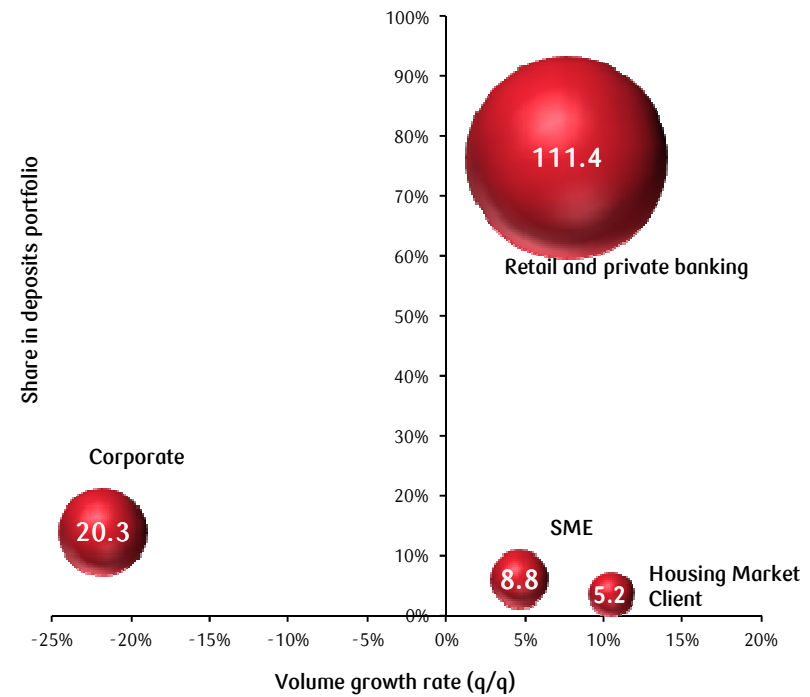
Business activity - volumes



Gross loans by business lines (as at 30.09.2013)¹⁾



Customer deposits by business lines (as at 30.09.2013)¹⁾



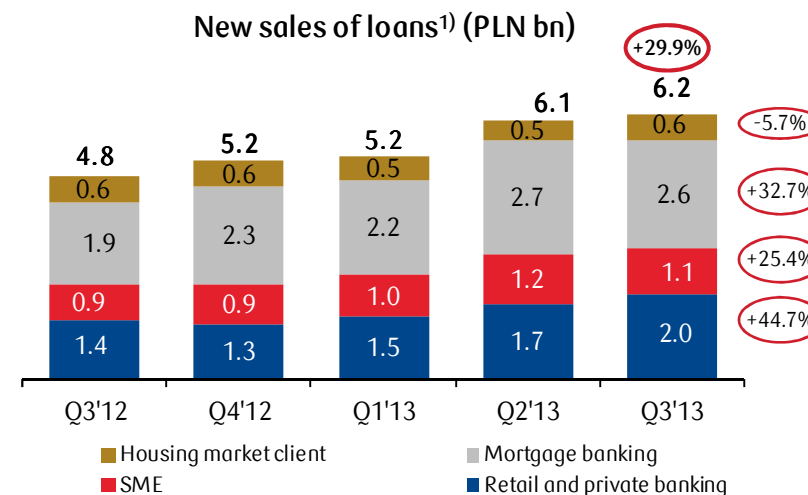
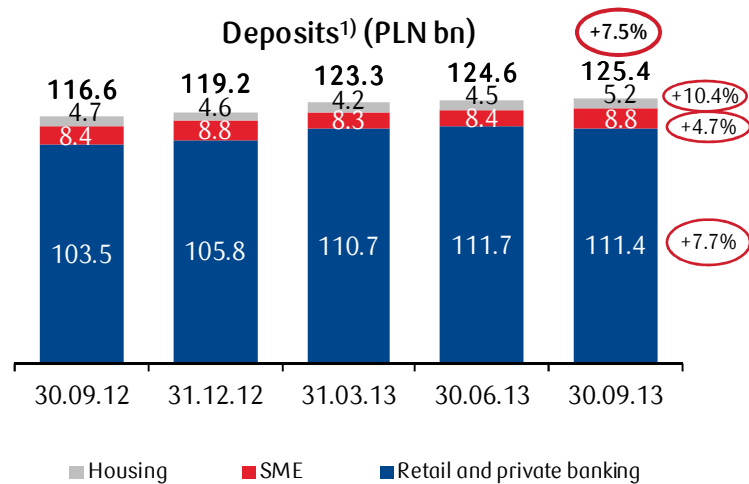
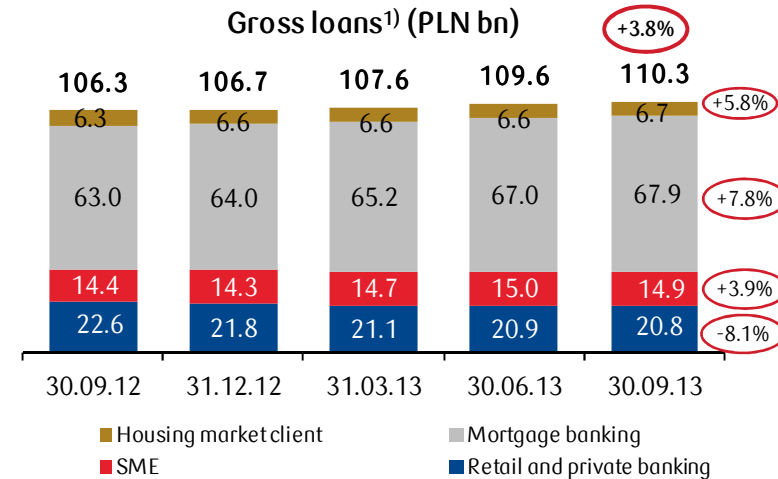
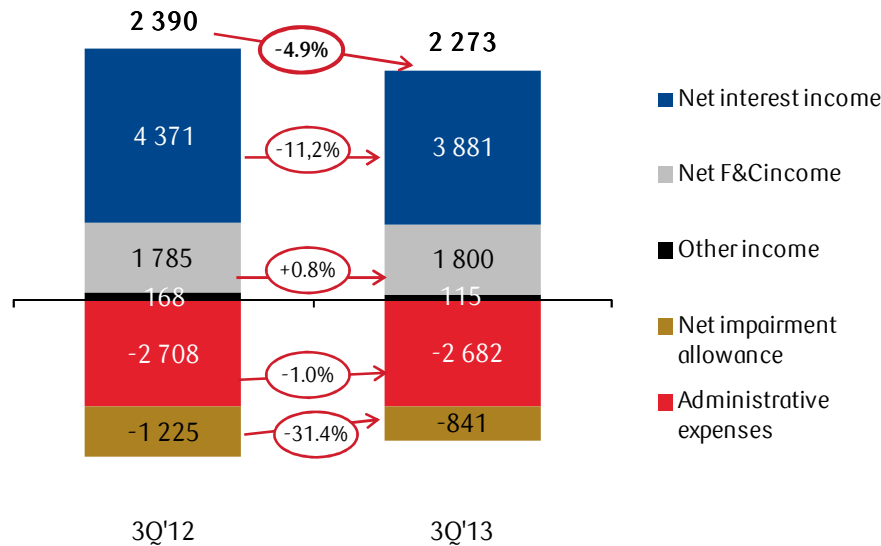
(1) Bank's management data



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Retail segment

Gross financial result of retail segment (PLN mn)



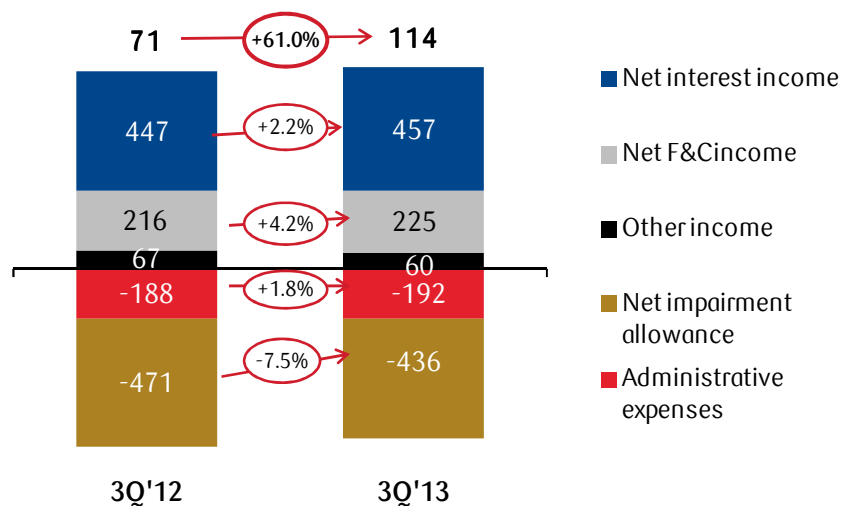
Change y/y (1) Bank's management data. Change in relation to business volumes previously presented results from a change in presentation; i.e. volumes currently presented include valuation adjustments and accrued interest. Additionally, the mortgage loan for consumer purposes was presented in loans and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



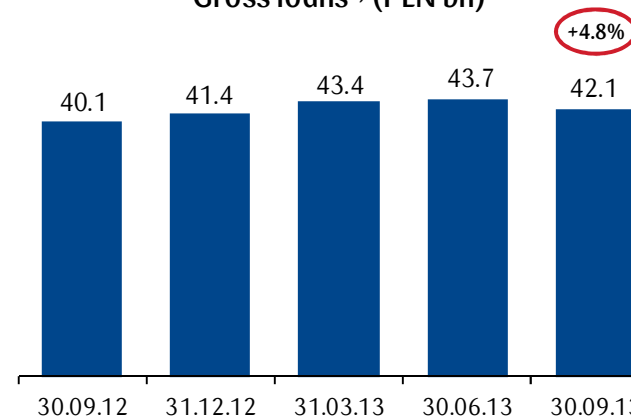
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Corporate segment

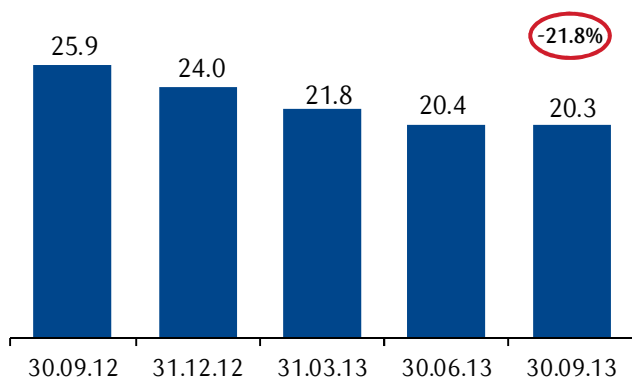
Gross financial result of corporate segment (PLN mn)



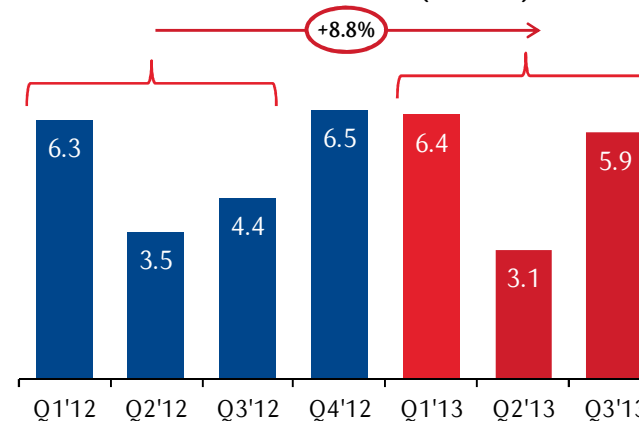
Gross loans¹⁾ (PLN bn)



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)	3Q'12	2012	1Q'13	1H'13	3Q'13	Change	
						y/y	q/q
Number of current accounts ('000)	6 135	6 220	6 245	6 254	6 283	+2.4%	+0.5%
Number of banking cards ('000)	7 158	7 164	7 120	7 225	7 090	-0.9%	-1.9%
<i>of which: credit cards</i>	<i>978</i>	<i>980</i>	<i>938</i>	<i>919</i>	<i>899</i>	<i>-8.1%</i>	<i>-2.2%</i>
Number of branches:	1 196	1 198	1 199	1 177	1 181	-1.3%	+0.3%
- retail	1 132	1 134	1 135	1 138	1 142	+0.9%	+0.4%
- corporate	64	64	64	39	39	-39.1%	0.0%
Number of agencies	1 210	1 208	1 202	1 149	1 115	-7.9%	-3.0%
Number of ATMs	2 569	2 803	2 911	2 945	2 960	+15.2%	+0.5%
Number of active IKO applications ('000)	x	x	11	39	57	x	+46.2%
Number of eService terminals	65 061	68 877	71 706	79 928	84 020	+29.1%	+5.1%