



Bank Polski

Financial Results of the PKO Bank Polski SA Group for 1Q 2014

„PKO Bank Polski. The Best Every Day”

Warsaw, 15 May 2014

Executive summary



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- In the first quarter of 2014, PKO Bank Polski has focused on stable growth and the closing of the acquisition of the Nordea assets in Poland. In line with the strategy, the Bank has maintained the high efficiency, has continued investments in new technologies and has gradually reduced the cost of risk
- Net profit of the PKO Bank Polski Group generated in the first quarter of this year amounted to PLN 803 mn and was PLN 16.2 mn higher than in the corresponding period of 2013 (+2.1% y/y) which was driven by:
 - ⇒ improvement of result on business activities (+PLN 20.2 mn y/y)
 - ⇒ improvement of net impairment allowance (+PLN 34.5 mn y/y), mainly as a result of a decrease of impairment allowances on consumer and corporate loans portfolios
- **Expansion of the operating base**
 - ⇒ Assets increased to PLN 203 bn (+3.2% y/y) as net loans increased to PLN 150 bn (+1.7% y/y), funded through increase in deposits from customers to PLN 153 bn (+2.8% y/y) and bonds issue in the amount of EUR 500 mn
- **Cost discipline and improved portfolio quality**
 - ⇒ Stabilisation of operating costs in annual terms (+0.5% y/y)
 - ⇒ Reduction of the cost of risk by 14 bp. y/y, improvement in coverage ratio by 1.8 pp. y/y and decline in NPLs by 1.1 pp. y/y
- **Retention of high operational efficiency**
 - ⇒ Cost / Income ratio (C/I) at 43.1%
 - ⇒ Return on Equity (ROE) at 13.1%
 - ⇒ Return on Assets (ROA) at 1.6%
 - ⇒ Interest margin at 3.7%
- **Strong liquidity and capital position**
 - ⇒ Loans / Stable funding resources at 88%
 - ⇒ Capital Adequacy Ratio at 13.5% (Core Tier 1 at 12.4%)

Selected Business Initiatives of Q1 2014



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Nordea Bank Polska now part of the PKO Bank Polski Group

PKO Bank Polski Group has expanded to include Nordea Bank Polska, Nordea Finance Polska and Nordea TUnŻ. Integration plans provide for completion of the process in 1H 2015. The acquisition commenced integration of the two banks; conceived as a two-step process. The first phase involves legal merger of the two entities while the second their operational integration. Until execution of the legal merger scheduled for early October 2014. Nordea Bank Polska continues as a separate entity forming part of the PKO Bank Polski Group. Within two weeks of completion of that legal merger. the PKO Bank Polski logo will replace the Nordea Bank Polska brand.



PKO Bank Polski applied to KNF for issuance of a permit for establishment of a mortgage bank

A positive decision of the Polish Financial Supervision Authority (KNF) will open the way to the launch, at the turn of 2014-15, of PKO Mortgage Bank, a new entity of the PKO Bank Polski Group. PKO Mortgage Bank will employ the agency model to provide loan origination and after-sale servicing in the entire retail network of PKO Bank Polski as well as those of its intermediaries and agents. The adopted business model provides for close cooperation of both the institutions involving outsourcing of specific functions.



PKO Bank Polski joins the Housing for the Young government scheme

PKO Bank Polski was the first to sign an agreement of cooperation with BGK within the framework of a government sponsored financial support and state subsidy scheme for first home purchases. As of 2 January 2014, the Bank's customers can file applications for loans subsidized under the Housing for the Young scheme; addressed specifically to couples, single-parents and singles of up to 35 years of age.



Account for the Young

All students and university graduates within the 18-26 age bracket qualify for the new Account for the Young. Core of the offer consists of a no-service-charge savings and checking account combined with a package of loan and deposit products. Benefits of the offer include, among others, free-of-charge: account servicing, cash withdrawals in all ATM in Poland and worldwide, internet enabled bank transfers.



IKO for minors

PKO Bank Polski has made the IKO money purse available to children of below 13 years of age. Minors can now make small phone settled purchases and ATM cash withdrawals under parental control. The IKO money purse for children of below 13 years of age is a perfect match and complement to the PKO Junior offer, which has been enormously popular with the PKO customers.



Contactless payments and QR codes for UPTs of PKO Bank Polski

PKO Bank Polski is the first in the market to provide unattended payment terminals (UPT) with a functionality enabling contactless payments with Mastercard PayPass and Visa payWave. The solution simplifies and speeds up payment of taxes and other local charges, e.g. for issuance of a driver's license or an ID card. The unattended payment terminals of PKO Bank Polski represent a novel alternative to a bank teller window.



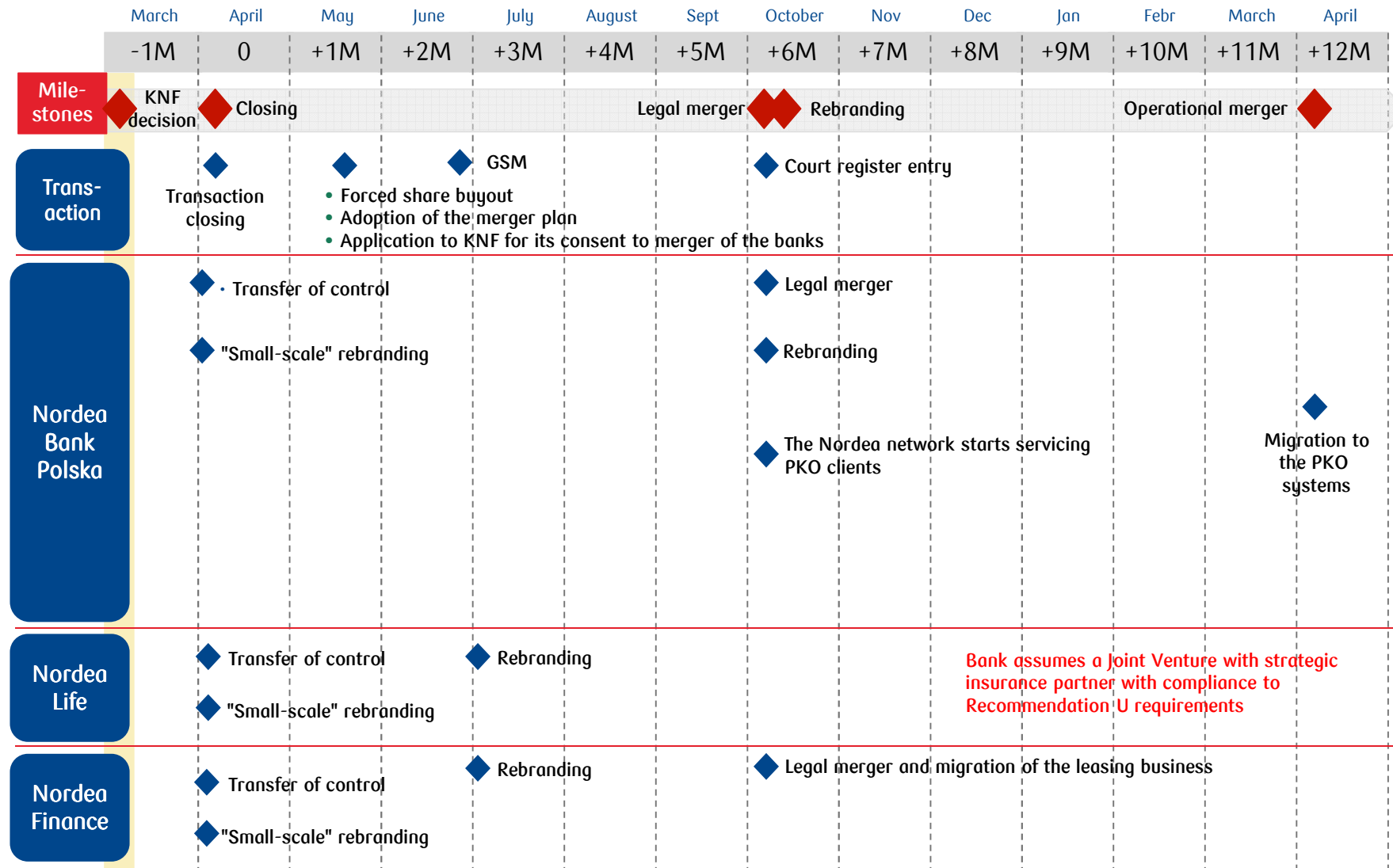
PKO Bank Polski's new marketing communication platform

„Organism” is the Bank's newest marketing concept replacing the previous communications involving Szymon Majewski. The new concept is designed to reinforce the desirable attributes of the PKO brand through originality and humorous nature of the creation, and a long term cultivation of a consistent message. The earlier Szymon Majewski driven marketing communication was emblematic of PKO Bank Polski's bold, modernising changes.

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



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Financial Summary *

Consolidated data



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	1Q'14	1Q'13	Change y/y	Q4'13	Change q/q	
P&L items (PLN mn)	Net interest income	1 740	1 753	-0.7%	1 715	+1.5%
	Net F&C income	705	718	-1.7%	815	-13.4%
	Result on business activity	2 548	2 528	+0.8%	3 176	-19.8%
	Administrative expenses	-1 126	-1 120	+0.5%	-1 281	-12.1%
	Net impairment allowance	-413	-448	-7.7%	-683	-39.5%
	Net profit	803	786	+2.1%	938	-14.5%
Balance sheet (PLN bn)	Assets	203.2	196.8	+3.2%	199.2	+2.0%
	Net loans	149.7	147.1	+1.7%	149.6	+0.0%
	Deposits	152.7	148.4	+2.8%	151.9	+0.5%
	Stable financial resources	169.5	163.5	+3.7%	166.7	+1.7%
	Total equity	25.9	25.2	+3.1%	25.2	+3.1%

*) 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.



Key performance indicators*

	1Q'14	1Q'13	Change y/y	Q4'13	Change q/q
Basic financial indicators	ROE net (%)	13.1	14.7 -1.6 pp.	13.2	-0.1 pp.
	ROA net (%)	1.6	1.8 -0.2 pp.	1.6	0.0 pp.
	C/l ¹⁾ (%)	43.1	41.5 +1.7 pp.	43.2	-0.1 pp.
	NIM ²⁾ (%)	3.7	4.4 -0.7 pp.	3.7	0.0 pp.
Quality of loan portfolio	NPL ratio ³⁾ (%)	8.1	9.2 -1.1 pp.	8.2	-0.1 pp.
	Coverage ratio ⁴⁾ (%)	52.5	50.6 +1.8 pp.	51.7	+0.8 pp.
	Cost of risk (bp.)	126	140 -14	131	-5
Capital position	CAR (%)	13.5	13.6 -0.1 pp.	13.6	-0.1 pp.
	Core Tier 1 (%)	12.4	12.6 -0.2 pp.	12.5	-0.1 pp.

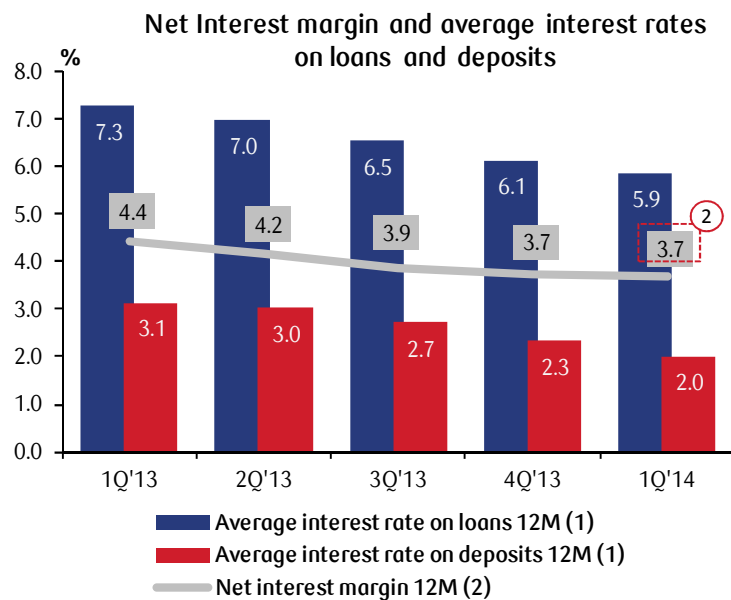
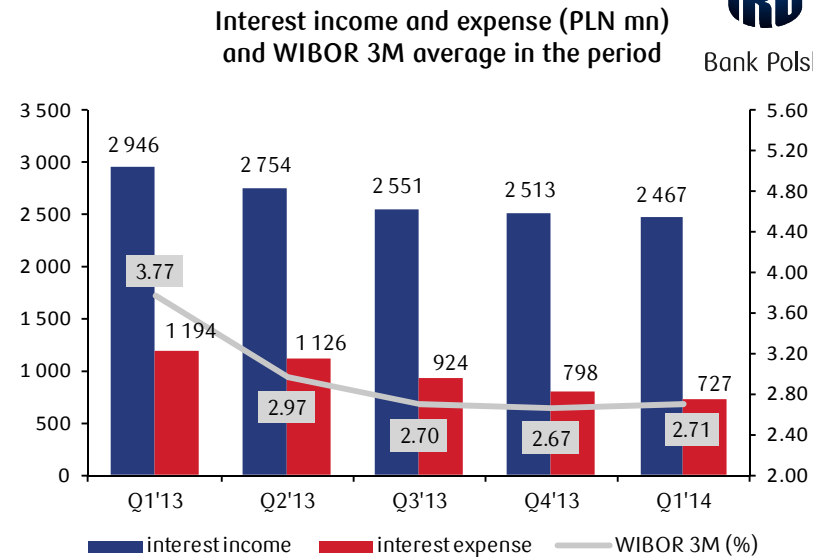
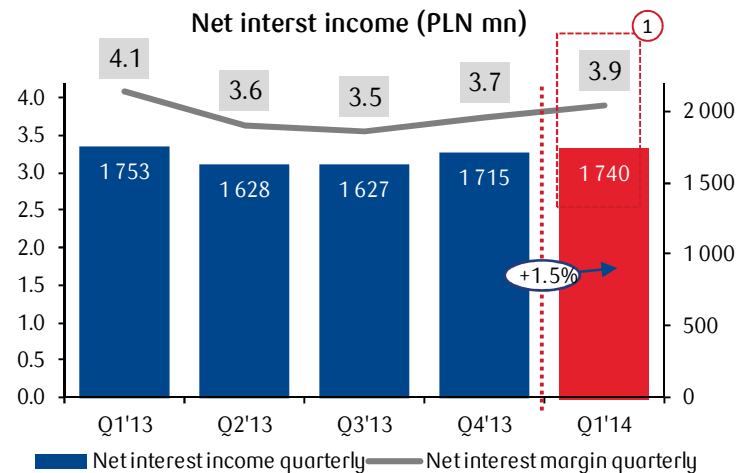
*) Due to a change in the accounting principles applicable to recognition of insurance products related revenues and expenses, relevant data in respect of the previous periods have been restated to ensure comparability.

- (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



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Net interest income (1)



① In Q1'14 net interest income remained at a stable level y/y, mainly due to decrease in interest expense by PLN 466.8 mn y/y, mainly due to adaptation of the price conditions of the deposit offer to a drop in market interest rates, along with a decrease in interest income by PLN 479.7 mn y/y, determined by the fall in market interest rates

② Interest margin dropped by 0.7 pp. y/y as a result of a decrease in annualized net interest income (due to a drop in market interest rates causing directly accelerated decrease in interest-bearing assets mostly based on market rates rather than due to 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

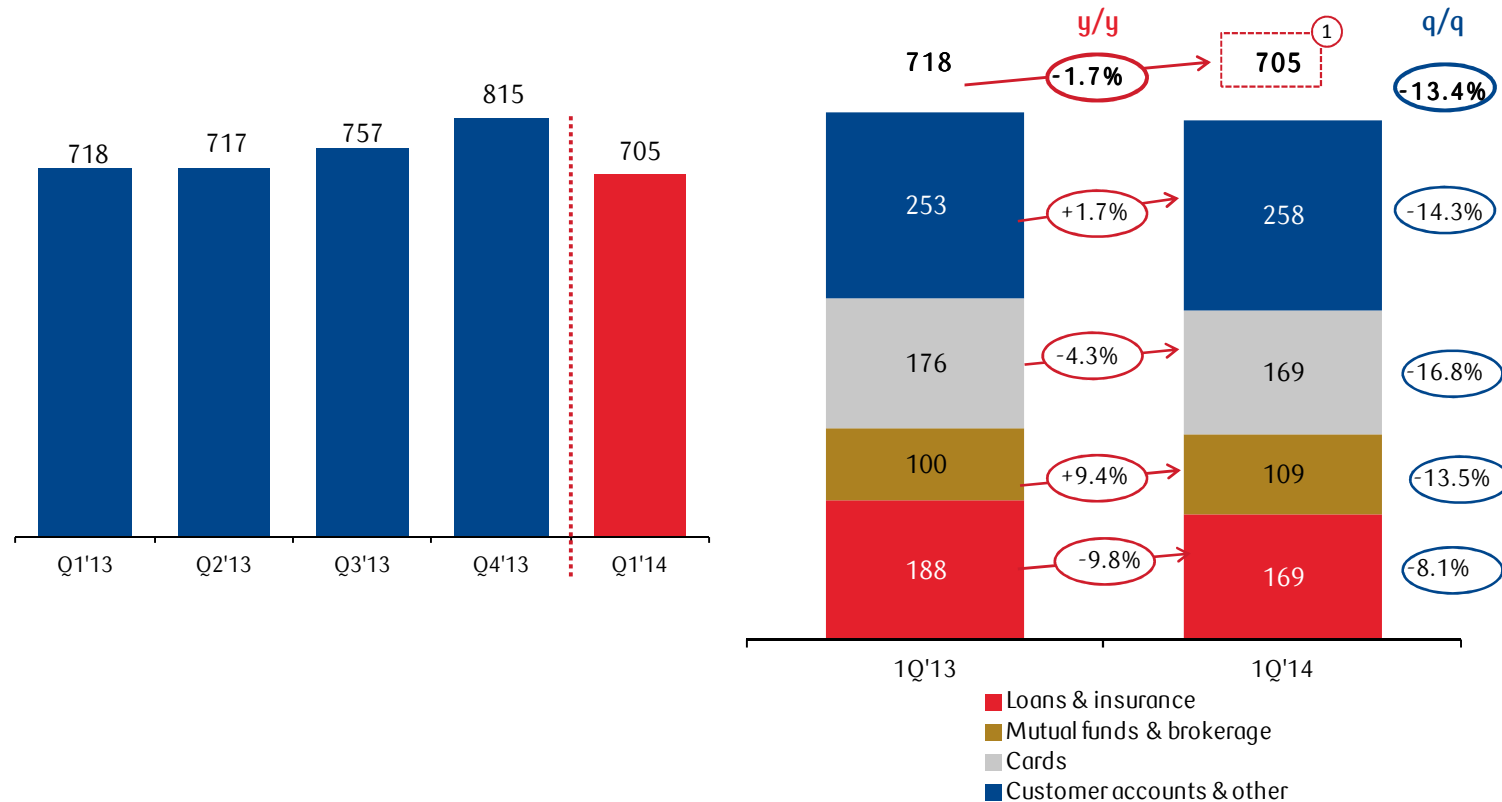
(2) Net Interest income for last 4 quarters / average interest bearing assets at the beginning and the end of the period of last 4 quarters (formula consistent with that applied in the PKO Bank Polski Group Directors' Report)



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Net F&C income

Net fee and commission income (PLN mn)



1

Net fee & commission income was primarily determined by:

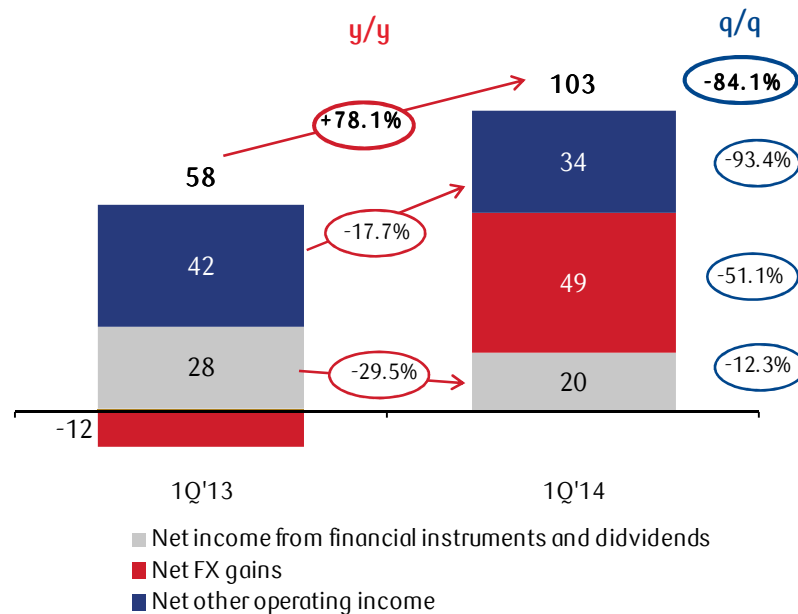
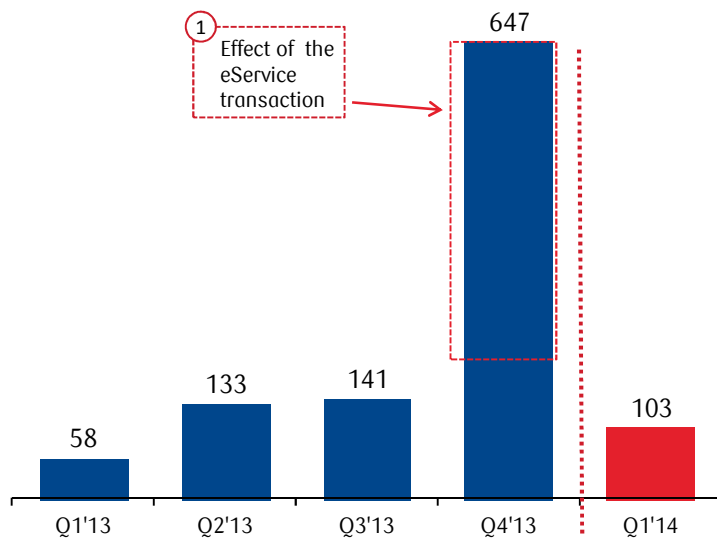
- decrease in income in respect of loans and advances granted
- decrease in net commission income on loan insurance, mainly due to a decrease in insurance saturation of consumer loans
- lower result on payment cards, mainly due to a decrease in income from the rental of authorisation devices in connection with the sale of a 66% interest in eService in the fourth quarter of 2013
- decrease in commission income in respect of cash transactions, due to development of electronic banking services
- growth of commission income from servicing of bank accounts, which is a result of changes in tariff of fees and charges introduced in 2013

Sale of a stake in eService and the exclusion of its revenues from the consolidation resulted in a reduction in the 1Q'14 F&C income by approximately PLN 30 mn. Had income from that source been included, the growth in net F&C income in the 1Q'14 would have reached nearly +2.5% y/y



Net other income

Net other income (PLN mn)

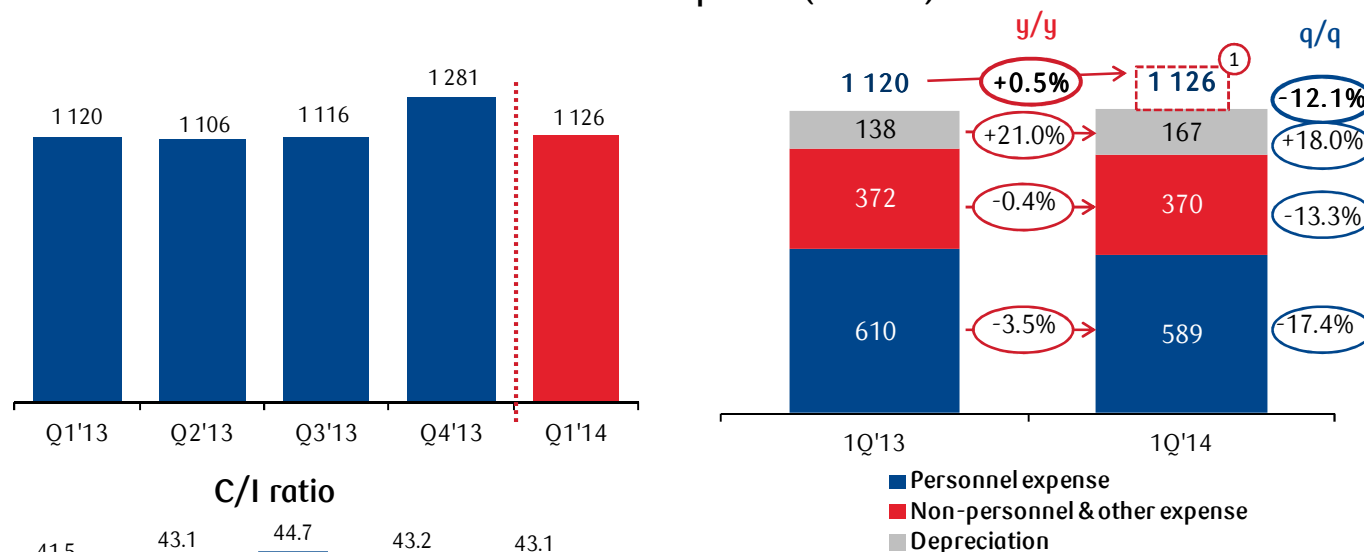


¹ In Q4'13 net other operating income included income on the sale of a 66% stake in the eService subsidiary amounting PLN 315 mn and on fair value readjustment of the remaining share interest in the eService amounting PLN 162 mn

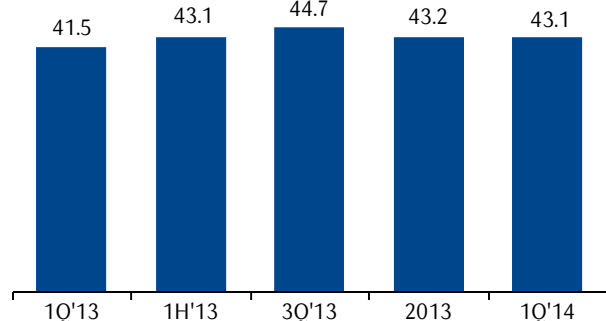


Administrative expenses

Administrative expenses (PLN mn)



C/I ratio



Employment (FTEs) eop

	1Q'13	1Q'14	Change y/y	
			FTEs	%
Bank	25 128	24 373	-755	-3.0%
Group	28 246	27 504	-742	-2.6%

¹ Value of general and administrative expenses was primarily determined by:

- an increase of PLN 13.9 mn y/y in expenses on contributions and payments to the Bank Guarantee Fund, as a result of introducing a prudential fee in Q4'13
- an increase in amortization and depreciation expense of PLN 29.0 mn y/y, as a result of an increase in amortization expense of intangible assets concerning IT
- decrease in employee benefits by PLN 21.3 mn y/y
- decrease in overheads by PLN 14.8 mn y/y, i.a. due to decrease in cost of promotion and advertising, maintenance and rental of fixed assets, and telecommunication

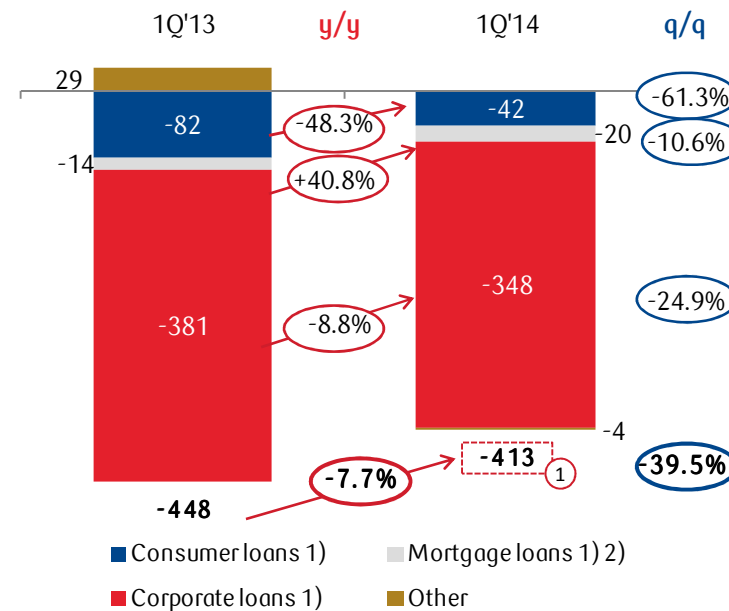
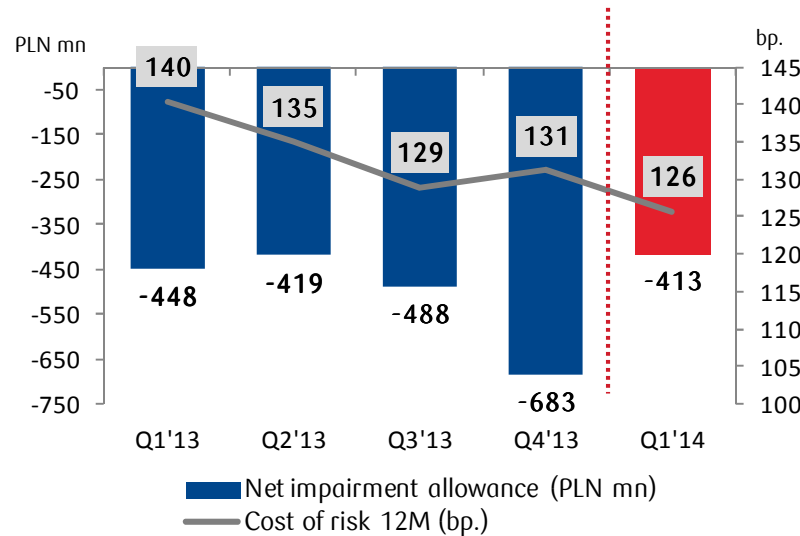
The reduction of administrative expenses in 1Q'14 partly due to the exclusion of eService from the consolidation as a result of sale in Q4'13 66% stake in this company



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Net impairment allowance

Net impairment allowance and write-offs (PLN mn)



Share of loans with recognized impairment³⁾

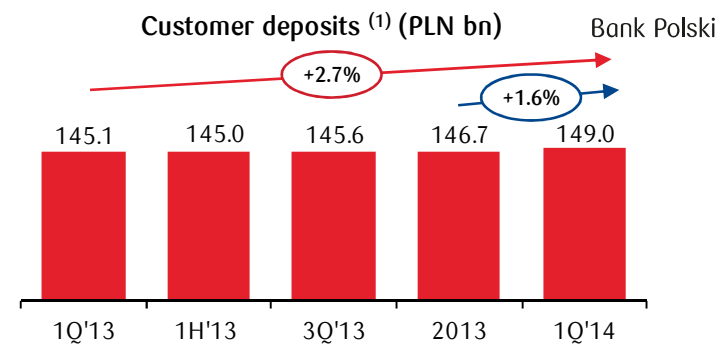
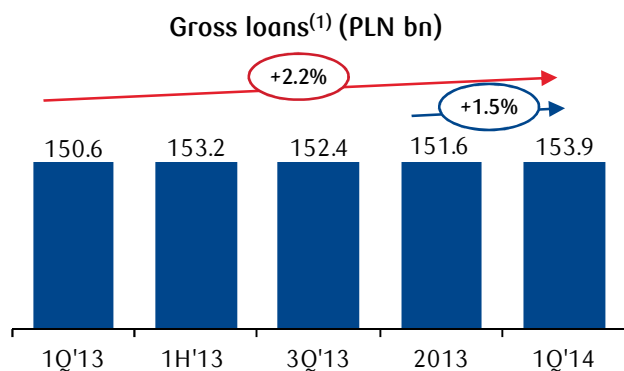
	1Q'13	1Q'14	Change y/y
Consumer loans	9.8%	9.3%	-0.5 pp.
Mortgage loans	3.8%	3.5%	-0.3 pp.
<i>PLN</i>	3.6%	3.0%	-0.6 pp.
<i>FX</i>	4.1%	4.8%	+0.7 pp.
Corporate loans	14.2%	12.6%	-1.6 pp.
Total	9.2%	8.1%	-1.1 pp.

① Improvement of net impairment allowance in 1Q'14 compared with the corresponding period of the previous year, as well as compared to previous quarter, is mainly a result of a decrease of impairment allowance on consumer and corporate loans portfolio

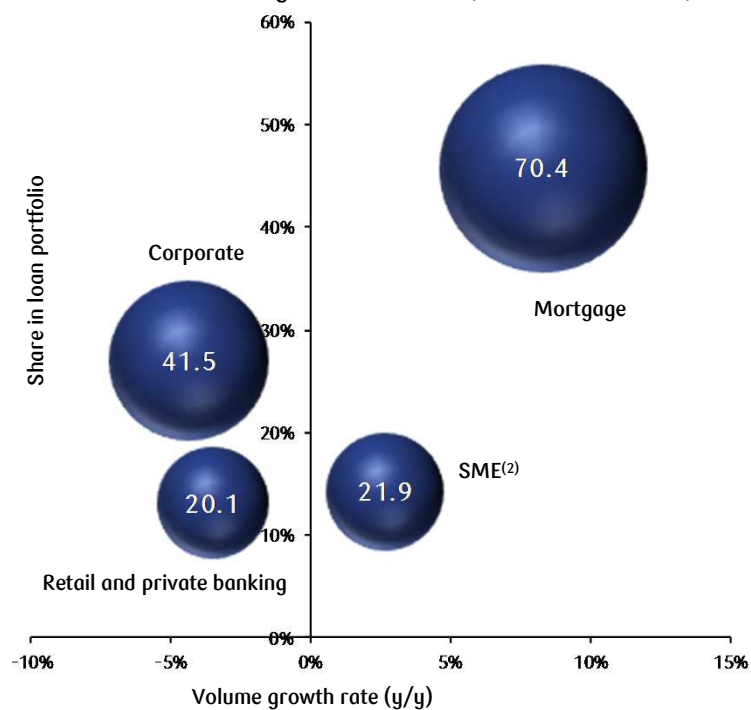
(1) management accounts data (2) Housing loans to individuals
 (3) Calculated by dividing the gross carrying amount of impaired loans and advances to customers by the gross carrying amount of loans and advances to customers



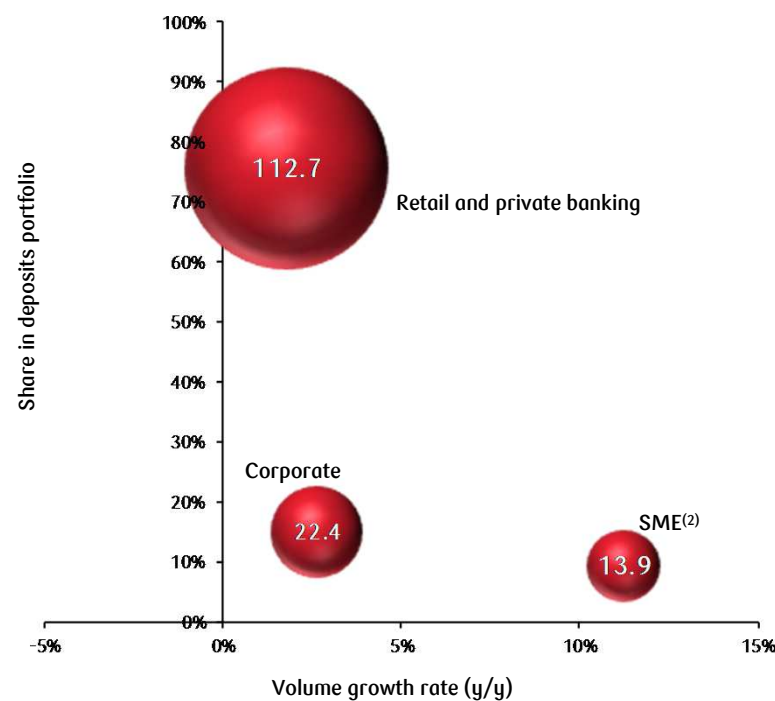
Business activity - volumes



Gross loans by business lines (as at 31.03.2014)¹⁾



Customer deposits by business lines (as at 31.03.2014)¹⁾



(1) Bank's management data

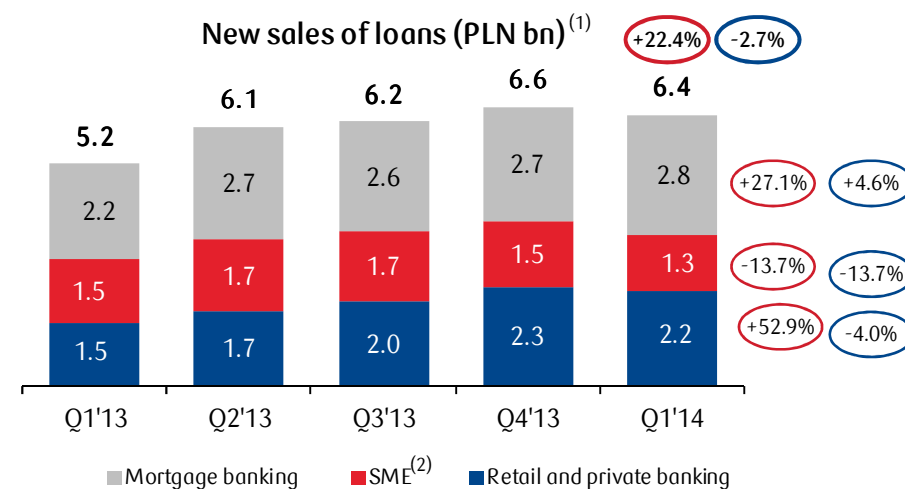
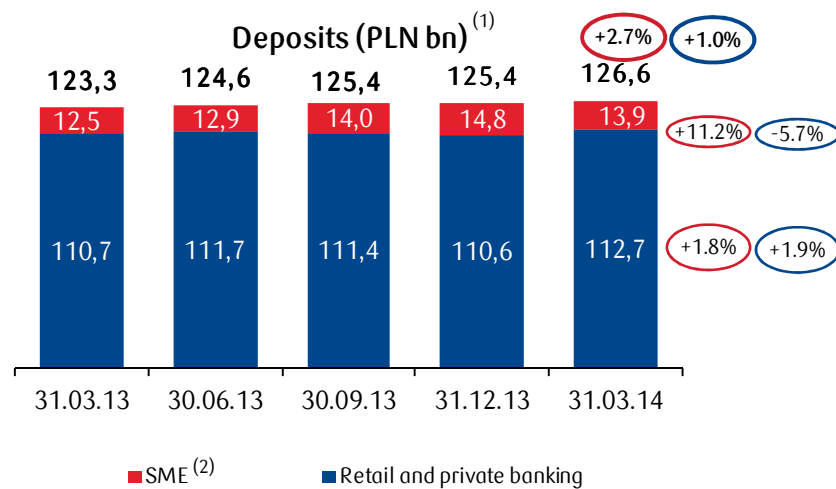
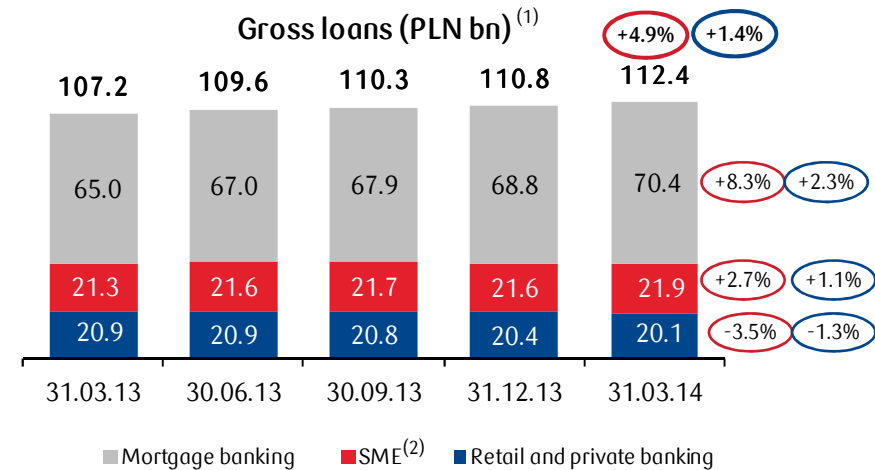
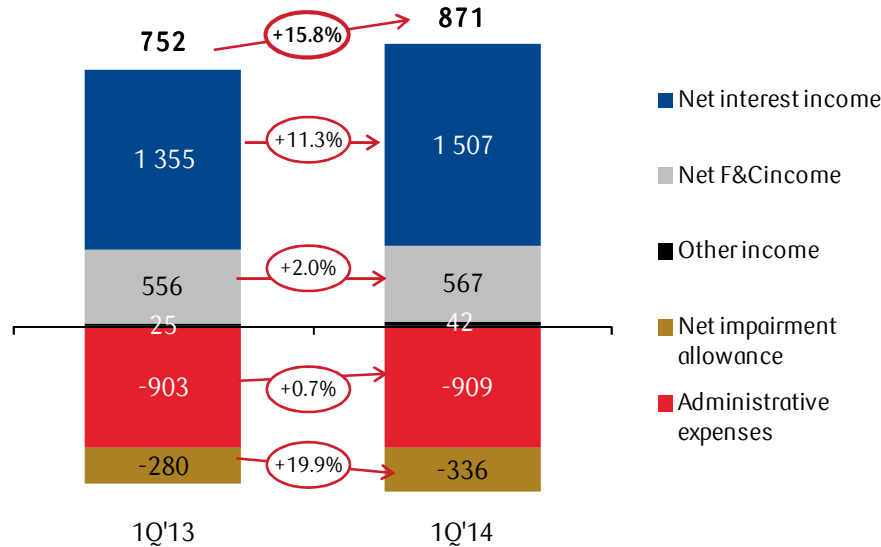
(2) To the SME business line of have been included deposits and loans of housing market clients (previously reported separately)



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Retail segment

Gross financial result of retail segment (PLN mn)



○ Change y/y ○ Change q/q

1) Bank management data

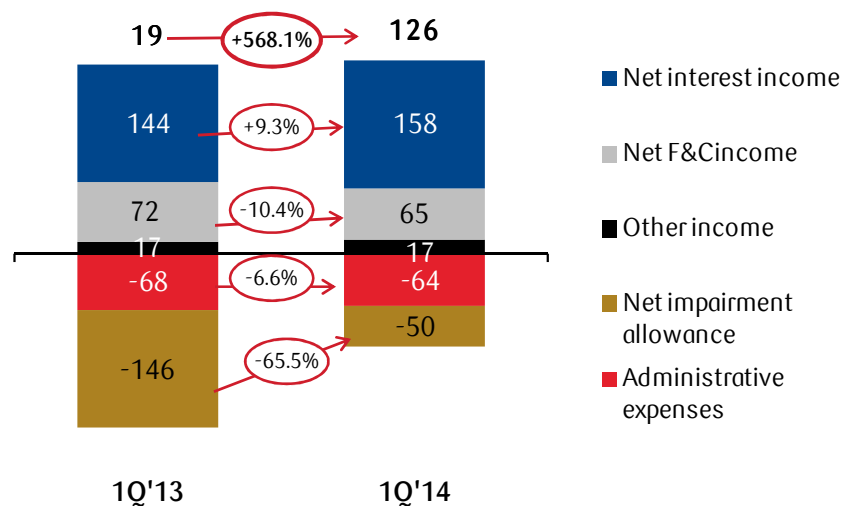
2) To the SMEs business line of have been included deposits and loans of housing market clients (previously reported separately)



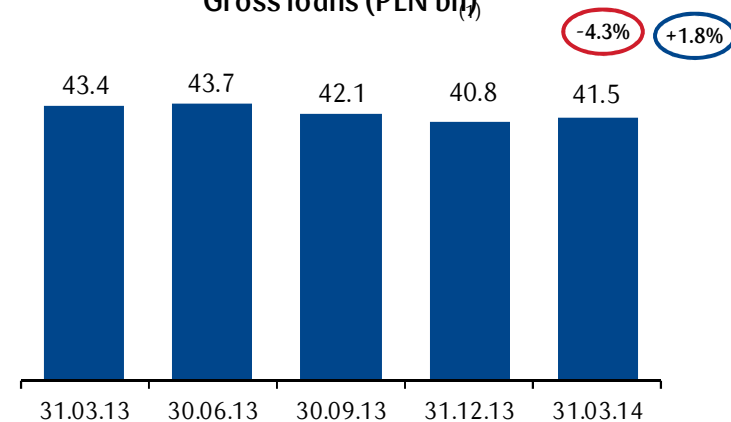
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Corporate segment

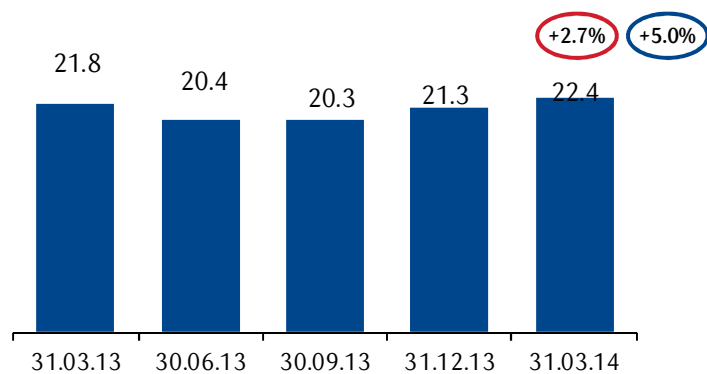
Gross financial result of corporate segment (PLN mn)



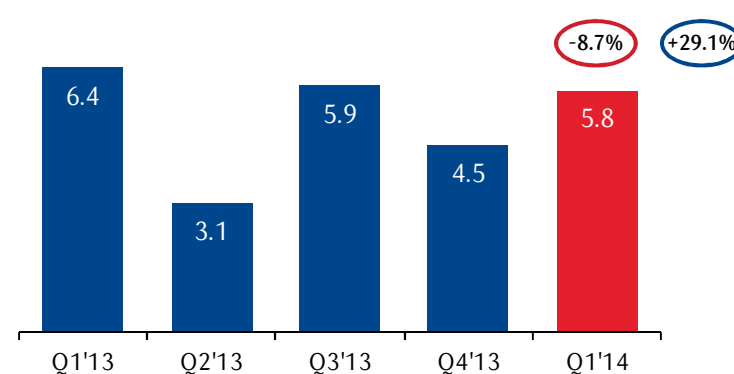
Gross loans (PLN bn)



Deposits (PLN bn)⁽¹⁾



New sales of loans (PLN bn)⁽¹⁾



○ Change y/y ○ Change q/q

1) Bank management data

Basic operational data



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Item (eop)	1Q'13	1H'13	3Q'13	2013	1Q'14	Change	
						y/y	q/q
Number of current accounts ('000)	6 245	6 254	6 283	6 318	6 333	+1.4%	+0.2%
Number of banking cards ('000)	7 120	7 225	7 090	7 080	7 155	+0.5%	+1.1%
<i>of which: credit cards</i>	<i>938</i>	<i>919</i>	<i>899</i>	<i>893</i>	<i>836</i>	-10.9%	-6.4%
Number of branches:	1 199	1 177	1 181	1 186	1 186	-1.1%	0.0%
- retail	1 135	1 138	1 142	1 147	1 147	+1.1%	0.0%
- corporate	64	39	39	39	39	-39.1%	0.0%
Number of agencies	1 202	1 149	1 115	1 074	1 069	-11.1%	-0.5%
Number of ATMs	2 911	2 945	2 960	2 992	3 028	+4.0%	+1.2%
Number of active IKO applications ('000)	11	39	57	101	136	12x	+34.4%