



Bank Polski

# Financial Results of the PKO Bank Polski Group for 1H 2015

Solid growth and strengthening of leading position despite of  
challenging market conditions

Warsaw, 10 August 2015

# Executive summary of financial performance



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- Consolidated net profit achieved in the second quarter of 2015 amounted to PLN 703 mn and was 8.6% higher than in previous quarter mainly due to increase in net fee and commission and lower administrative expenses
- Consolidated net profit earned in the first half of 2015 amounted to PLN 1,350 million and was under strong pressure of an increase in BGF contributions, new limits on interchange fees and falling market interest rates.
- The Q2 2015 consolidated result on business activity of PLN 2.6 bn (+0,5% y/y) was determined by:
  - increase in net fee and commission income (+ 11.5% q/q), mainly due to an increase in net bank cards
  - increase in net interest income (0.8% q/q) mainly due to reduced interest expense of 11.8% q/q
- **Maintaining a leading market position**
  - asset base increased to PLN 255.5 bn (+5.5% y/y) with net loans growing to PLN 185.3 bn (+4.1% y/y), funded with customer deposits, which rose to PLN 179.1 bn (+4.5% y/y)
  - maintaining a high market share of loans (17.8%) and deposits (17.5%)
  - high new sales of cash loans as well as loans for SMEs and corporates
- **Portfolio quality improved considerably**
  - risk cost declined by 39 bp y/y (-8 bp q/q) to reach 82 bp
  - coverage ratio increased significantly by 7.2 pp y/y (+0.1 pp q/q) to reach 62.9%
  - NPL ratio declined by 0.3 pp y/y (+0.1 pp. q/q) to reach 6.9%
- **High operational efficiency retained**
  - Cost to Income ratio (C/I) at 51.3% (C/I for PKO Bank Polski: 48.3%)
  - Return on Equity (ROE) at 10.7%
  - Return on Assets (ROA) at 1.2%
  - interest margin at 3.2%
- **Solid liquidity and capital position**
  - Loans / Stable funding resources ratio at 87%
  - Capital Adequacy Ratio at 13.9% (Core Tier 1 at 12.6%; for the Bank 14,3% and Core Tier 1: 13.0%) - an increase of 0.8 pp. q/q
- **Robust results of the Group companies**
  - PKO TFI maintained a leading position among bank investment funds due to growth in assets under management, which reached PLN 18.6 bn (+21.7% r/r)
  - Kredobank generated a net profit of PLN 11 mn, despite Ukraine's trying macroeconomic conditions

# Selected business achievements in Q2 2015



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## Completion of operational merger

In April the integration with Nordea Bank Polska was finished. PKO Bank Polski carried out the merger effectively within 12,5 months from the moment of transaction closure. It involved mainly the change of brand and migration of data of more than 300 thousand customers to the modern operational platform of PKO Bank Polski. Currently all Bank customers have a uniform service standard. Total estimated synergies (gross) from the acquisition will amount to PLN 300 million annually until 2017 i.e. after the completion of the integration process.



## PKO Bank Polski, card market leader in Poland and renegotiation of the terms of cooperation with international payment organisations

PKO Bank Polski with its portfolio of 7.5 million cards is at the same time the largest issuer of debit and credit cards in Poland with a market share of 21%. In a period of 12 months period (July 2014 - June 2015) Polish PKO Bank customers were using payment cards definitely more often as compared to the same period of previous years: the value of payments made at points of sale went up by 21%, and the number of transactions at points of sale by 40%. In the second quarter of 2015 Bank completed a comprehensive renegotiation of agreements with international payment organisations. The new terms of cooperation should have a positive impact on revenues from fees and commission in subsequent periods



## Capital optimization program

In the second half of 2015 the Bank plans to implement identified capital optimization initiatives, including i.a.: an increase of capital absorption charge in incentive systems, improvement of data quality (e.g. inclusion in the category of retail exposures of all SMEs which satisfy segmentation criteria), review of the off-balance sheet liabilities (including verification of assigned conversion factors for customers' limits), implementation of an advanced approach to capital allocation, focus on segments with lower capital requirement. The Bank considers that these measures would result with RWA reduction of nearly PLN 10 bn and with improving capital adequacy measures of approximately 0.7 pp.



## Katowice to be a new customer of PKO Bank Polski

PKO Bank Polski has won the tender procedure for servicing the budget of the city of Katowice and its 63 organisational units. The contract has been concluded for 5 years. Apart from holding accounts and execution of banking operations, the services will cover among others comprehensive handling of payment cards, including pre-paid cards, holding a consolidated account, mass payments processing and making available fee payment machines ("opłatomaty").



## New features of the IKO application

The new feature of IKO application is a possibility to top up a pay-as-you-go phone (Plus, T-Mobile, Heyah, Play, NJU Mobile, Orange). IKO enables also to effect charges which were pre-defined in the web system as part of iPKO and Inteligo. The other new functions available in IKO are a possibility to view details of standing orders, loans (also mortgage loans), debit cards and credit cards, including the repayment of card debt. From 15 June it is also possible to send requests for transfer to another user of IKO.



## Contact Center of PKO Bank Polski again the best in Poland

At the 11th wave of bank infolines survey covering the contact by telephone and email, the Bank has kept its leading position, achieving the score of 97.7 points out of 100, and overcame 12 bank competitors. The Contact Center of PKO Bank Polski has maintained the first place, winning thanks to the quality and the competences of employees. The pollsters gave a very high score to our consultants' politeness, professionalism, involvement and knowledge relating to the Bank products.

# Innovations in the payments area



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## Selected implemented initiatives :

- IKO mobile banking application and domestic mobile payment system BLIK (PKO Bank Polski + 5 major retail banks)
- The new contactless debit cards in the form of: a sticker, keyring and watch
- The Junior account offer with a prepaid card (also sticker and pendant)
- New product concept: Transparent credit card - with transparent rules and an image
- Warsaw City Card - 2-in-1: debit card and city card in one

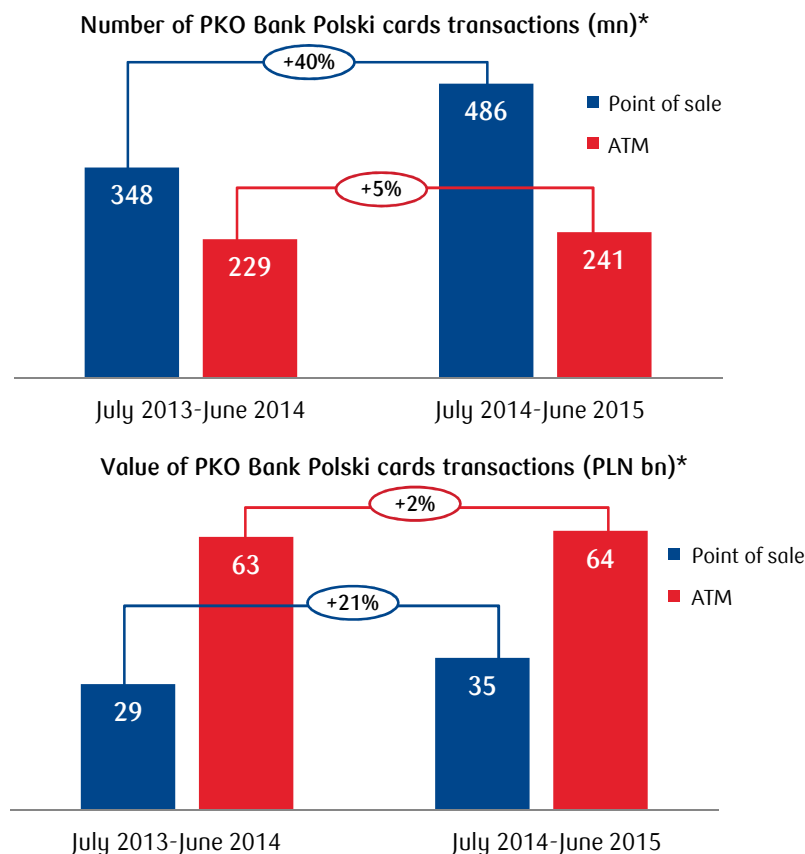
## Selected planned projects:

- Wrocław City Card (Q3 2015, the further cities planned)
- A new version of the mobile banking applications IKO 3.0 (Q4 2015)
- Implementation of mobile contactless payments in IKO (HCE – Q4 2015)

# PKO Bank Polski is a leader of card market in Poland



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\* Source: the Bank

\*\* Source: the Bank and National Bank of Poland (NBP)

- **7.5 million** of PKO Bank Polski payment cards represent 21% of all cards issued in Poland
- Market share of PKO Bank Polski for the year 2014 for debit and credit cards:
  - 21% of POS transactions made by cards issued in Poland (by value; 23% by number of transactions)
  - 25% of cash withdrawals made by cards issued in Poland (according to the value; 28% by number of transactions)\*\*
- In a period of 12 months (July 2014 - June 2015) PKO Bank Polski customers were using payment cards definitely more often as compared with the same period of previous years:
  - POS volume increase: **21%**
  - number of POS transactions increase: **40%**
  - the relatively low growth rate of ATM withdrawals as an element of customers migration to POS transactions\*
- In Q2 2015 Bank completed a comprehensive renegotiation of agreements with international payment organisations. The new terms of cooperation should have a positive impact on revenues from fees and commission in subsequent periods

## Financial summary



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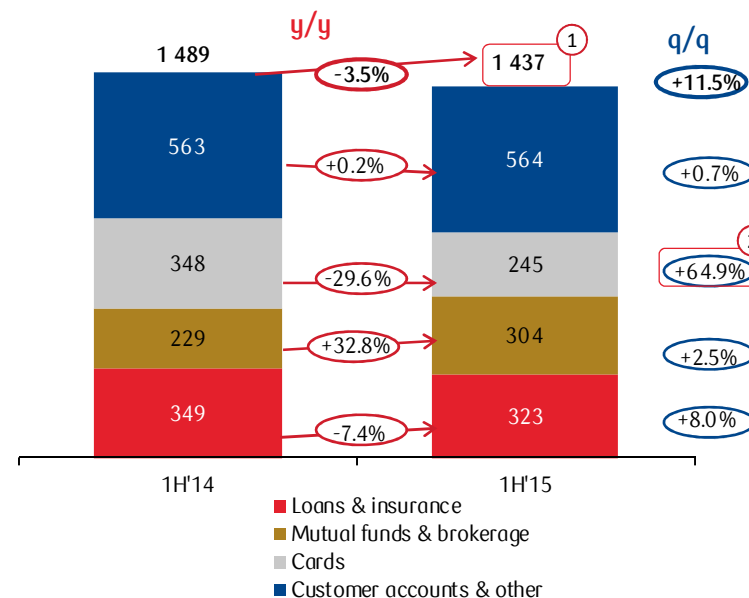
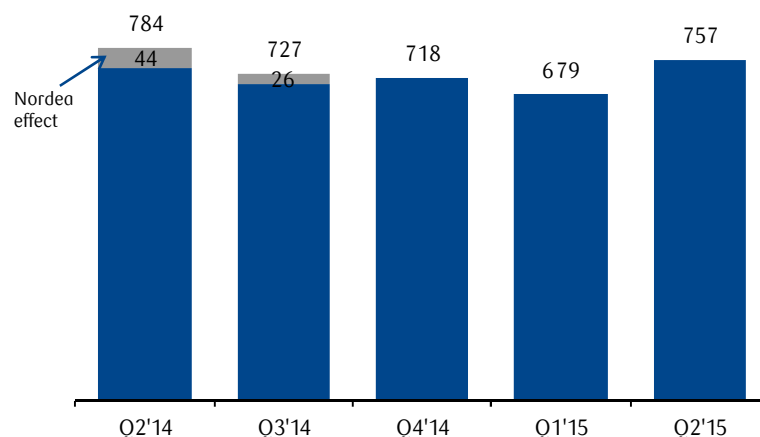
		1H'15	1H'14	Change y/y	Q2'15	Q1'15	Change q/q
P&L items (PLN mn)	Net interest income	3 354	3 679	-8.8%	1 683	1 671	+0.8%
	Net F&C income	1 437	1 489	-3.5%	757	679	+11.5%
	Result on business activity	5 175	5 499	-5.9%	2 594	2 581	+0.5%
	Administrative expenses	-2 777	-2 469	+12.5%	-1 372	-1 405	-2.3%
	Net impairment allowance	-749	-971	-22.9%	-375	-374	+0.4%
	Net profit	1 350	1 658	-18.6%	703	647	+8.6%
Balance sheet (PLN bn)	Assets	255.5	242.3	+5.5%	255.5	256.6	-0.4%
	Net loans	185.3	178.0	+4.1%	185.3	182.4	+1.6%
	Deposits	179.1	171.4	+4.5%	179.1	178.4	+0.4%
	Stable financial resources	213.0	203.7	+4.5%	213.0	212.7	+0.1%
	Total equity	28.7	26.0	+10.4%	28.7	28.3	+1.6%

## Net fee & commission income



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Net fee and commission income (PLN mn)



- 1 The achieved net fee and commission income in 1H 2015 was primarily determined by:
- decrease on result on payment cards, which was a consequence of the reduction of interchange fee rates,
  - lower net income from loan insurance fees and commissions, largely offset by the growth of income from granted loans due to an increase in new sales,
  - increase in commission income in respect of maintenance of investment funds and open pension funds as an effect of an increase of management fees and commissions for sale and ransom at the IF assets value increase by 22%y/y.
  - increase of commission income due to securities transactions

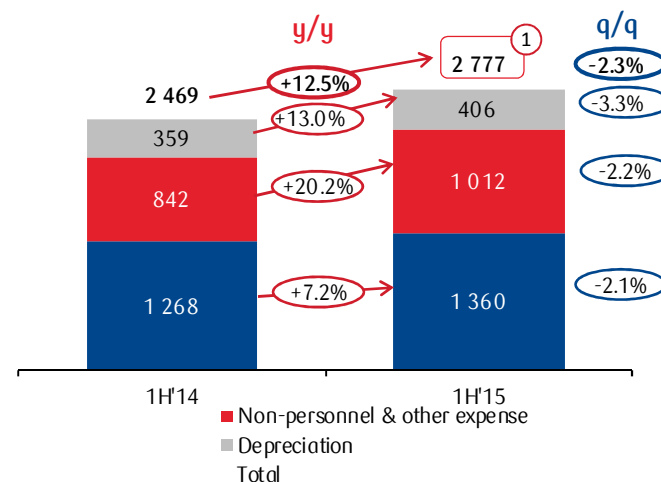
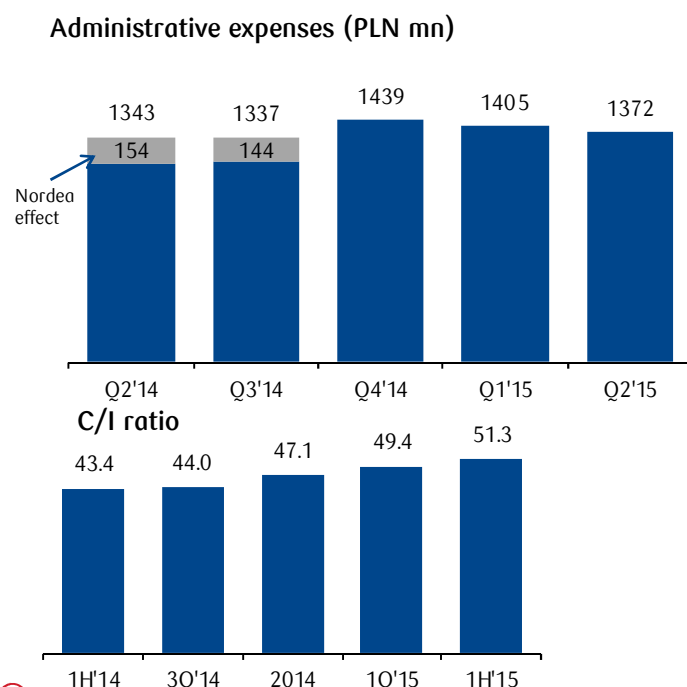
- 2 Increase in Q2 2015 due to increase card transaction volumes (see slide 42) and subvention from payment organisations as an effect of renegotiations of agreements with payment organisations

# Administrative expenses



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Administrative expenses (PLN mn)



Employment eop (FTEs)	1H'14	1H'15	Change y/y	
			FTEs	%
Bank	24 421	25 741	1 319	5.4%
Group	29 386	28 909	-477	-1.6%

1 In 1H 2015 administrative expenses increased by 12.5% driven mainly by the changes affecting the PKO BP Group's structure since the second quarter of 2014 (of which mainly the acquisition of the Nordea Group entities) and an increase in the contribution rate and payments to the Bank Guarantee Fund by PLN 110 mn y/y; mainly as a result of the growth of the fee contribution rates payable to BGF. In 1H 2015 costs related to Nordea integration amounted to ca PLN 40 mn.

2 The employment growth in the Bank due to merger with Nordea Bank Polska from 1 October 2014.

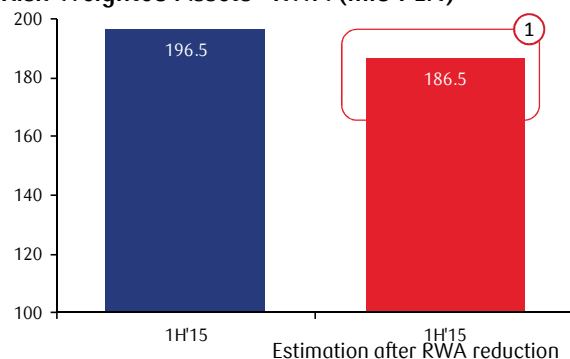


# Capital adequacy – optimization of the capital management process

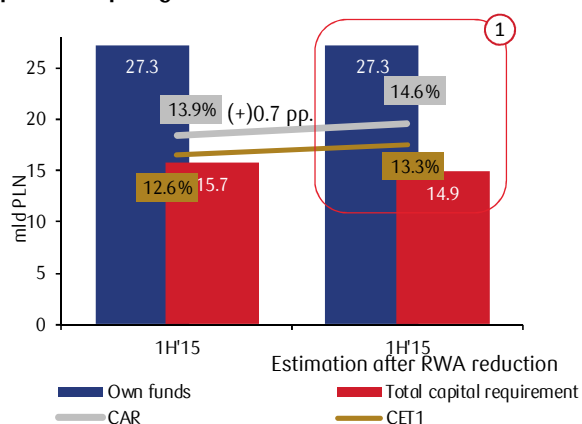


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Risk Weighted Assets –RWA (mld PLN)



Capital adequacy measures after RWA reduction



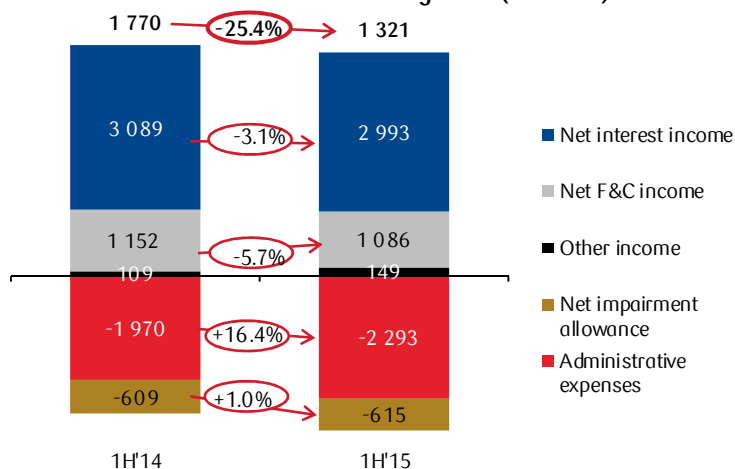
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- The Bank considers that these measures would result with RWA reduction of nearly PLN 10 bn and with improving capital adequacy measures of approximately 0.7 pp.

## Segment results Retail Banking

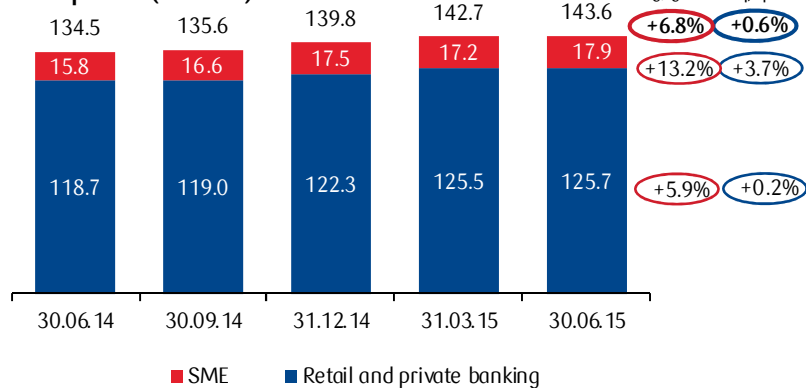


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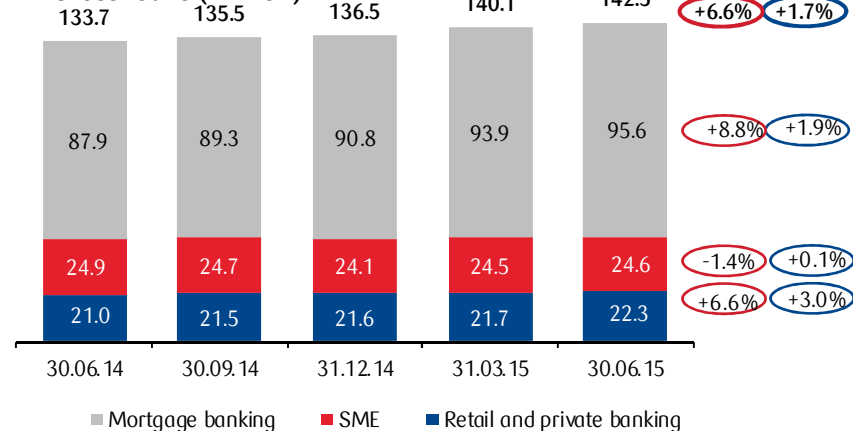
Gross financial result of retail segment (PLN mn)



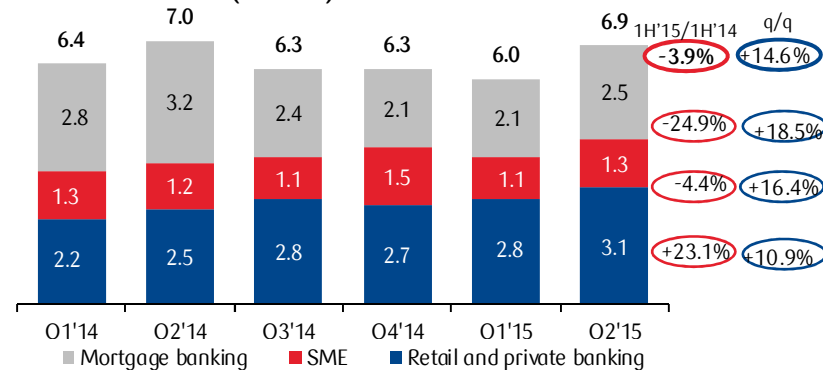
Deposits (PLN bn)



Gross loans (PLN bn)



New sales of loans (PLN bn) - standalone data\*



\*) Does not include renewals of SME loans, which in 2014 amounted to ca PLN 4 bn and ca PLN 2 bn in 1H 2015

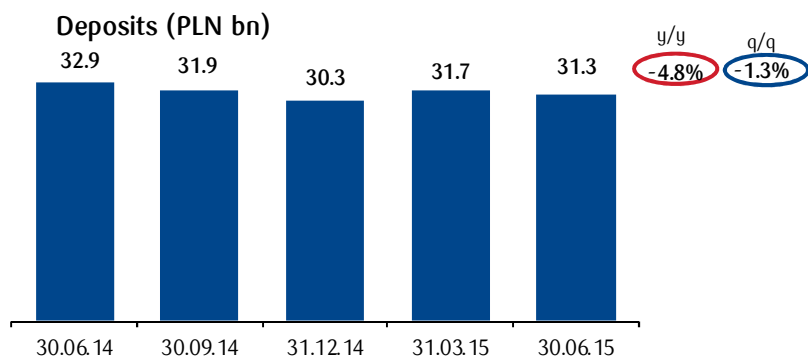
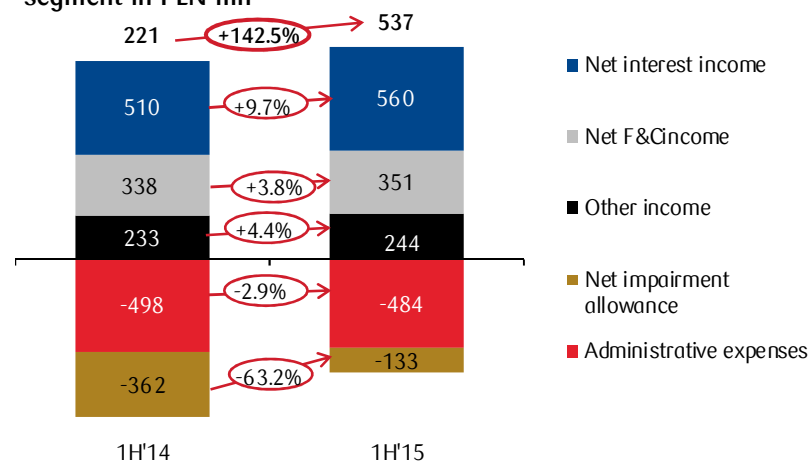
# Segment results

## Corporate and Investment Banking

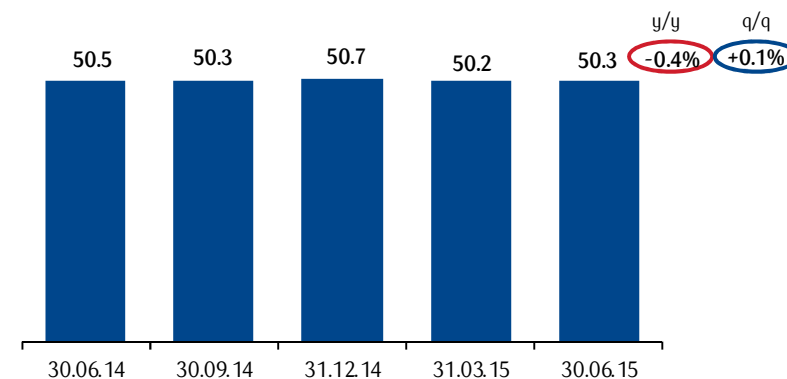


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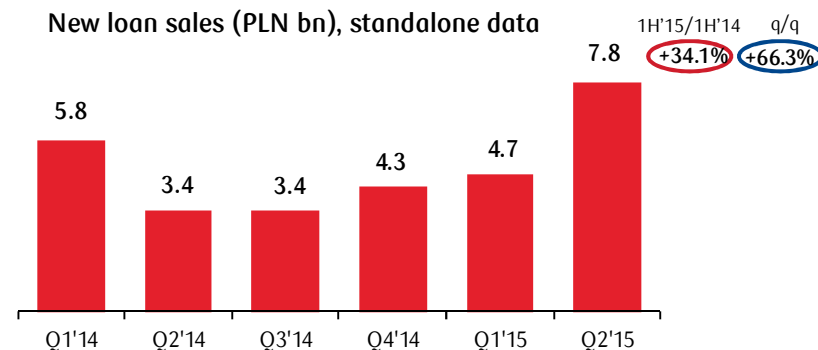
Gross financial result of the corporate and investment segment in PLN mn



Gross loans (PLN bn)



New loan sales (PLN bn), standalone data



\*) Part of the increase in new sales in Q2'15 related to the operational merger carried out in April 2015 - framework agreements related to exNoBP accounts were registered in the IT system with the April date, which increased the total amount of new sales

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