



Bank Polski

# Strategy Overview and 2015 Financial Results

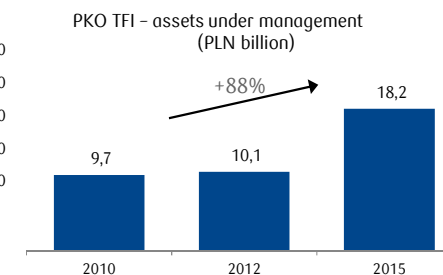
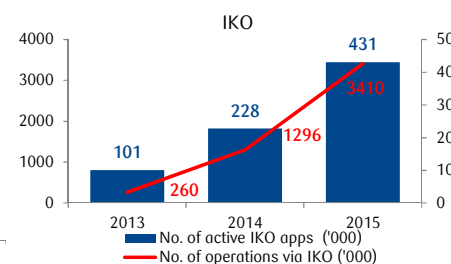
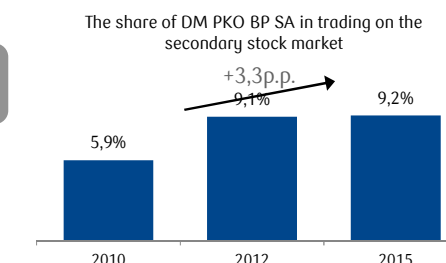
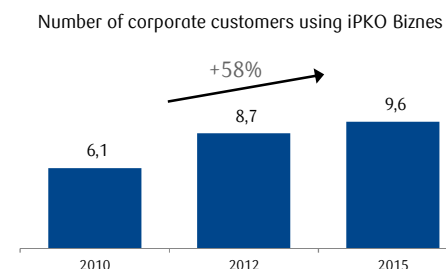
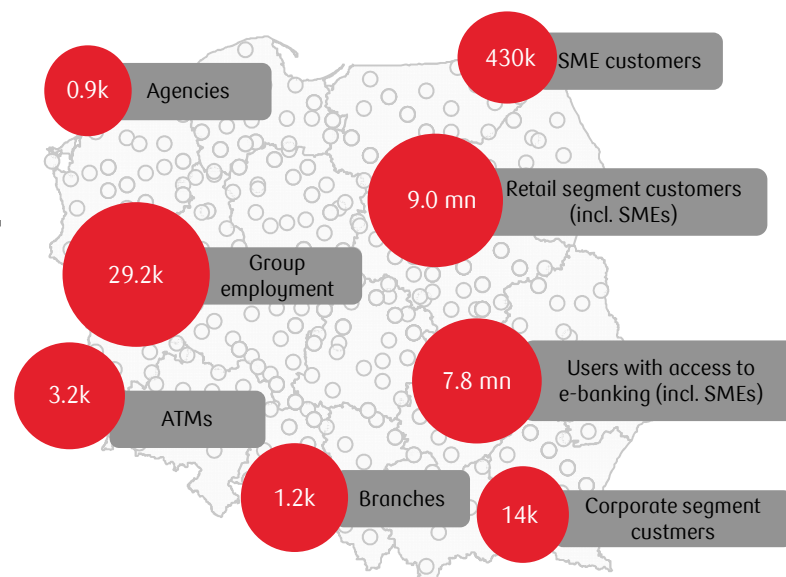
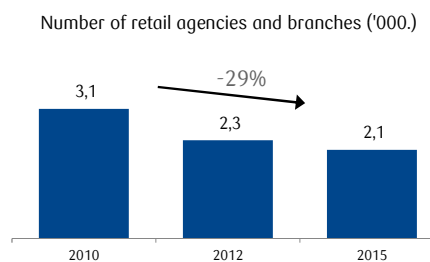
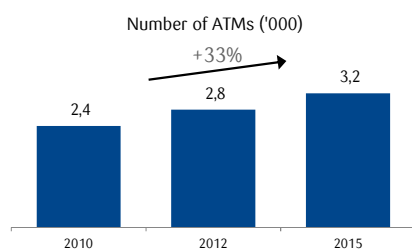
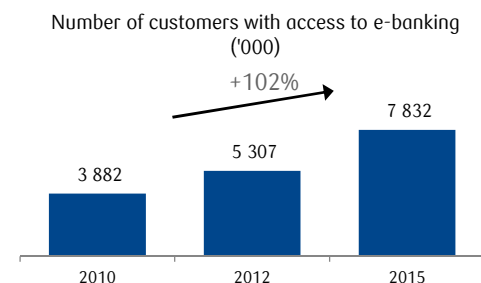
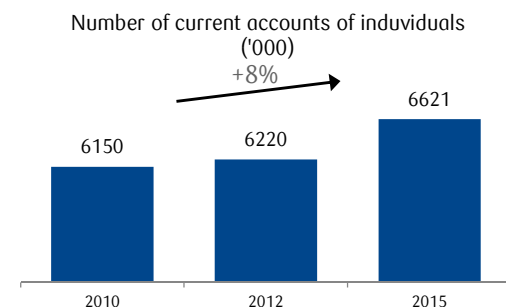
Solid business performance in a challenging market environment

7 March 2016

# PKO Bank Polski is a clear leader of Polish banking sector



Bank Polski

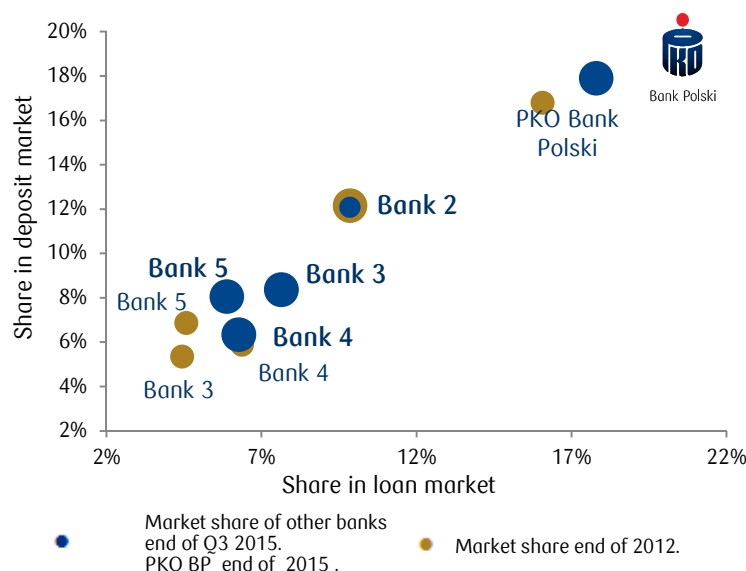


# Strengthening of competitive position driven by organic growth and acquisitions



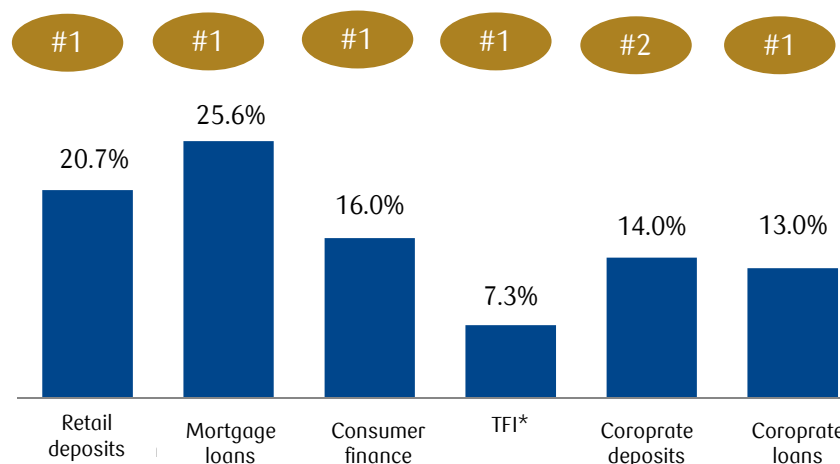
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PKO Bank Polski – Business Growth with Highest Volumes



- According to the strategy of PKO Bank Polski for 2013-2015, the Bank has used both the growth levers – strong organic growth (assets up by PLN 42.1bn), and the effect of acquisition (up by PLN 29.6bn).

PKO Bank Polski – Strong Market Position (end of 2015)



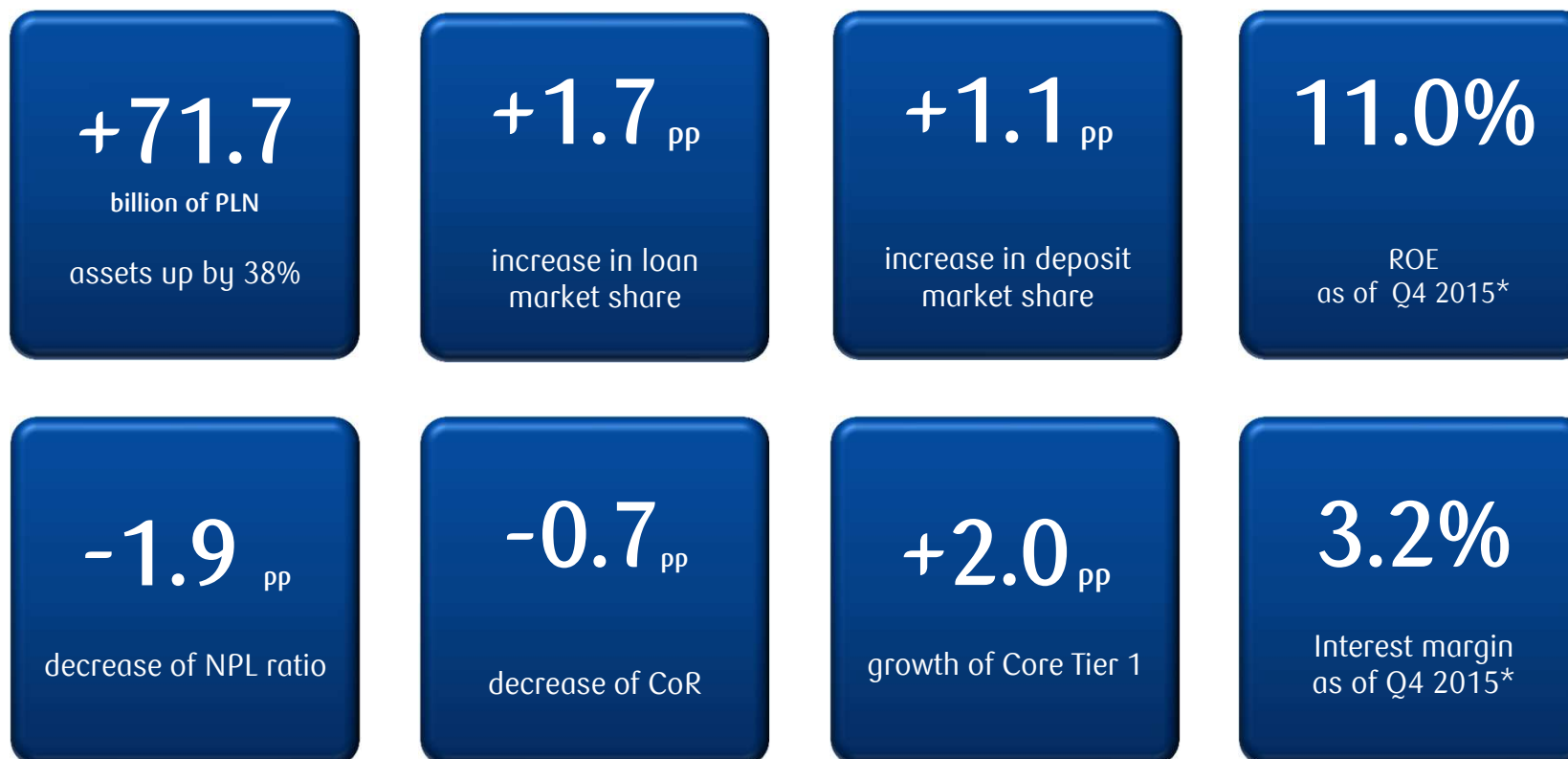
\*Market position among investment fund companies (TFI) operating as part of banking groups. The lower market share is the consequence of the fact that PKO TFI is not actively offering non-public closed-end investment funds to the customers.

- In the years 2013 – 2015, PKO Bank Polski has strengthened its leading position in all the key loan and deposit segments.
- The second position in corporate deposits is in line with the Bank's strategy, which bases funding primarily on retail deposits

## Solid financial performance as the result of execution of the Strategy for 2013-2015



Bank Polski



## Strong business performance as the result of execution of the Strategy for 2013-2015



Bank Polski

**1** . position

in all key market segments

**1** . position

In ranking list of Polish brands in „Finance” category – most valuable brand

**1** . position

PKO Bank Polski's Contact Center best in business for 9. time

**1** -click

for cash loan

**+809**

thousand

growth in number of customers

**+31** thousand

growth in the number of SME and corporate customers

**~80%**

of customers satisfied with PKO Bank Polski – customer experience

**+48%**

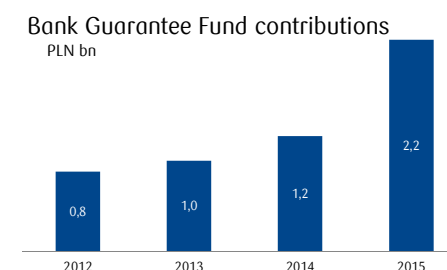
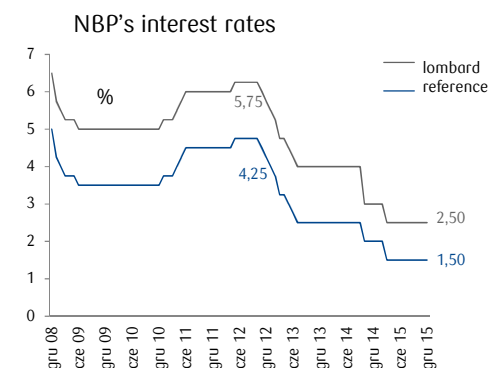
increase in the number of online banking customers – digital transformation

# Key challenges in the market environment in the past 3 years

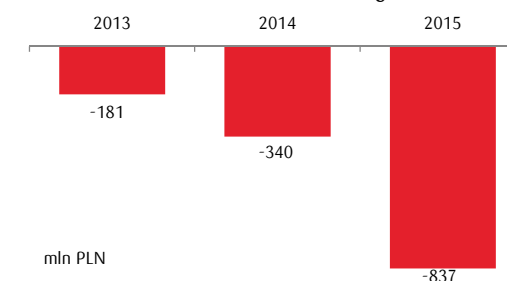


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|   | Scope of Regulation  | Impact  |
|---|--|---|
| Market interest rates                   | <ul style="list-style-type: none"> <li>Resolutions of the Monetary Policy Council cutting the base rates (reference rate down 1.75 pps in 2013, 0.5 pp in 2014, and lombard rate down 1 pp. and 0.5 pp in 2015)</li> </ul> | <ul style="list-style-type: none"> <li>Drop in net interest income, negative impact on interest margin as a result of interest rates being at the historical low (including a lower cap on consumer finance)</li> </ul>                       |
| Deposit guarantee scheme                | <ul style="list-style-type: none"> <li>Introduction of prudence fee, increased contributions to BFG (in 2012-2015 the total charges for the guarantee scheme more than doubled)</li> </ul>                                 | <ul style="list-style-type: none"> <li>Increase in the operating costs of banks; the rate of contribution to the deposit guarantee scheme of about 75% y/y in 2015.</li> </ul>  |
| Interchange fee                         | <ul style="list-style-type: none"> <li>Statutory cap on interchange fees at 0.2% for debit cards and 0.3% for credit cards</li> </ul>  | <ul style="list-style-type: none"> <li>Decrease in income from interchange -negative impact on net fee and commission income</li> </ul>   |
| CRD IV Package                          | <ul style="list-style-type: none"> <li>Stepped up capital and liquidity requirements;</li> <li>Short-term funding (LCR)</li> <li>Change in the capital calculation rules and capital leverage rate</li> </ul>              | <ul style="list-style-type: none"> <li>Alignment of business to the liquidity requirements and a need to raise long-term funding (issues of bonds, covered bonds)</li> </ul>  |
| Bancassurance (Recommendation U)        | <ul style="list-style-type: none"> <li>Separation of intermediation function; information requirements; change in accounting for income; use of good practice</li> </ul>   | <ul style="list-style-type: none"> <li>Change in the bank's business model (sales channel); limitation of insurance sales in the banking channel; operating expenses</li> </ul>   |
| Recommendation S                        | <ul style="list-style-type: none"> <li>Recommendation S on mortgage loans: stricter rules of lending and risk management: raised down payment requirement (5% as of 2014 and 10% as of 2015)</li> </ul>                    | <ul style="list-style-type: none"> <li>Impact on mortgage lending due to higher requirements for borrowers; impact on net interest income and net fee and commission income; alignment of the business model as regards collateral</li> </ul> |
| Borrower Support Fund (FWK)             | <ul style="list-style-type: none"> <li>FWK: a fund of PLN 600m established to support borrowers who took out home loans and are experiencing serious difficulties.</li> </ul>  | <ul style="list-style-type: none"> <li>Negative impact on the operating expenses of the banks (FWK);</li> </ul>   |
| „Six-pack”                              | <ul style="list-style-type: none"> <li>„Six-pack”: aid for borrowers who took out CHF-denominated loans by, i.e. applying a negative CHF LIBOR rate and lower FX spreads.</li> </ul>                                       | <ul style="list-style-type: none"> <li>Lower income of the banking sector („six-pack”)</li> </ul>   |
| de minimis guarantee                    | <ul style="list-style-type: none"> <li>Governmental de minimis guarantee programme to support SMEs (guarantees by BGK)</li> </ul>  | <ul style="list-style-type: none"> <li>Increase in lending to Small and Medium-Sized enterprises</li> </ul>   |
| Additional capital requirements of PFSA | <ul style="list-style-type: none"> <li>Individual recommendations of PFSA regarding capital requirements in connection with exposure to foreign currency loans</li> </ul>  | <ul style="list-style-type: none"> <li>Increased capital requirements set individually for specific banks</li> </ul>  |



Lost income on reduced interchange rates



Source: NBP, PFSA, BFG, estimates by Bank

# Execution of the key strategic objectives



Bank Polski

| Bank's strategic goals    | Target for 2015   | Sector 2015  | Bank 2015*  |
|---------------------------|---|--|---|
| 1 Return on Equity        | <ul style="list-style-type: none"> <li>Above 15%</li> </ul>   | <ul style="list-style-type: none"> <li>6.8%</li> </ul>           | <ul style="list-style-type: none"> <li>11.0% in Q4 2015 excl. one-offs** (9.0% in 2015 incl. one-offs**)</li> </ul>     |
| 2 Effectiveness (C/I)     | <ul style="list-style-type: none"> <li>Below 45%</li> </ul>   | <ul style="list-style-type: none"> <li>60.3%</li> </ul>          | <ul style="list-style-type: none"> <li>51.7% w Q4 2015 excl. one-offs** (56.6% in 2015 incl. one-offs**)</li> </ul>     |
| 3 Risk Appetite (CoR)     | <ul style="list-style-type: none"> <li>Moderate, with cost of risk at 1.20 pp (100-120 bps long-term)</li> </ul>  | <ul style="list-style-type: none"> <li>78 bps</li> </ul>         | <ul style="list-style-type: none"> <li>72 bps</li> </ul>  |
| 4 Growth and Market Share | <ul style="list-style-type: none"> <li>Leader in all key market segments:                             <ul style="list-style-type: none"> <li>Share in loan market 17%</li> <li>Share in deposit market 18%</li> </ul> </li> </ul> |  | <ul style="list-style-type: none"> <li>Share in loan market – 17.8%</li> <li>Share in deposit market – 17.9%</li> </ul> |
| 5 Customer Satisfaction   | <ul style="list-style-type: none"> <li>Churn rate below market average</li> </ul>   | <ul style="list-style-type: none"> <li>12.8%</li> </ul>          | <ul style="list-style-type: none"> <li>8.4%</li> </ul>  |
| 6 Capital Adequacy        | <ul style="list-style-type: none"> <li>CAR above 12%</li> <li>Core Tier 1 above 11%</li> </ul>  | <ul style="list-style-type: none"> <li>CAR – 15.6%***</li> </ul> | <ul style="list-style-type: none"> <li>CAR – 15.3%</li> <li>Core Tier 1 – 13.9%</li> </ul>                              |
| 7 Liquidity               | <ul style="list-style-type: none"> <li>L/D below 98%</li> <li>NSFR approximating 100% (above 100% long-term)</li> </ul>   | <ul style="list-style-type: none"> <li>L/D - 103%</li> </ul>     | <ul style="list-style-type: none"> <li>L/D – 97.3%</li> <li>NSFR – 122.3%</li> </ul>                                    |

\* Re. ROE, C/I, L/D and CoR ratios – consolidated financials.

\*\* Excluding costs related to SK Banki and Borrower Support Fund

\*\*\* At the end of Q3 2015

# Sustainable long term financial performance of the Bank



Bank Polski

Consolidated financials.

| Financial results (PLN mn)                | 2005 | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | CAGR<br>2005-2015 |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------------|
| Assets                                    | 91.6 | 102.0 | 108.6 | 134.6 | 156.5 | 169.7 | 190.4 | 193.2 | 199.2 | 248.7 | 266.9 | 10.9%             |
| Loans                                     | 46.9 | 58.9  | 76.4  | 101.1 | 116.6 | 130.7 | 141.3 | 143.5 | 149.6 | 179.5 | 190.4 | 15.2%             |
| Deposits                                  | 76.7 | 83.5  | 86.6  | 102.9 | 125.1 | 133.0 | 146.5 | 146.2 | 151.9 | 174.4 | 195.8 | 9.4%              |
| Total equity                              | 8.7  | 10.1  | 11.9  | 14.0  | 20.4  | 21.4  | 22.5  | 24.4  | 25.2  | 27.6  | 30.3  | 11.9%             |
| Revenues (net result on banking activity) | 6.5  | 6.5   | 7.7   | 9.4   | 8.9   | 10.2  | 11.1  | 11.6  | 10.7  | 11.1  | 10.7  | 5.4%              |
| OPEX                                      | 4.2  | 3.8   | 4.1   | 4.3   | 4.2   | 4.2   | 4.4   | 4.7   | 4.6   | 5.2   | 5.6   | 3.2%              |
| Net impairment allowance                  | -0.2 | 0.0   | -0.1  | -1.1  | -1.7  | -1.9  | -1.9  | -2.3  | -2.0  | -1.9  | -1.5  | 21.8%             |
| Net profit                                | 1.7  | 2.1   | 2.9   | 3.1   | 2.3   | 3.2   | 3.8   | 3.7   | 3.2   | 3.3   | 3.0   | 6.5%              |
| Financial indicators, %                   | 2005 | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  |                   |
| NIM                                       | 4.4  | 4.4   | 4.9   | 5.8   | 3.9   | 4.4   | 4.6   | 4.7   | 3.7   | 3.6   | 3.0   |                   |
| Cost of risk                              | -0.4 | 0.0   | -0.2  | -1.1  | -1.5  | -1.5  | -1.3  | -1.5  | -1.3  | -1.0  | -0.7  |                   |
| NIM adjusted by cost of risk              | 4.0  | 4.4   | 4.7   | 4.7   | 2.4   | 2.8   | 3.3   | 3.2   | 2.4   | 2.6   | 2.3   |                   |
| C/I                                       | 64.4 | 58.5  | 52.7  | 45.8  | 47.9  | 41.7  | 39.6  | 40.3  | 43.2  | 47.1  | 52.1  |                   |
| ROE                                       | 19.0 | 22.7  | 26.2  | 24.0  | 14.8  | 14.9  | 17.5  | 16.0  | 13.2  | 12.4  | 10.4  |                   |
| ROA                                       | 1.9  | 2.3   | 2.8   | 2.6   | 1.6   | 2.0   | 2.1   | 2.0   | 1.6   | 1.4   | 1.2   |                   |
| CAR                                       | 13.9 | 11.8  | 12.0  | 11.3  | 14.7  | 12.5  | 12.4  | 12.9  | 13.6  | 13.0  | 14.6  |                   |
| Core Tier 1                               | bd.  | 11.6  | 10.2  | 9.9   | 13.3  | 11.3  | 11.2  | 11.8  | 12.5  | 11.7  | 13.3  |                   |
| L/D                                       | 61.1 | 70.5  | 88.2  | 98.2  | 93.2  | 98.3  | 96.4  | 98.1  | 98.5  | 102.9 | 97.3  |                   |

Comment: OPEX, net profit, ROE excluding one-offs



# Key strategic levers



Bank Polski

1

## Customer Satisfaction

### Selected initiatives

#### Development of Asset Management Business

A Capital Building Programme was launched, an offering of structured and bancassurance products was expanded. In cooperation with PKO TFI, retail and private banking customers are offered 38 non-dedicated funds. Steady development of transactional applications (iPKO dealer, iPKO biznes, PKO FX).

#### Comprehensive Customer Lifecycle Management

Bank takes care for customer satisfaction since their early years and are committed to developing long-term customer relationships. Bank created a unique offering for customers below the age of 13 - the SKO and Junior accounts, an education portal, contactless debit cards in the form of a sticker, key chain and a watch.

#### New Model of Personal and Private Banking

A comprehensive advisory model was launched and a value proposition restructured, new segmentation and a 360 degree customer view introduced.

Nine specialized prestige Private Banking branched opened in Poland's largest cities.

#### Development of SME offering

The launch of a virtual branch for SME customers, who expect distance service and real-time access to products and services. The launch of new packages for SMEs differentiated by the stage of development of the business and by industry affiliation.

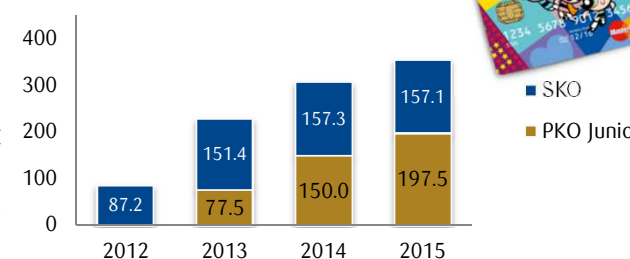
1 million accounts and PLN 2.7bn in Capital Building Programme

Every 4th mortgage loan taken out with PKO Bank Polski

DM PKO Bank Polski - No. 1. in transactions and No. 2 in trading

430,000 SME customers, ~30 per cent share in de minimis programme

No. of SKO and PKO Junior Customers



# Key strategic levers



Bank Polski

2

## Excellence in Distribution

### Selected initiatives

- **„New Sales Rhythm” in Retail Network**

Increase in the retail sales potential in terms of operation (among other things, a programme of boosting branch performance launched, new ATM functions, deposit-accepting ATMs, new branch format) and image.

- **Transformation towards omnichannel distribution**

Enhancing the transactional potential of the remote channels, among other things, addition of a deposit functionality to IKO, the taking of a revolving loan or raising an overdraft limit in a personal and co-held account in iPKO. The development of the Contact Center towards the new telephone service model supporting the multi-channel distribution. The launching of the 360° customer view as part of the development of CRM. The introduction of new customer liaison channels – possibility to communicate with the bank by means of a Facebook application.

- **Modernization of the network of branches and agencies**

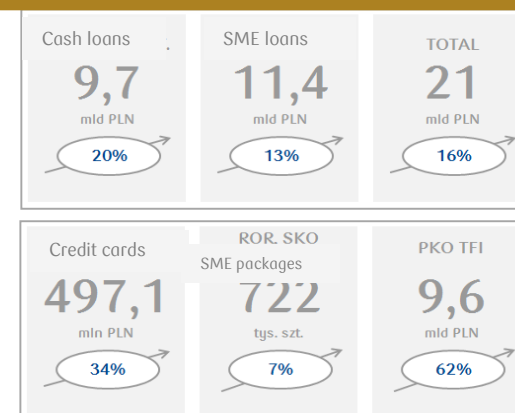
Our efforts are focused on increasing the effectiveness of the sales network in terms of service quality and alignment of our offering with customer expectations. To this end, we have upgraded 285 branches and adjusted the network of agency offices to changes in the local market environment: in 2015 we set up 64 new offices in places with high sales potential.

- **„New Business Energy” with Corporate Customers**

We also initiated changes in the corporate network: a new structure of the sales network, separation of the strategic customer segment and launched a „New Business Energy” programme improving, among other things, the lending process or a coherent model of operation of sales and support units.

## Nowy Rytm

### Record sales results of the Bank in 2014-2015



Bankowość  
Korporacyjna  
i Inwestycyjna

# Key strategic levers



3

## Innovation and technology

### Selected initiatives

#### Development of mobile banking

We launched and steadily improved the mobile payment application – the application has been activated by 500k customers. The project of building a payment system on the basis of PKO Bank Polski's application, dubbed „From IKO to BLIK” granted the title of the world's best payment innovation in 2015 by Efma.

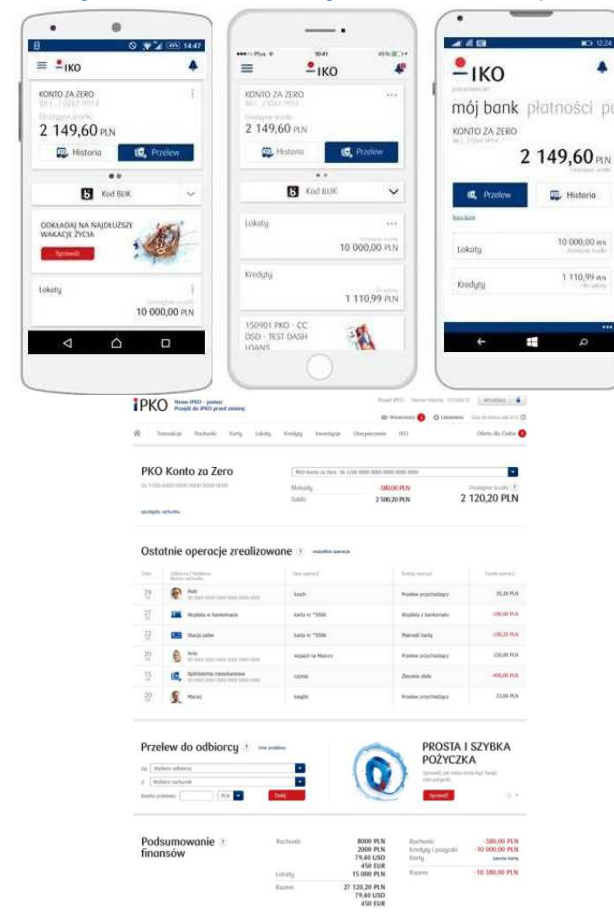
#### New releases of transactional platforms

The new iPKO has a refreshed graphic design, aligned with the Bank's information service, as well as new functionalities which the customer can manage on his/her own. The new iPKO Dealer platform is meant for customers who make payments in foreign currencies. The iPKO biznes application was given new functionalities, among other things, the key transactions in the service were simplified and redesigned. The Bank launched a new auto-dealing system, connecting the branch network with the Head Office of the Bank, and an application enabling customers to trade on the Forex market (PKO FX).

#### Innovation and cooperation with FinTech

The establishment of the Innovation Center (crowdsourcing platform) in the Bank, cooperation with Gdańsk Technical University in research on advanced biometric techniques, joint organization of a Corporate Demo Day „FinTech & Mobile” and partnership with MIT so as to exchange experiences with technology start-ups.

### New layout and functionality of transactional platforms



# Key strategic levers

4

## Competence Development

### Selected initiatives

- **Transformation of corporate culture**

The use of staff crowdsourcing to develop products and services thanks to the launch of the Innovation Center.

Start of programmes of skills development and ones facilitating adaptation in a new workplace – Leader Academy, Competence Academy, a talent development programme, an onboarding programme for new employees „Dzień Dobry w Banku”.

- **Investment in employee satisfaction**

We made changes in the incentive system, launched a new model of competence and job valuation. We launched an Employee Pension Scheme and a cafeteria-like benefit distribution system – MyBenefit.

- **Social responsibility**

By initiative of the employees, a Blood Donation Campaign was organized. PKO Bank Polski supports national culture by taking part in momentous cultural events, e.g. programmes to promote of young Polish artists and popularising classical music based on the intellectual output by the renowned musicologist Jan Weber.

- **Valuable Brand**

We have seen a major improvement in the market perception of the Bank as a desirable, attractive employer.



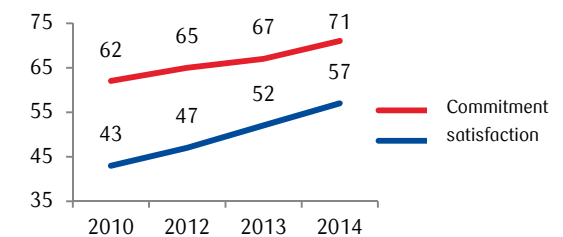
Bank Polski



Bank Polski

Centrum  
Innowacji

### Increase in employee motivation (%)



1,305,000 km walked for charity

# Key strategic levers



Bank Polski

5

## Organizational Effectiveness

### Selected initiatives

#### High standards of risk and capital management

As a result of the launch in 2015 of equity optimising initiatives, the level of Risk-Weighted Assets decreased. This strengthened the equity. At the end of 2015, total equity ratio had grown to 15.28% (by 1.9 pps y/y).

#### Steady improvement of business processes

Increased focus on „core business”, centralization of support function, standardization and reorganization of internal processes, shortening of decision-making paths and customer service time, improvements in property and plant management, risk management methods, numerous improvement initiatives in cost management. Also, IT integration within the Group was completed.

The high organizational effectiveness was confirmed by the integration of the assets taken over from Nordea – the fastest completed process of its type in Poland.

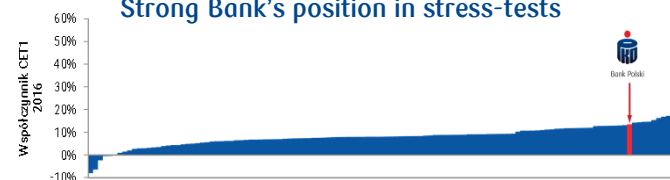
#### Increased effectiveness of human capital management

A number of implementations and innovations supporting human capital management (inc. SAP implementation) and the development of corporate culture based on the Bank's values.

#### New segmentation and CRM development

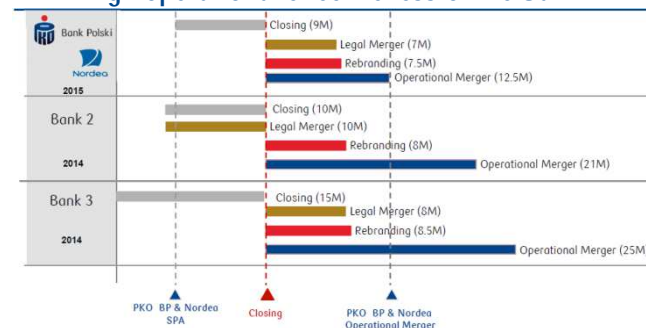
Integration of the functionalities of the central system with CRM has enabled us to offer a cash loan to 4 million of our customers in real time.

### Strong Bank's position in stress-tests

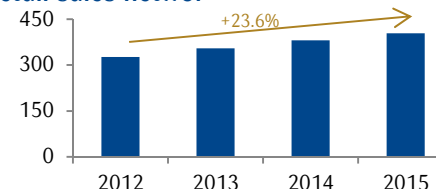


The results of the latest European stress test and asset quality review (2014 ) have confirmed the strong equity position of PKO Bank Polski (11. place among 123 European banks).

### High operational effectiveness of the Bank



### Increased number of products sold per employee of retail sales network



# Key strategic levers



Bank Polski

6

## Acquisitions and alliances

### Selected initiatives

#### Acquisition of Nordea Bank Polska

In April 2014 PKO Bank Polski finalized the acquisition of Nordea Bank Polska. In October 2014 the legal merger was completed, and in April 2015 the operational merger of the companies was effected. The acquisition has strengthened the competences of the Bank in the corporate banking and the segment of affluent customers. As part of the transaction PKO Bank Polski also acquired the leasing and factoring company and the insurance company (PKO Ubezpieczenia).

- **Establishment of PKO Bank Hipoteczny**

Response to the regulations of Basel III (CRD IV) and expectations of the Polish Financial Supervision Authority (KNF) relating to the maintenance of safe standards of capital adequacy and liquidity.

- **Successful turnaround of Kredobank in Ukraine**

Following the successful restructuring, in 2015 it had the highest financial result in the history despite the deep crisis. It was also considered by the local edition of Forbes as the safest bank in Ukraine.

- **Corporate branch in Germany**

Support for the foreign expansion of the Polish corporate clients.

- **New Bancassurance model**

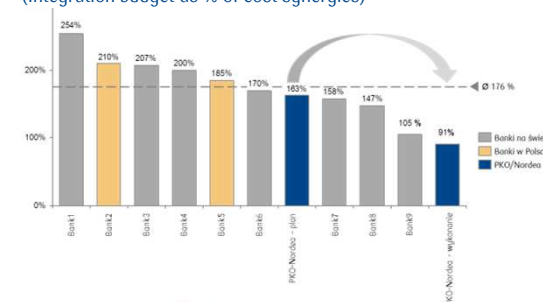
Replacing the model of selling insurance provided by many external partners with the products of PKO Insurance.

- **Strategic alliance with EVO Payments International**

The sale of 66% of shares in the company eService to the technological partner EVO Payments and the simultaneous conclusion of a 20-year strategic partnership with EVO on the payments market

### High effectiveness of the integration process

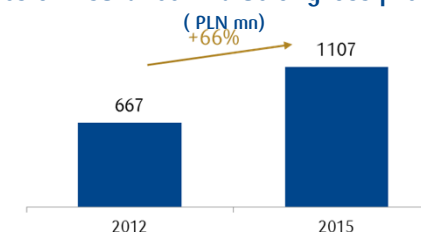
(Integration budget as % of cost synergies)



Bank Hipoteczny

More than PLN 1 billion of assets  
in the 1<sup>st</sup> year of operations

### Sales of insurance – value of gross premium



### Dynamic growth of the number of purchases made by PKO Bank Polski's cards (million items)



Źródło: PKO Bank Polski

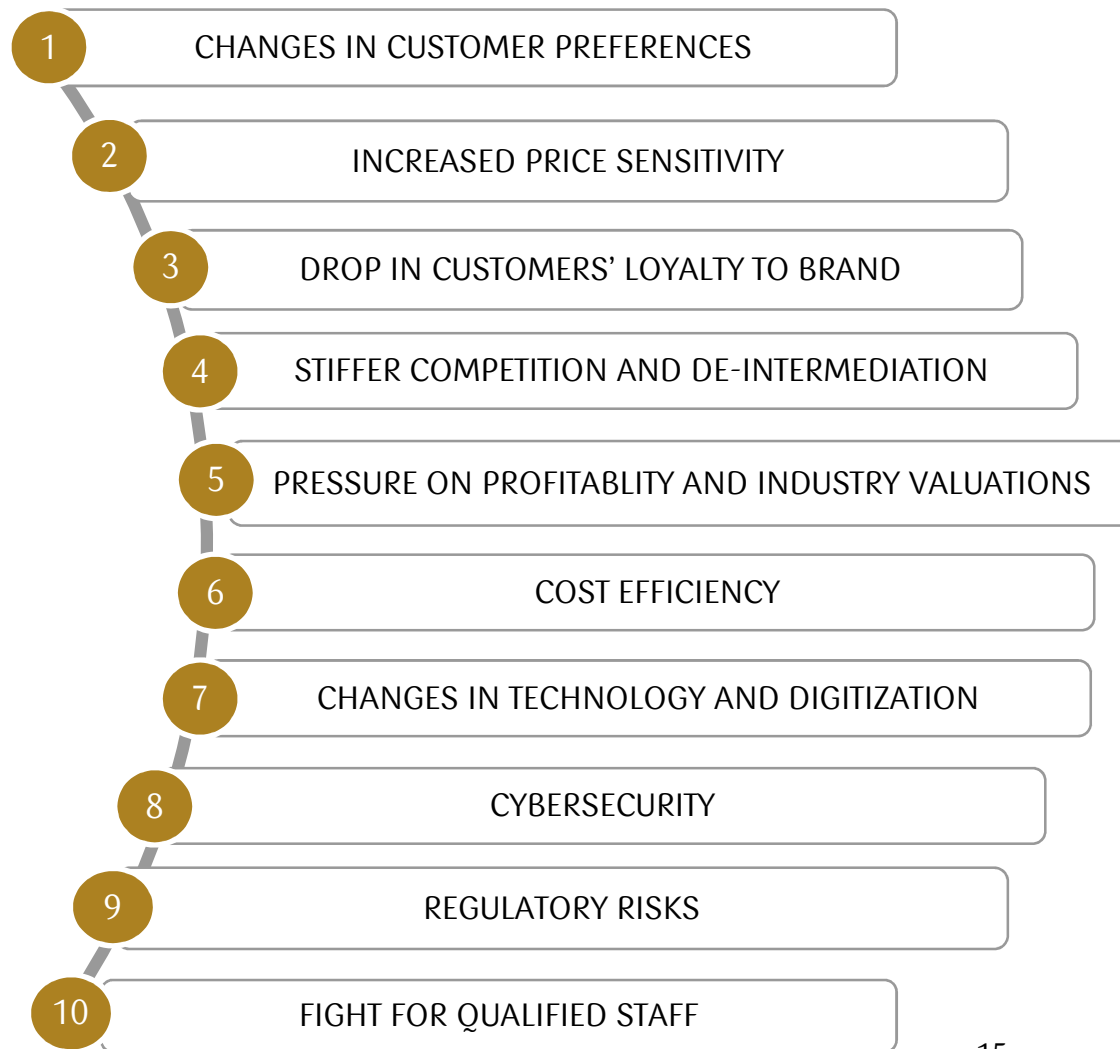
## Highlights of the strategic challenges in the perspective of 2020



Bank Polski



Bank Polski



# 2016 macroeconomic and banking sector outlook



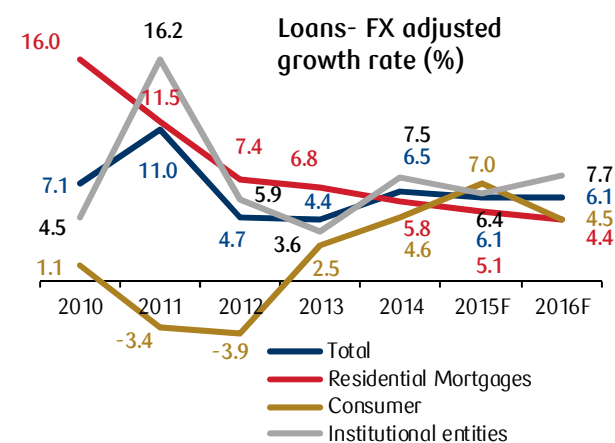
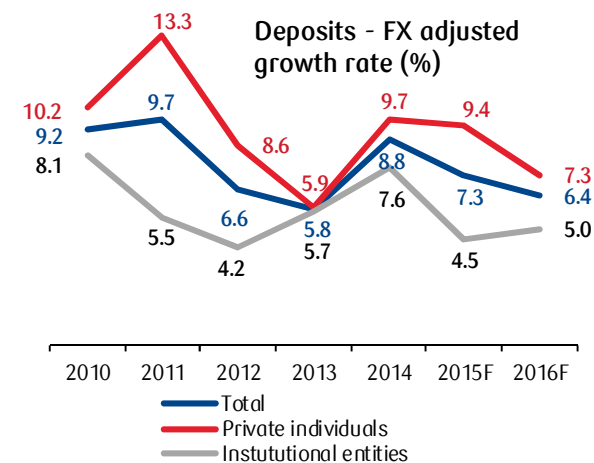
Bank Polski

|   |         | 2013 | 2014 | 2015F | 2016F |
|---|---------|------|------|-------|-------|
| <b>GDP</b>                                | % y/y   | 1.3  | 3.3  | 3.6   | 3.5   |
| <b>Consumption</b>                        | % y/y   | 0.2  | 2.6  | 3.1   | 3.6   |
| <b>Investments</b>                        | % y/y   | -1.1 | 9.8  | 6.1   | 2.9   |
| <b>Public sector deficit<sup>1)</sup></b> | % GDP   | -4.0 | -3.3 | -3.1  | -3.5  |
| <b>Public debt<sup>2)</sup></b>           | % GDP   | 53.1 | 48.1 | 49.9  | 51.4  |
| <b>CPI</b>                                | %       | 0.9  | 0.0  | -0.9  | 0.1   |
| <b>Unemployment rate</b>                  | % eop   | 13.4 | 11.4 | 9.8   | 8.9   |
| <b>WIBOR 3M</b>                           | % eop   | 2.71 | 2.06 | 1.73  | 1.70  |
| <b>Reference rate</b>                     | % eop   | 2.50 | 2.00 | 1.50  | 1.50  |
| <b>EURPLN</b>                             | PLN eop | 4.15 | 4.26 | 4.26  | 4.40  |
| <b>USDPLN</b>                             | PLN eop | 3.01 | 3.51 | 3.90  | 4.31  |

1) ESA2010

2) According to domestic methodology.

Source: Bank's forecasts





## Selected actual strategic priorities for PKO Bank Polski – well positioned to deliver shareholders value



Bank Polski

1

**Strengthening customer experience** based on increasing customer satisfaction driven by uniform customer experience in all the sales channels (omnichannel distribution) and tailoring the service model and offering to the needs of specific customer segments, including modern value added services, particularly in mobile banking and asset management.

2

**Speed-up in digital transformation** of the E2E business processes on the basis of customer journeys, product simplification, advanced business analytics (MIS, CRM), digital transaction authorising techniques (elimination of paper and cooperation with e-administration), flexible IT architecture and the building of a friendly work environment and tools supporting customer advisors.

3

**Optimising capital management** by reducing RWA, more effective management of the on- and off-balance sheet exposure, implementing new tools for motivation and reporting on capital utilisation and transaction profitability so as to ensure capital for development and a stable dividend policy.

4

**Operational and cost efficiency of the organization** as a result of constant improvement of operating processes and realization of synergies from the merger with Nordea as well as a cost reduction programme, while at the same time keeping on investing in the long-term development of the Bank, particularly in the area of IT and distribution channels.

5

**Investing in cybersecurity and compliance with new regulations** by implementing advanced cybersecurity tools, including the establishment of a new data center, and investment in new sales model in connection with the coming into effect of MIFID II and PSD II.

# Executive summary of financial performance



Bank Polski

- Net profit generated by the PKO Bank Polski Group in 2015 amounted to PLN 2,610 mn and was under pressure of increase in operating costs due to regulatory factors (increased contributions to the Bank Guarantee Fund and one-off costs), reduced limits of interchange fees and the historically low market interest rates.
- Negative effects of the above factors were largely offset by the increase in interest income on the basis of growth in the loan portfolio, interest costs optimization and effective management of credit risk resulting in a significant improvement in net impairment allowance
- Excluding the regulatory factors in the amount of PLN 480 mn (additional fee after bankruptcy of SK Bank and the payment to the Borrower Support Fund), the consolidated net profit for the year 2015 amounted to PLN 2,998 mn (decrease of 7.9% y/y)
- Consolidated net profit earned in the Q4 2015 amounted to PLN 444 mn and was lower by 45.5% q/q, mainly due to incurred one-off costs. On a comparable basis the Q4 2015 net profit amounted to PLN 833 mn, which means an increase of 2.2% q/q
- The Q4 2015 consolidated result on business activity of PLN 2.8 bn (+3.5% q/q) was determined by the increase in net interest income (+2.1% q/q), mainly due to reduced interest expense of 5.8% q/q and increase in net other result by 51.3% q/q
- **Strengthening a leading market position**
  - asset base increased to PLN 266.9 bn (+7.3% y/y) with net loans growing to PLN 190,4 bn (+6.1% y/y), funded with customer deposits, which rose to PLN 195.8 bn (+12.3% y/y)
  - Increase in market share of loans (17.8%, +0.3 pp. q/q) and deposits (17.9%, +1.1 pp. q/q)
- **Portfolio quality improved considerably**
  - risk cost declined by 24 bp y/y to reach 72 bp on annual basis
  - coverage ratio increased significantly by 1.4 pp y/y to reach 63.3%
  - NPL ratio declined by 0.3 pp. y/y to reach 6.6%
- **High operational efficiency retained on a comparable basis (excl. one-off costs)**
  - Cost to Income ratio (C/I) at 52.1% (51.7% in Q4'15)
  - Return on Equity (ROE) at 10.4% (11.0% in Q4'15)
  - Return on Assets (ROA) at 1.2% (1.3% in Q4'15)
  - interest margin at 3.0% (3.1 in Q4'15)
- **Solid liquidity and improving of capital strength**
  - Loans / Stable funding resources ratio at 85%
  - Capital Adequacy Ratio at 14.6% and Core Tier 1 at 13.3%; (for the Bank: 15.3% and Core Tier 1 13.9%) - an increase of 1.6 pp. r/r resulting from the implementation in the year 2015 initiatives concerning capital optimization, which allowed for the reduction in risk-weighted assets and, consequently, decrease in the total capital requirement of 2.8% r/r.
- **The fulfilment of the additional capital requirements of PFSA allows to continue dividend policy in subsequent years**

# Highlights of the Business Initiatives in 2015



Bank Polski



## Full operational integration with Nordea

April 2015 marked the end of the most important process: integration of PKO Bank Polski with Nordea Bank Polska – the first one of this scale. During the last stage of the merger – the operational merger – data of more than 300 thousand customers was moved to the IT systems of PKO Bank Polski. This way, the transactional systems and service have been harmonised.



## Development of mortgage banking

The second quarter of the year saw the launch of PKO Bank Hipoteczny, whose task is, among other things, to raise long-term funding by issuing covered bonds. At the end of the year Bank Hipoteczny conducted a pilot issuance of covered bonds of PLN 30m with 5-year maturity, accruing interest at the WIBOR3M variable interest rate and a margin to MidSwap of 0.39%. Moody's long term rating of the covered bonds of PKO BH is at Aa3, which is the highest rate achievable by Polish securities.



## Expansion abroad

On 7 December 2015, two months after obtaining the permission of the German financial supervision authority (BaFin), PKO Bank Polski Niederlassung Deutschland started operating. This meant the live launch of several IT systems and the full availability of banking products and services for corporate customers. The establishment of the branch in Germany is the first stage of expansion of PKO Bank Polski into countries with a high concentration of Polish business.



## Development of bancassurance business

Integration with Nordea and the acquisition of its competence has facilitated growth in new areas for us, such as bancassurance. Earlier, as part of the business acquisition transaction, the PKO Bank Polski Group had added the life assurance company PKO Życie TU, operating under the brand PKO Ubezpieczenia. Another step in the fulfilment of our strategy assuming the development of the bancassurance business leveraging on the offering of its own insurance subsidiaries was the establishment of a property insurance subsidiary. Last March, we obtained the permission of the PFSA for the establishment of the property insurance subsidiary PKO Towarzystwo Ubezpieczeń. It will supplement our offering with property insurance and other personal. It is set to go operational in early 2016.



## The year 2015 was marked by the strengthening of our market position in serving municipalities

In 2015, PKO Bank Polski strengthened its unchallenged leading position in the local government sector by entering into banking service contracts with some more metropolises. We now serve such provinces as: Mazovia, Great Poland, West Pomerania, Lubelskie and Kujawy and Pomerania. As many as eight provincial capitals are our customers : Kraków, Katowice, Wrocław, Szczecin, Poznań, Rzeszów, Zielona Góra and Gorzów Wielkopolski.



## Dynamic development of mobile banking

One of the highlights of 2015 was the release of the new version of the IKO application. Launched in 2013, the application had undergone several modifications to be given new features in 2015, such as topping up phones, requests for money transfers to another user of the application and quick purchase of selected products offered by the bank. In 2015, the system of mobile payments used thus far in the IKO application was made available to several top banks in Poland as an interbank standard for mobile payments: BLIK. The project dubbed „From IKO to BLIK” was deemed to be the best innovation in payment services in the world – it came first in the „Distribution&Marketing Innovation in Retail Financial Services” competition by Efma.

## Financial summary



Bank Polski

|                           | 2015                                 | 2014   | Change<br>y/y | Q4'15  | Q3'15  | Change<br>q/q |        |
|---------------------------|--------------------------------------|--------|---------------|--------|--------|---------------|--------|
| P&L items<br>(PLN mn)     | Net interest income                  | 7 029  | 7 523         | -6.6%  | 1 856  | 1 818         | +2.1%  |
|                           | Net F&C income                       | 2 851  | 2 934         | -2.8%  | 694    | 721           | -3.7%  |
|                           | Result on business activity          | 10 665 | 11 147        | -4.3%  | 2 791  | 2 698         | +3.5%  |
|                           | Administrative expenses              | -6 036 | -5 245        | +15.1% | -1 924 | -1 335        | +44.0% |
|                           | Administrative expenses - comparable | -5 556 | -5 245        | +5.9%  | -1 444 | -1 335        | +8.1%  |
|                           | Net impairment allowance             | -1 476 | -1 899        | -22.3% | -365   | -362          | +0.7%  |
|                           | Net profit                           | 2 610  | 3 254         | -19.8% | 444    | 815           | -45.5% |
|                           | Net profit -comparable               | 2 998  | 3 254         | -7.9%  | 833    | 815           | +2.2%  |
| Balance sheet<br>(PLN bn) | Assets                               | 266.9  | 248.7         | +7.3%  | 266.9  | 254.9         | +4.7%  |
|                           | Net loans                            | 190.4  | 179.5         | +6.1%  | 190.4  | 185.2         | +2.8%  |
|                           | Deposits                             | 195.8  | 174.4         | +12.3% | 195.8  | 178.3         | +9.8%  |
|                           | Stable financial resources           | 224.1  | 207.7         | +7.9%  | 224.1  | 211.2         | +6.1%  |
|                           | Total equity                         | 30.3   | 27.6          | +9.6%  | 30.3   | 29.6          | +2.3%  |

Comparable data - excluding one-offs, ie. costs incurred in Q4 2015 in the amount of PLN 479.9 mn (PLN 337.9 mn charge for BFG in connection with the bankruptcy SK Bank and PLN 142.0 mn payment to the Borrower Support Fund)

# Key performance indicators



Bank Polski

|                              |                                    | 2015  | 2014  | Change<br>y/y | Q4'15 <sup>5)</sup> | Q3'15 <sup>5)</sup> | Change<br>q/q |
|------------------------------|------------------------------------|-------|-------|---------------|---------------------|---------------------|---------------|
| Key financial<br>indicators  | ROE net (%)                        | 9.0   | 12.4  | -3.3 pp.      | 5.9                 | 11.1                | -5.2 pp.      |
|                              | ROE net (%) - comparable           | 10.4  | 12.4  | -2.0 pp.      | 11.0                | 11.1                | -0.1 pp.      |
|                              | ROA net (%)                        | 1.0   | 1.4   | -0.4 pp.      | 0.7                 | 1.3                 | -0.6 pp.      |
|                              | ROA net (%) - comparable           | 1.2   | 1.4   | -0.3 pp.      | 1.3                 | 1.3                 | -0.0 pp.      |
|                              | C/I <sup>1)</sup> (%)              | 56.6  | 47.1  | +9.5 pp.      | 68.9                | 49.5                | +19.4 pp.     |
|                              | C/I <sup>1)</sup> (%) - comparable | 52.1  | 47.1  | +5.0 pp.      | 51.7                | 49.5                | +2.2 pp.      |
|                              | NIM <sup>2)</sup> (%)              | 3.04  | 3.56  | -0.52 pp.     | 3.12                | 3.11                | +0.01 pp.     |
| Quality of loan<br>pottfolio | NPL ratio <sup>3)</sup> (%)        | 6.59  | 6.92  | -0.33 pp.     | 6.59                | 6.94                | -0.34 pp.     |
|                              | Coverage ratio <sup>4)</sup> (%)   | 63.3  | 61.8  | +1.4 pp.      | 63.3                | 63.5                | -0.3 pp.      |
|                              | Cost of risk (bp.)                 | 72    | 96    | -24 pb.       | 72                  | 63                  | +9 pb.        |
| Capital position             | CAR (%)                            | 14.61 | 12.96 | +1.64 pp.     | 14.61               | 14.48               | +0.12 pp.     |
|                              | Core Tier 1 (%)                    | 13.27 | 11.71 | +1.56 pp.     | 13.27               | 13.17               | +0.10 pp.     |

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

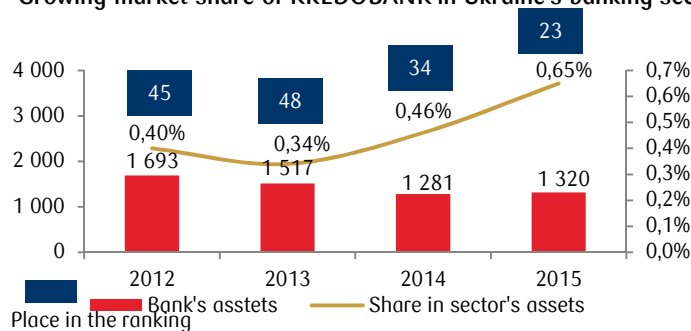
# Successful stabilisation of results and strategic transformation of KREDOBANK

(data in PLN)

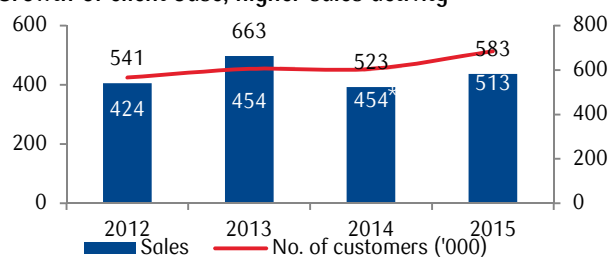


Bank Polski

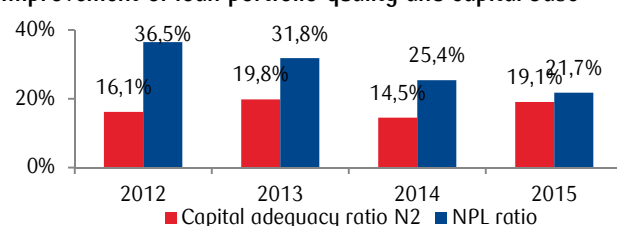
## Growing market share of KREDOBANK in Ukraine's banking sector



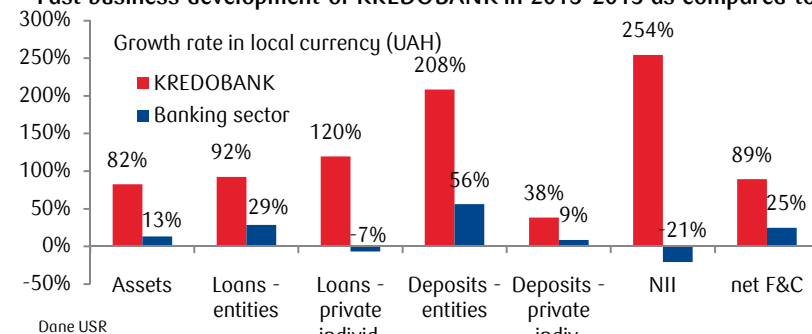
## Growth of client base, higher sales activity



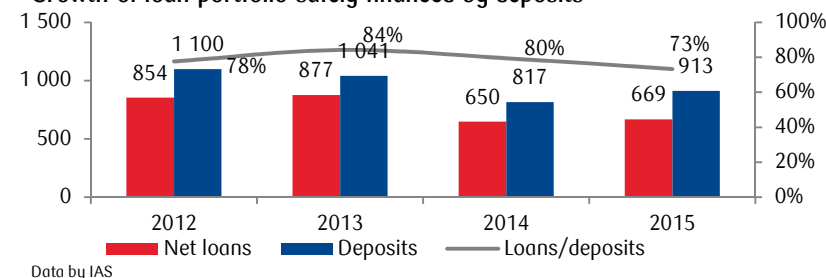
## Improvement of loan portfolio quality and capital base



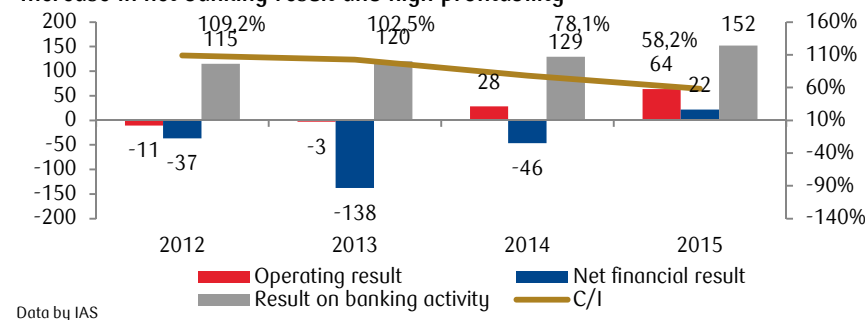
## Fast business development of KREDOBANK in 2013-2015 as compared to market



## Growth of loan portfolio safely financed by deposits



## Increase in net banking result and high profitability






# PKO Bank Hipoteczny

## Attainment of Strategic Goals



Bank Polski

| GOAL  | ACCOMPLISHMENT 2015   | PLAN 2016  |
|---|---|--|
|  <p>To raise long term funding for PKO Bank Polski Group</p>                         | <ul style="list-style-type: none"> <li>• The launch of the domestic covered bonds issue programme (12.11.2015)</li> <li>• Pilot issue of covered bonds (11.12.2015)</li> </ul>  | <ul style="list-style-type: none"> <li>• Benchmark issue of covered bonds in PLN (Q2 2016)</li> <li>• Benchmark issue of covered bonds in a foreign currency (2H2016)</li> </ul>   |
|  <p>High level of security of covered bonds issued by PKO Bank Hipoteczny</p>        | <ul style="list-style-type: none"> <li>• Application of a conservative bank mortgage valuation of real property</li> <li>• Aa3 Rating for covered bonds</li> </ul>  | <ul style="list-style-type: none"> <li>• Maintenance of the high quality of PLN-denominated home loans registered as collateral for covered bonds</li> <li>• Maintenance of the rating</li> </ul>  |
|  <p>Optimum utilisation of the assets of the PKO Bank Polski Group (synergies)</p> | <ul style="list-style-type: none"> <li>• Close cooperation with PKO Bank Polski (on outsourcing basis), including the group's risk valuation models</li> <li>• Launch of the agency model of sales of mortgage loans (01.04.2015)</li> <li>• Launch of the pooling model of transfer of mortgage loans from PKO Bank Polski (Dec.2015)</li> </ul> | <ul style="list-style-type: none"> <li>• Increased contribution of PKO Bank Hipoteczny to the sales of mortgages by the PKO Bank Polski Group</li> <li>• Further transfer of PLN-denominated home loan portfolios from PKO Bank Polski to PKO Bank Hipoteczny (from PLN 4 bn to 7 bn)</li> </ul> |

# Executive summary of financial performance



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