



Bank Polski

Dear Shareholders,

Vision, determination, and flexibility: these are the key preconditions of effective business necessary to achieve one's goals even under difficult market conditions. They are also the leading attributes of the management process in the PKO Bank Polski Capital Group, which allowed us to generate high financial results in 2015, strengthen the position of Poland's financial market leader, and further grow the value of PKO's brand.

Last year was, on the one hand, a time of stable GDP growth, driven mainly by domestic demand, which bolstered lending; and on the other hand, it brought a specific combination of factors adversely impacting the results of the banking industry. The sector paid the cost of the first bankruptcy of a co-operative bank in 15 years, established the Borrower Support Fund, and paid increased contributions to the Bank Guarantee Fund. In addition, the record-low interest rates largely affected interest margins. As a consequence, the profit of the sector decreased by nearly 28 percent year on year to less than PLN 11.5 billion.

Under such demanding market conditions, PKO Bank Polski steadily pursued a range of major strategic projects, mitigating the scale of the adverse impact of external factors on the financial results of the Capital Group.

The operational merger with Nordea Bank Polska was completed according to plan in April 2015. Migration, which provided the clients of the merged institutions with uniform access to products and services across all distribution channels, was implemented without prejudice to the continuity, stability and security of the Bank's IT system and in a customer-friendly way. It was Poland's fastest and one of Europe's fastest integrations of two banks. It generates tangible synergies and helps to grow the share of domestic investors in the assets of the Polish banking sector.

The acquisition of assets of the Nordea Group in Poland accelerated the development of PKO's competences in bancassurance, which has a strong potential to generate stable additional revenue. The acquisition of a life insurer followed by the formation of a non-life insurer from scratch allowed the Group to develop a wide range of attractive proprietary insurance products, offered to the Bank's clients under the common brand PKO Ubezpieczenia.

An important part of the strategy designed to reinforce the competitive advantage and strengthen the foundation of the Group's long-term growth was the launch of PKO Bank Hipoteczny, which obtained the required permits and started to sell mortgage loans in the PKO Bank Polski network. Within months of the operational launch, covered bonds issued by the Group's new member were rated Aa3 by Moody's, which is the highest grade available in Poland.

The launch of a corporate branch in Germany was also finalised in 2015. It is the first step in international expansion which aims to support Polish companies doing business abroad. We also actively support exporters by offering new solutions which mitigate the risks of foreign trade.

State-of-the-art technology is the foundation of growth of PKO Bank Polski. For a year now, our clients have used the new mobile payment standard BLIK developed from PKO's application IKO, which was originally implemented in 2013. The launch of BLIK was possible thanks to the initiative of PKO Bank Polski joined by five other leading Polish banks. The system, which has won the EFMA Best Innovation in Payments award, is used by close to 1.5 million clients of the banks.

PKO Bank Polski also took further measures to improve the quality of customer service across all distribution channels while promoting modern and secure electronic and mobile banking solutions. We are thus putting into practice the multichannel concept which allows clients to seamlessly and conveniently switch between electronic and traditional channels when using the Bank's services. The success of the strategy has been acknowledged as PKO Bank Polski won multiple awards in rankings based on clients' opinions; in particular, the Contact Centre has for years been regularly named the best banking call centre.

PKO Bank Polski consolidated its position of a key partner which finances the growth of Polish entrepreneurship as well as the housing needs of Polish families. The Bank's flagship product, the mortgage loan "Własny kąt", accounted for one in four retail housing loans granted in Poland in 2015. PKO Bank Polski's loans with de minimis guarantees for small and medium-sized enterprises had a market share of close to 25 percent as well. Furthermore, the Bank reinforced its position in services for local governments and reached a 20 percent share in lending to local governments and a 40 percent share in municipal bond origination. Dom Maklerski PKO Banku Polskiego was among the most active brokers on the stock exchange market. It was the 2015 leader by the number and the value of transactions on the capital market.

All these initiatives, based on the engagement, energy and professionalism of the Group's employees, ensured a consolidated net profit of more than PLN 2,6 billion in 2015 while total assets grew to nearly PLN 267 billion and the market share was 17,9 percent in deposits and 17,8 in loans. The Bank grew its capital base by retaining the 2014 earnings and optimising its risk-weighted assets. The loan to deposit ratio was 97,3 percent at the end of 2015 while the ratio of loans to stable funding was 85,0 percent, which demonstrates the liquidity strength of the PKO Group. Focused improvement of the risk management process continued in 2015; as a result, the cost of risk was reduced to 0,72 percent v. 0,96 percent in 2014.

The recent achievements and the generated results prove that the ambitious strategic goals can be successfully pursued even under strong pressure of external conditions. They also provide a robust foundation and excellent motivation for further focused efforts to the benefit of the shareholders, clients, employees and the entire Polish economy.

Zbigniew Jagiełło

President of the Management Board

PKO Bank Polski