



Bank Polski

Dear Madam or Sir,

It is my pleasure, for the fifth time now, to present the annual report of the PKO Bank Polski Group. In addition to excellent financial results, as usual, we report this time a number of events which are none other than strategic changes that definitively transform our organisation and set the potential directions of its further growth.

Last year brought many diverse and complex developments in the Bank's environment. We worked under conditions of recovery in the national economy combined with historically low interest rates which augmented the competitive pressure. The competition of banks was particularly strong with respect to state-of-the-art technology as a crucial workbench for innovation and a ground of focused efforts to develop new forms and methods of building and maintaining client relationships. The natural growth was accompanied by further regulatory changes which added to the operating expenses of banks, as well as mounting macroeconomic uncertainties, mainly fuelled by the difficult geopolitics determined by the events in Ukraine and international sanctions levied on Russia, as well as persisting threats to the observed economic recovery in the Eurozone.

Against this background, the PKO Bank Polski Group once again delivered very good annual financial results, maintained high profitability, kept costs in check, and ensured safety of deposited investments. The consolidated net profit was PLN 3.25 bn, ROE was 12.3 percent, ROA was 1.4 percent, the cost/income ratio was 47.1 percent, and the capital adequacy ratio was 13 percent. It is important to note a sharp decrease in the cost of risk, which stood at 1.0 percent in 2014 compared to 1.3 in 2013.

In 2014, the Bank demonstrated that it is a modern and flexible institution which seamlessly modifies its structure, business strategies and product offer when faced with highly changeable market conditions and increasingly demanding expectations of clients.

We finalised the acquisition of Nordea Group companies initiated in mid-2013: the deal was closed, the legal merger of the banks and leasing companies was completed, and a new bancassurance model was implemented in the third acquired company currently operating as PKO Ubezpieczenia. The last step in the very complex process, the operational merger, will unify the transactional systems in H1 2015 and

open full access to all contact channels for clients of the merged banks to provide full synergies from the acquisition in the coming reporting periods. As a result, after years of dynamic organic growth, the Bank proved its competences and capabilities necessary for growth through acquisitions and strategic alliances.

Last year, our organisation opened a new chapter by founding PKO Bank Hipoteczny to finance residential real estate. The function of the new subsidiary is to issue covered bonds on the capital market in order to finance top-quality mortgage loans granted to our clients. The launch of PKO BH in Q2 2015 affords an opportunity to engage in the debate on the future financing of housing needs in Poland. The Bank actively participates in the debate by promoting systemic solutions that support the stability of the banking sector and bring benefits to clients, known as the new mortgage governance system. The proposals, which aim at a strong increase of the role of mortgage banks, are particularly relevant in view of the turbulences on the foreign exchange market, which affect mainly those clients who took out loans in the Swiss franc at the end of the past decade.

In 2014, the Bank made a directional decision to start business expansion in Europe and initiated the formal procedure to open a corporate branch in Frankfurt am Main. With successful implementation of our plans, we will provide even better support to key institutional clients who have both domestic and international presence.

In response to the challenge of the on-going mobile technology revolution, the company Polski Standard Płatności formed by initiative of PKO Bank Polski launched in 2015 as the operator of the local mobile payment system BLIK. The system was built upon IKO, the application developed by our Bank and operated successfully for two years now. With six large national banks as its shareholders, PSP is well positioned to become a genuine alternative to cash payments, which are still predominant in Poland. BLIK offers fast and simple solutions as well as top security of transactions to a dynamically growing group of users.

The diversity of events and initiatives launched by the PKO Bank Polski Group in 2014 attests to the high qualifications of our employees. The past twelve months provided a unique and well used opportunity to develop new skills and integrate the entire organisation around shared, clearly defined goals. With this experience, we are ready to face new challenges in the well-founded conviction that together we can overcome them, grow shareholder value and enhance customer satisfaction with the services of the biggest and, as our strategy has it, continuously the best financial institution in Poland.

Zbigniew Jagiełło

President of the Management Board, PKO Bank Polski