

BANKING MARKET IN POLAND 2008-2010

CEE BANKING SERIES /UPDATE 1H2008/



SAMPLE

by Intelace Research
October 2008

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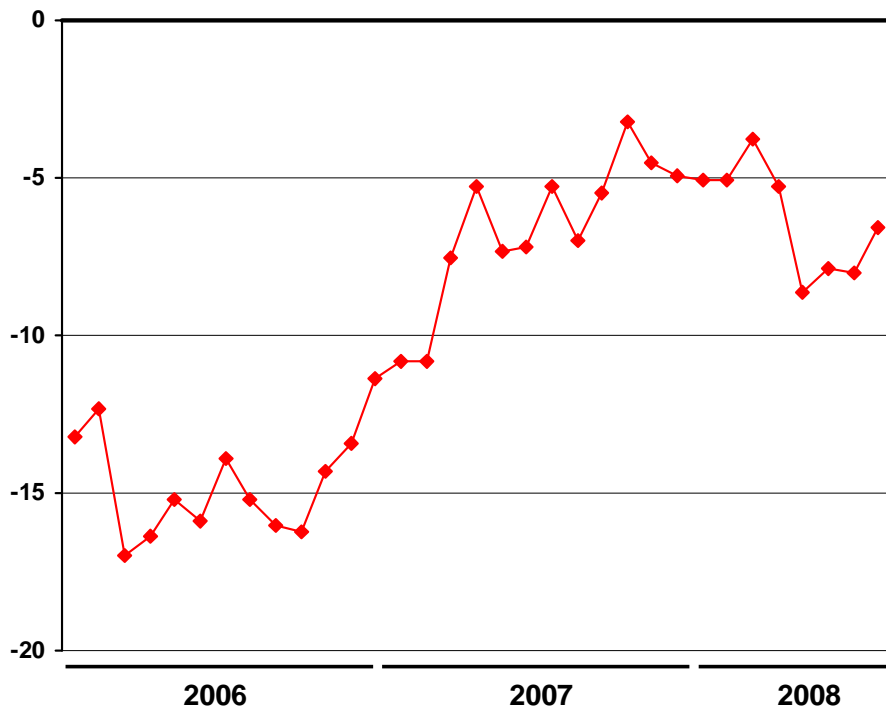
EXECUTIVE SUMMARY – BANKING MARKET IN POLAND: 1H 2008

- **So far so good.** Banking sector in Poland maintained quick growth in the first half of 2008. Remarkable jump in corporate lending as well as a solid increase in retail savings contributed to significant, nearly 11% growth in commercial banks assets. Moreover, favourable evolution of volumes was accompanied by increasing interest rates and overall stable margins, which resulted in a significant ~17% yoy jump of banks revenues. As a result, the combined profit of commercial banks in 1H 2008 exceeded PLN 8 billion (EUR 2.3 billion). The profitability benchmarks did not significantly change against 1H 2007: CIR slightly improved to 50.6%, ROA remained unchanged at 2.2% and ROE fell by a fraction to 27.7%.
- **Competitive landscape.** During 1H 2008 a continuation of market de-concentration could be observed. Both market leaders: Pekao and PKO were not able to defend their positions and lost 1.7% and 0.2% market share respectively vs. 12/2007. In contrary several mid-size players (ING, BRE, BZ WBK) as well as foreign bank branches (Polbank EFG) managed to quickly grow their share. The overall competition has intensified in early 2008, especially in retail deposits segment.
- **Expansion of infrastructure.** Since 2005 most banks expand their physical distribution networks. Despite increasing role of remote channels, building a physical network is still the key for growth in Poland. Banks are increasingly penetrating middle-size cities and smaller markets with cost efficient franchising agency/concepts. If adding current development plans of commercial banks ~1 outlets could be opened during 2008- Q1/2009 (+16% growth vs.12/2007). Also the payment infrastructure is likely to accelerate response to positive trends in retail trade and services. Current POS and ATM penetration benchmarks for Poland vs. Europe gap and suggest a substantial growth potential
- **Perspectives.** The global financial crisis has not affected Polish market directly so far. However, the falling confidence on ir market and rising funding costs are putting increasing pressure on banks with no or weak deposit base. Also mounting uncertainty of retail clients may result in polarization of the market – increased deposit flows towards banks that are perceived as more secure than others, e.g.: PKO, BGK , Pocztowy, BOŚ. A quick implementing of higher deposit guarantee level (EUR 50,000) and more active role of the Central bank in redistributing of liquidity available on the market is, however, likely to bring more stability to the system.
- **Mid-term forecast:** Banking volumes are likely to sustain solid growth through 2010 (16% assets growth p.a.), driven mostly by retail volumes and corporate lending. At the same time the overall profitability of banks is likely to fall as a result of slower growth in revenues and increasing operating costs including higher reserve creation (due to growing NPLs).

CONSUMER CONFIDENCE IS SWINGING - INDICATING THE GROWING UNCERTAINTY OF INDIVIDUALS

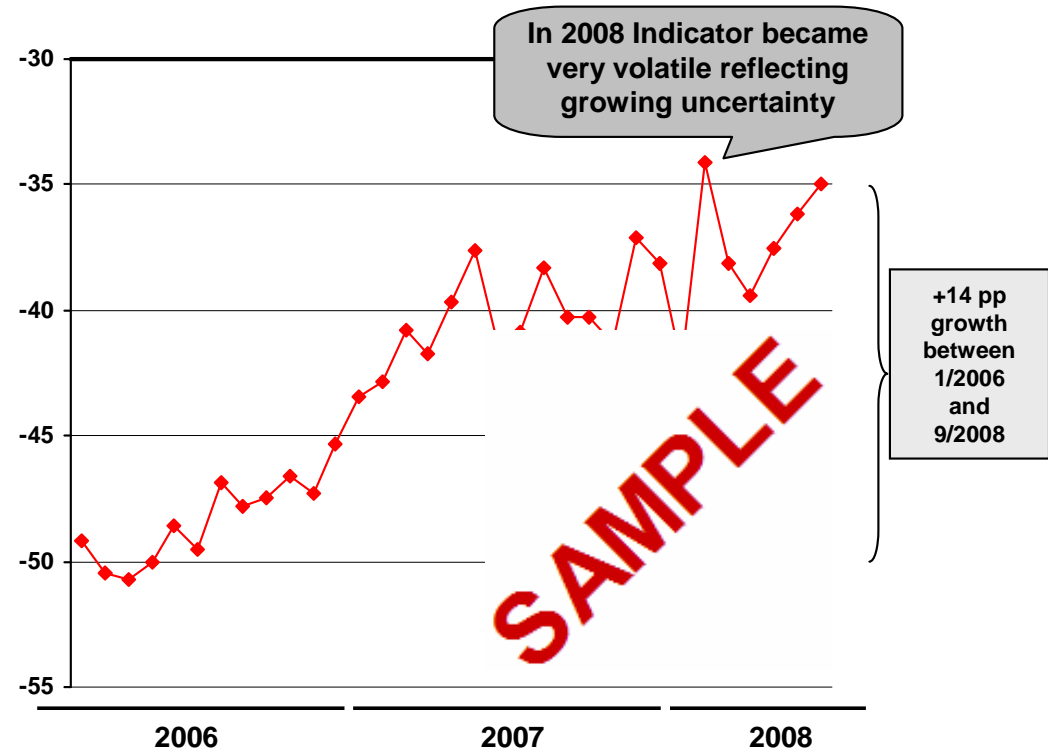
Current consumer confidence composite index (BWUK)*, %

Jan. 2006 - Sep. 2008



Future consumer confidence: Sub-index - Saving money likelihood**, %

Jan. 2006 - Sep. 2008



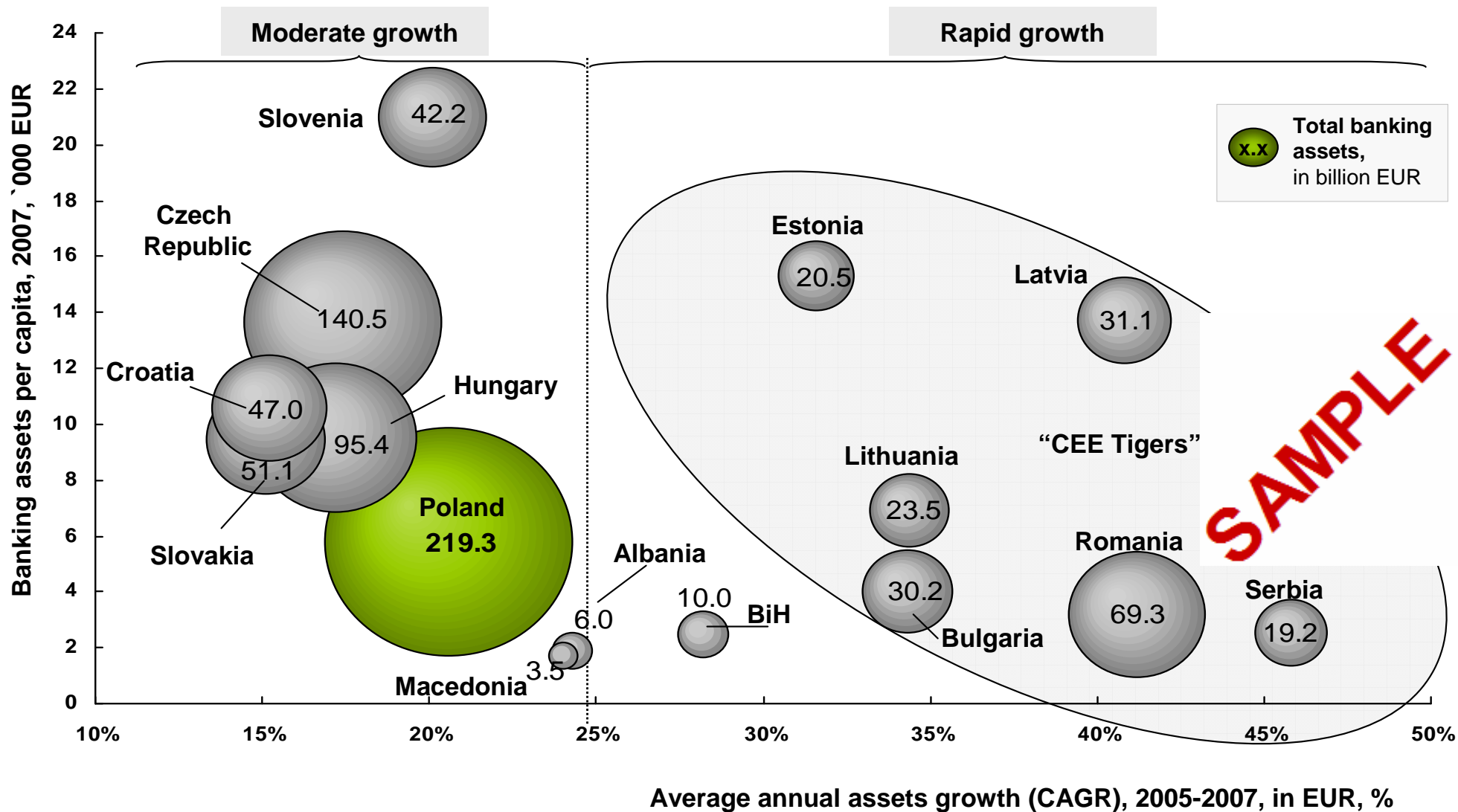
* BWUK index is an average of 5 variables and reflects self-assessment of households on: their financial situation, shopping behaviour and the situation of the country including both current opinion and future expectations

** Question: "Will you be able to save money within next 12 months"

Source: GUS, Intelace Research

POLAND HAS THE LARGEST BANKING MARKET IN THE CEE15* AREA

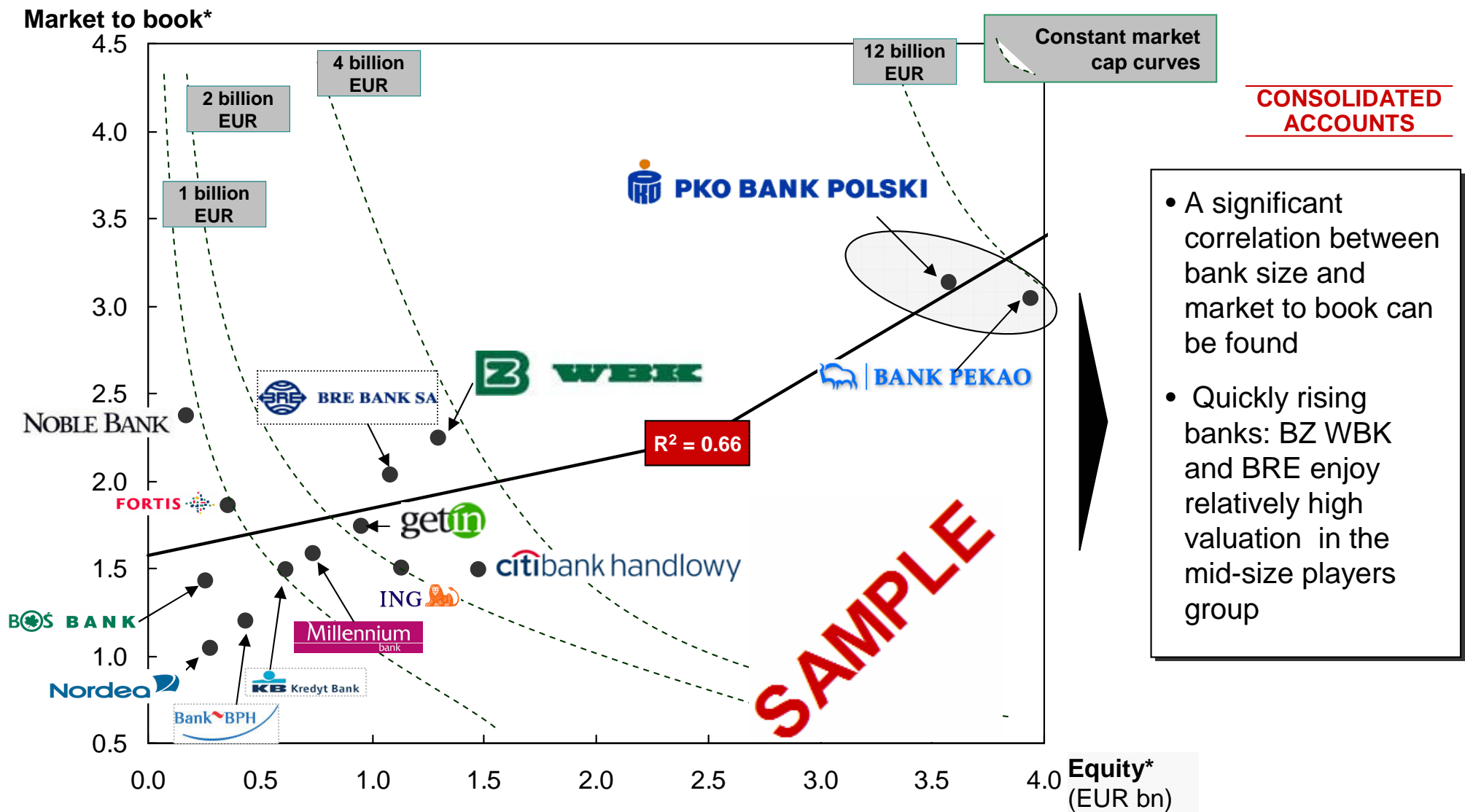
CEE15* banking markets - Size vs. growth matrix, 2005-2007



Banking Market in Poland 2008 - Update 1H 2008

* Major 15 CEE countries. Russia, Ukraine and Belarus not included
 Source: Central banks, IMF, Intelace Research

STRATEGIC CONTROL MAP – MAJOR LISTED BANKS IN POLAND AS OF OCTOBER 2008




* Based on consolidated results for 3Q07-2Q08, ratios as of October, 2008

Source: banks, press, Intelace Research

THE EVIDENT SUCCESS OF GREENFIELD ENTRY BY POLBANK EFG IS ENCOURAGING NEW PLAYERS TO REPLICATE IT



History & Background	Concept Description	Results																
<p>Timeline</p> <ul style="list-style-type: none"> • Mar. 2005: EFG Eurobank takes part in sales tender of Wroclaw-based "Eurobank", but is finally outbid by Société Générale • Determined to enter the Polish market EFG Eurobank decides for greenfield project and launches operations under "Polbank EFG" brand in early 2006 • May 2006: Innovative image advertising campaign with bank employees starring • Sept. 2006: New mortgage loan introduced • May 2007: High-yield saving account launched • Jun 2007: Improved e-banking interface available • Jul. 2007: Network reaches 200 outlets • Sept. 2007: Investment funds on offer • Oct. 2007: New SME lending facility campaign launched • March 2008: Structured deposit on offer 	<p>Target Clients</p> <ul style="list-style-type: none"> • Upper mass and affluent individuals • Professionals • SMEs <hr/> <p>Products</p> <p><i>Transparent portfolio of self powerful products:</i></p> <ul style="list-style-type: none"> • Current account linked to high saving account with market be rate • Flexible installment/cash loan • Competitive mortgage offer • Credit card printed on spot • Simplified SME lending facility, etc... 	<p>Deposits & Loans PLN billion</p> <p>~300,000 clients acquired during first 2 years</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Deposits (PLN billion)</th> <th>Loans (PLN billion)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>0.5</td> <td>0.9</td> </tr> <tr> <td>2007</td> <td>2.2</td> <td>5.8</td> </tr> <tr> <td>1H 08</td> <td>5.4</td> <td>11.0</td> </tr> </tbody> </table>	Year	Deposits (PLN billion)	Loans (PLN billion)	2006	0.5	0.9	2007	2.2	5.8	1H 08	5.4	11.0				
Year	Deposits (PLN billion)	Loans (PLN billion)																
2006	0.5	0.9																
2007	2.2	5.8																
1H 08	5.4	11.0																
<p>Channels</p> <ul style="list-style-type: none"> • 297 outlets in >150 locations as of June 2008 • Network expansion to be continued 	<p>Competitive advantages and Key Success Factors</p> <ul style="list-style-type: none"> • Team of talented and highly motivated managers acquired from leading banks and other institutions • Innovative products, well structured and transparent product portfolio • Remarkable marketing campaigns • Countrywide branch network, attractive locations and appealing branch layout 	<p>Outlets</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Outlets</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>126</td> </tr> <tr> <td>2007</td> <td>256</td> </tr> <tr> <td>1H 08</td> <td>297</td> </tr> </tbody> </table> <p>Result before tax PLN million</p> <p>Bank has turned profitable in the 3rd year from launch</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Result before tax (PLN million)</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>-152</td> </tr> <tr> <td>2007</td> <td>-125</td> </tr> <tr> <td>1H 08</td> <td>32</td> </tr> </tbody> </table>	Year	Outlets	2006	126	2007	256	1H 08	297	Year	Result before tax (PLN million)	2006	-152	2007	-125	1H 08	32
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2007	-125																	
1H 08	32																	

Banking Market in Poland 2008 – Update -1H 2008

General Data

Concept Description

About the bank

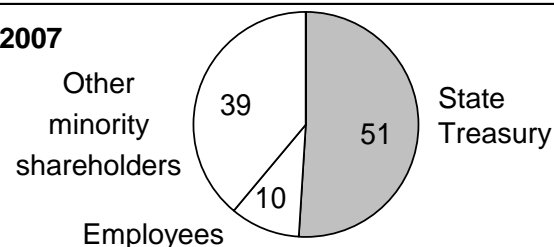
- PKO BP, today the 2nd largest bank in Poland is traditionally specialized in serving mass retail customers including micro-enterprises
- The previously almost monopolistic position of PKO on retail market, supported by dense distribution network and loyal customer base are gradually eroding.

Timeline

- 1919/1920 PKO set up as a postal savings bank. Bank quickly became the leader in retail services with ~ 3,5 million individual saving books holders
- 1950-1987 PKO as a state owned bank (since 1975 a part of the Central bank) collected retail deposits
- 1992-2000 Transformation and restructuring process including capital injections from the Treasury
- 2002 Acquisition of #2 Internet bank "Inteligo"
- 2004 IPO on the Warsaw SE; Acquisition of minority: Postal Bank
- 2005/2006 A new centralized IT system implemented
- 2007 Bank opens its first outlet in the UK
- 2008 Negotiations about strategic partnership with PZU in progress

Shareholders, 2007

percent



Clients

- As of Dec. 2007, bank served ~5.5 million retail current accounts (ROR) via PKO branches and 0.66 million accounts via Inteligo online bank
- Mass retail segment dominate; Clients on average slightly less demanding and less advanced than country average; Client preferring personal service over remote channels even if waiting a queue is the price; Quite reluctant to use payment instruments and remote channels

Products

- Broad retail offering. Well developed lending products with a mix of cash, installment and award winning mortgage loans. Mortgage offering driving strongly new loans volume growth.
- Deposit products currently being revised in order to keep up with the competition. High yield deposit and insurance accounts introduced in 2008 to prevent funds outflow.
- Distribution of treasury bonds (exclusive rights)
- Investment funds offered by subsidiary: PKO TFI
- Dedicated packages for SME segment including a quick overdraft; Less advanced offer to corporate clients

Channels

- 1150 retail branches and 2240 agencies creating the largest retail banking infrastructure in the country. Smaller towns and remote areas are very well covered
- 83 corporate outlets,
- One branch in London
- Over 2100 own ATMs
- Internet access via iPKO interface
- Separate online bank: Inteligo

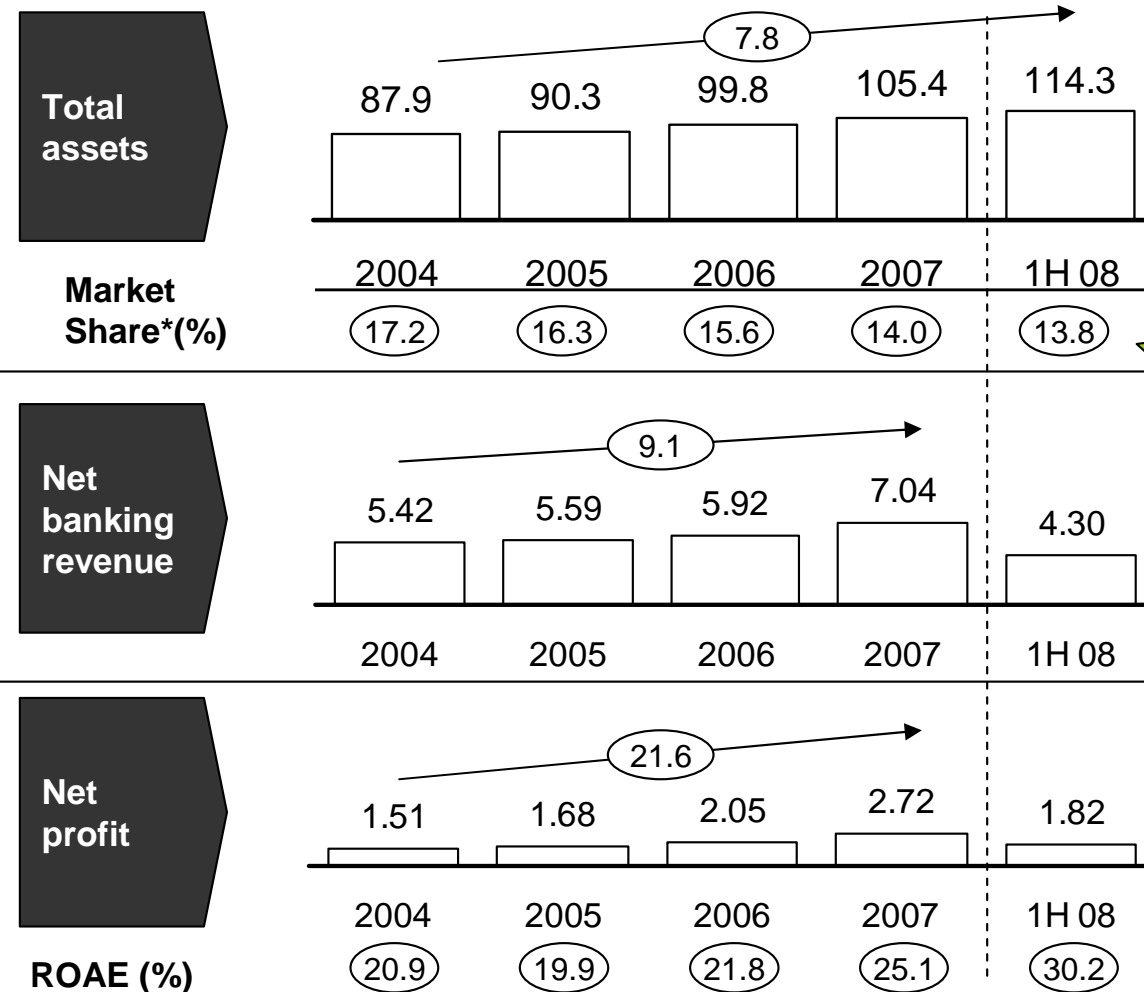
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BANK PROFILE - PKO BANK POLSKI (2/2)



Bank financials, unconsolidated figures

PLN billion, percent



Recent Initiatives/events

- To address needs of Polish emigrants residing in the UK, in 2007 bank has opened an outlet in London. At the same time a strategic partnership with NatWest bank has been declared
- In early 2008 a new high yield deposit and insurance tax-shield product (together with PZU) have been offered. Despite huge cannibalization new products helped to reverse the deposits outflow
- In autumn 2008 bank redesigned its deposit offering and introduced competitive term deposits. Initial results suggest that the new offer is a big sales success

Banking Market in Poland 2008 – Update - 1H 2008

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* Share in term of assets

** Compound Annual Growth Rate

Source: Bank, NBP, Press, Intelace Research

NOTE ON METHODOLOGY

FX rates:

- As a general rule all “end of year” balances like: assets, deposits, loans and similar volumes have been converted from the local currency into Euro using **end of year** exchange rate
- All results achieved during a period of time like: profits, revenues, new sales etc. have been converted from the local currency into Euro using **average** exchange rate
- Exchange rates used in the report:

EUR / PLN	2000	2001	2002	2003	2004	2005	2006	2007	1H 08
End of year	3.90	3.53	4.03	4.72	4.09	3.86	3.86	3.63	3.38
Average	4.02	3.68	3.85	4.40	4.53	4.03	3.91	3.79	3.50

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore, necessary short-term estimations have been done to fill the gaps. Estimates are always indicated with the letter “E”
- When preparing forecasts “F” we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important.

Multiple sources:

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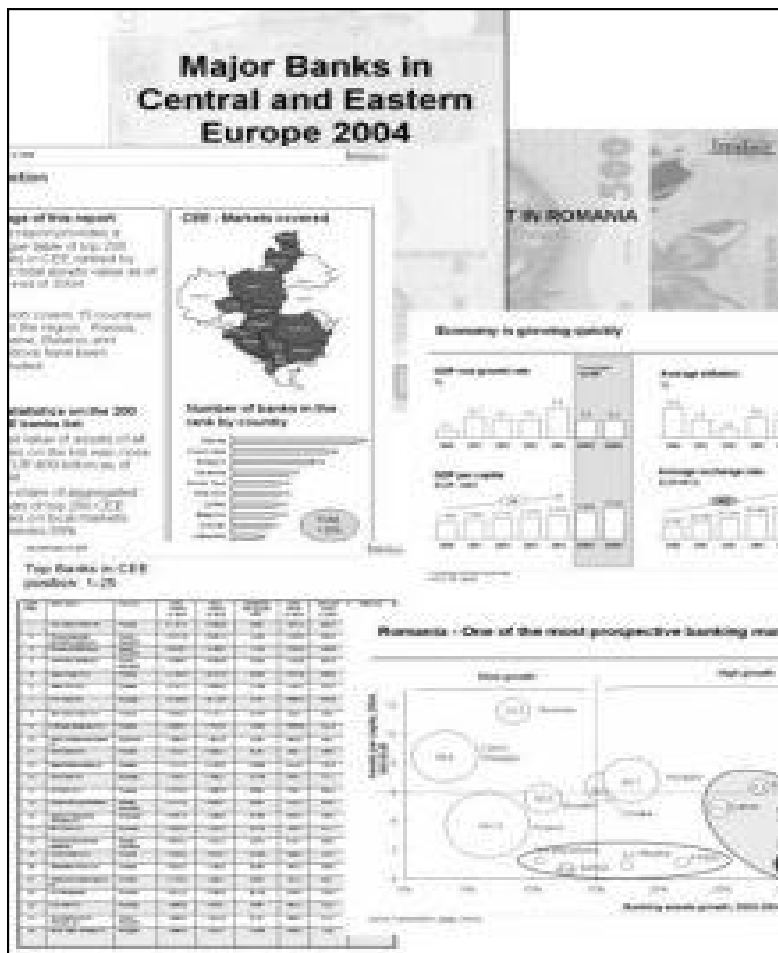
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