

BANKING MARKET IN POLAND 2009-2011

CEE BANKING SERIES



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May 2009

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EXECUTIVE SUMMARY – BANKING MARKET IN POLAND: 2008/2009

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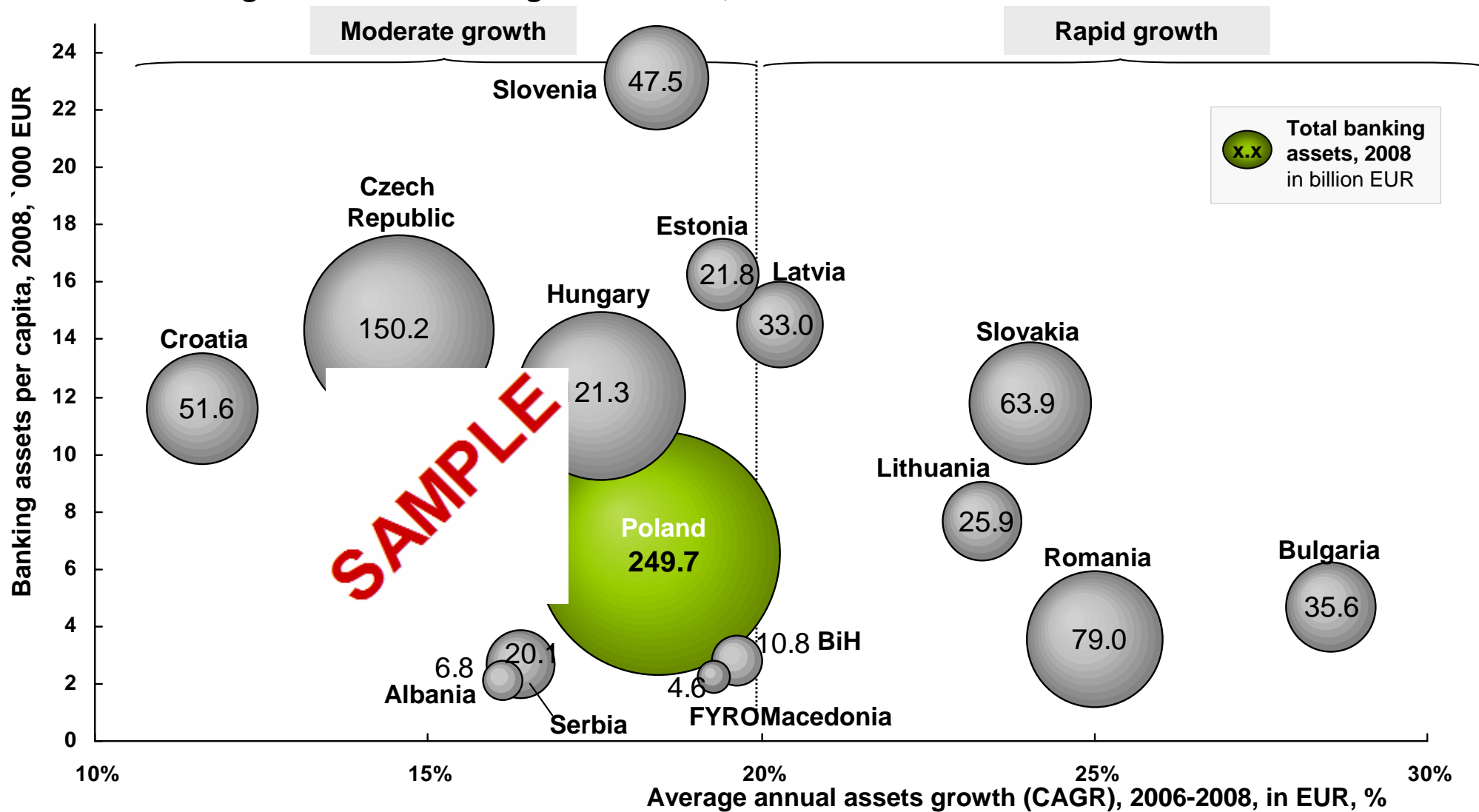
- **Year of change.** After promising first half of the year, the banking sector in Poland has been hit hard in Q4 2008. Abrupt currency depreciation, sudden standstill on the inter-bank market and decoupling of WIBOR reference rate from the real cost of money, made the operating conditions for banks difficult. In particular, banks suffered from sudden explosion of funding costs and erosion of interest margins while their operating costs could not be adjusted accordingly. As a result, the combined net profit of commercial banks in 2008 fell by fraction to 12.8 billion, while the total revenue (NBR*) increased by almost 16% to PLN 43.4 billion. In terms of volumes, a solid growth of household deposits and loans could be observed during whole 2008. Surge in value of retail loans was fueled by both: strong new sales and depreciating currency (in last months of the year the Zloty depreciation inflated fx-denominated lending portfolios). Finally, stagnating profits and growing volumes resulted in a significant fall of sector ROAA** to 1.56% from 1.96% a year before
- **Competitive landscape.** During 2008 the continuation of market de-concentration could be observed. Both market leaders: PKO and Pekao were not able to defend their positions and lost 0.9% and 3.1% market share respectively vs. 2007. In contrary to leaders, other big players (ING, BRE, BZ WBK) as well as several mid-size banks managed to grow their market shares. A particular growth of competition on the retail market could be observed in Q42008, when 3 new banks started to operate (Alior, Allianz and Meritum). In contrary to the past year, 2009 will be apparently a year of consolidation. Among others, GE money bank is to merge with BPH, Fortis bank will consolidate with Dominet. Also few larger acquisitions are expected: AIG bank has been already put on sale, while many others are rumored to be possible acquisition targets (BZ WBK, Millennium, Kredyt Bank, GEBPH etc.) due to problems of their parent companies on home markets. On the buyer's side PKO BP and PZU are most frequently indicated, as both institutions expressed interest in large acquisitions and both are able to assure funding of acquisitions with own funds
- **Expansion of infrastructure.** In 2008 most of banks continued building up their physical distribution networks. During one year about 1200 new banking outlets and 2100 new ATMs have been added. Despite increasing role of remote channels, banks still perceived building physical networks as key for growth. Middle-size cities and smaller markets were increasingly penetrated, usually with cost efficient franchising concepts. On the other hand, the speed of growth of online players (mBank, ING direct) and investments of banks in automated banking services (for example: self service areas in all ING outlets) indicate that the future for mass banking services will increasingly depend on direct channels/self service solutions
- **Perspectives & mid-term forecast.** At current stage, it is difficult to foresee how deep the global crisis will affect the Polish banking sector, but it is certain that the year 2009 will be much worse than 2008. It can be anticipated that the interest income of banks will fall as a result of persisting high funding costs (deposits rates) and falling interest rates charged on existing loan portfolios (due to common indexation of loans to WIBOR). Also F&C income is not likely to grow due to lower sales of new loans. On the cost side, a moderate growth of operating expenses will be hard to avoid, even despite saving initiatives at several banks (BPH, Millennium). As a result, the combined profit of banks may fall sharply in 2009. In contrary to profits, the expected evolution of key banking volumes in 2009 looks more optimistic – Both client deposits and loans are expected to increase, driven by still relatively strong retail banking segment

* NBR: Net banking revenue - including net interest revenue, net F&C and other net revenue

** ROAA: Return on average assets

POLAND HAS THE LARGEST BANKING MARKET IN THE CEE15* AREA

CEE15* banking markets - Size vs. growth matrix, 2006-2008



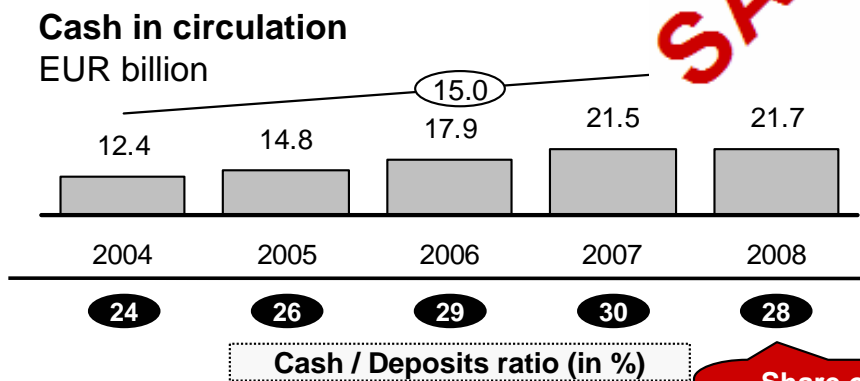
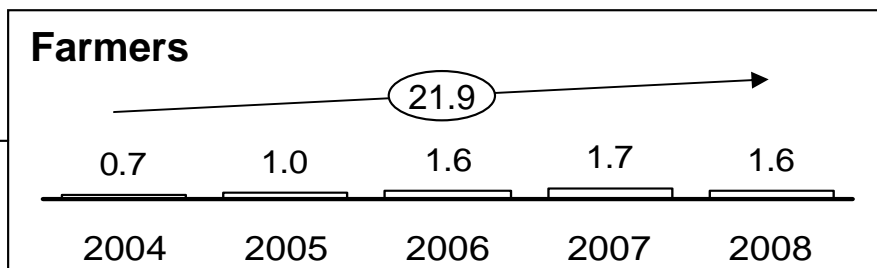
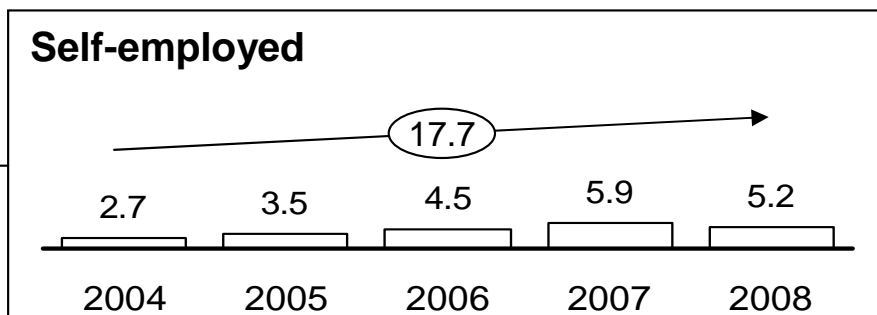
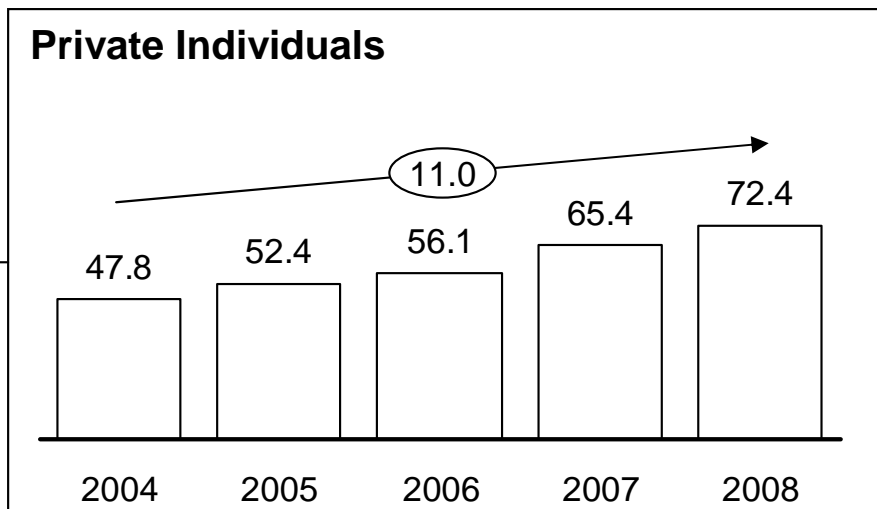
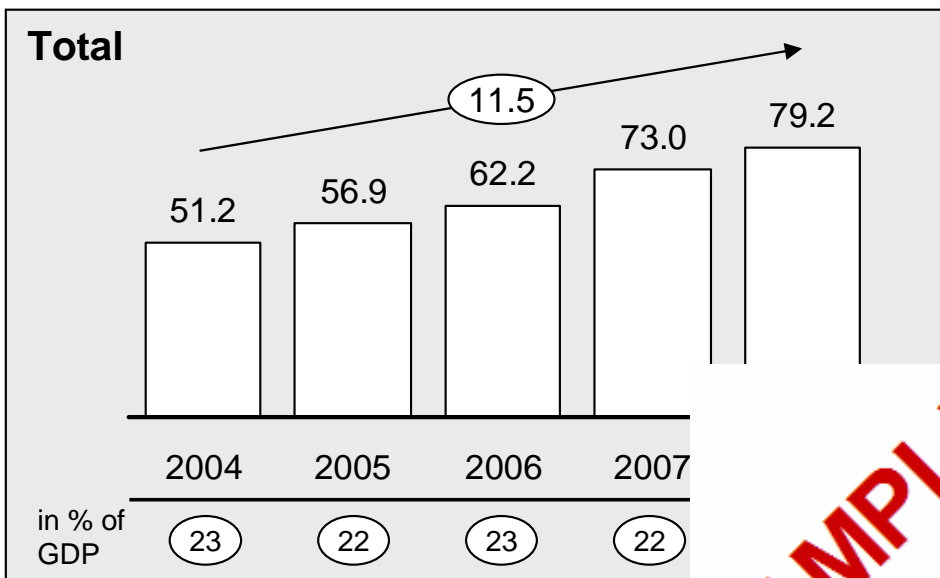
Banking Market in Poland 2009-2011

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

DEPOSITS OF HOUSEHOLDS ARE GROWING QUICKLY. USE OF CASH IS STILL VERY HIGH

CAGR*

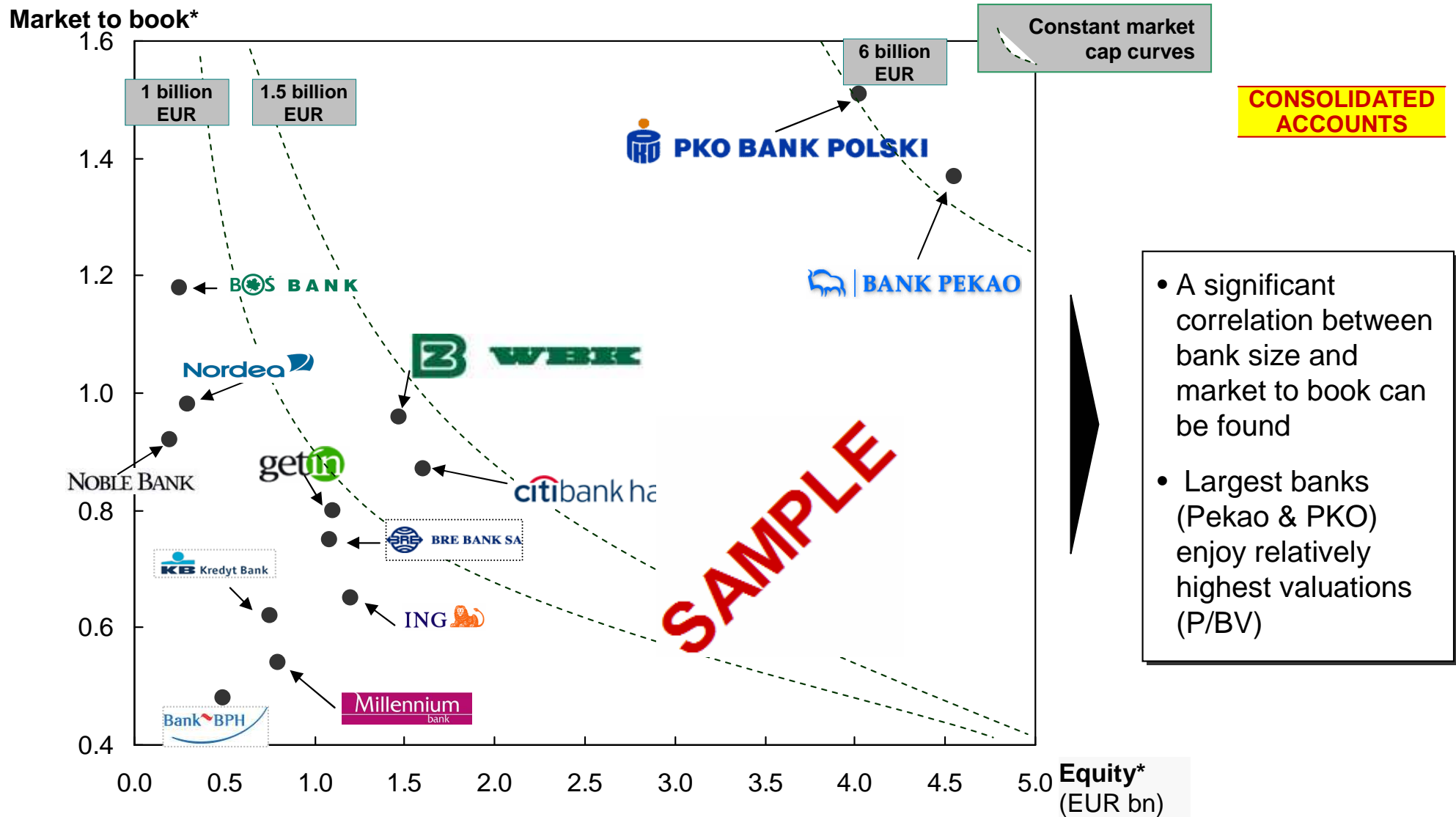
Evolution of household deposits by sub-segment, 2004-2008, EUR billion



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Share of cash dropped for the first time since 2003

STRATEGIC CONTROL MAP – MAJOR LISTED BANKS IN POLAND AS OF MARCH 2009



* Based on consolidated results for 2008, ratios as of March, 2009
 Source: banks, press, Intelace Research

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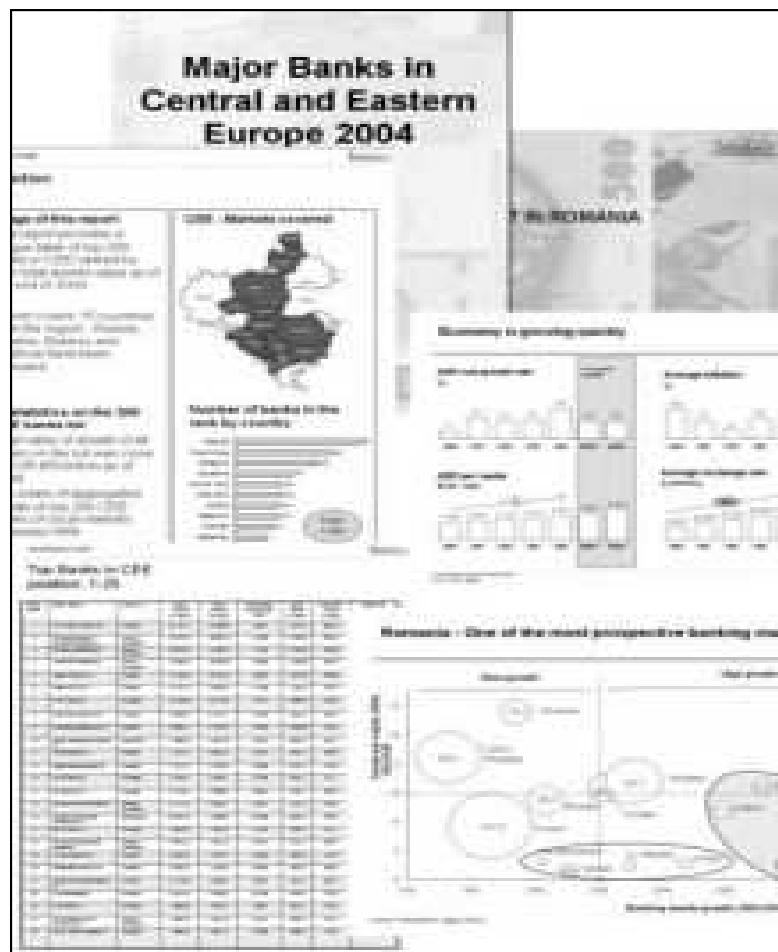
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