

RECENT TRENDS IN POLAND'S BANKING SECTOR - 1H 2014

Summary



August 2014

Inteliace Research

POLAND'S BANKING SECTOR: SUMMARY AS OF H1 2014

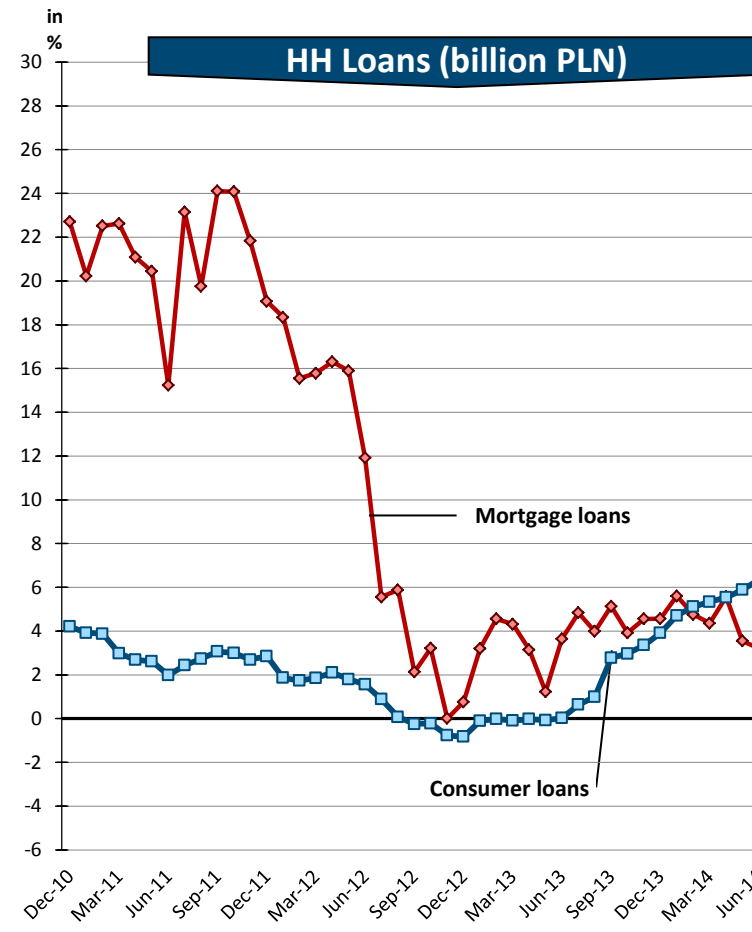
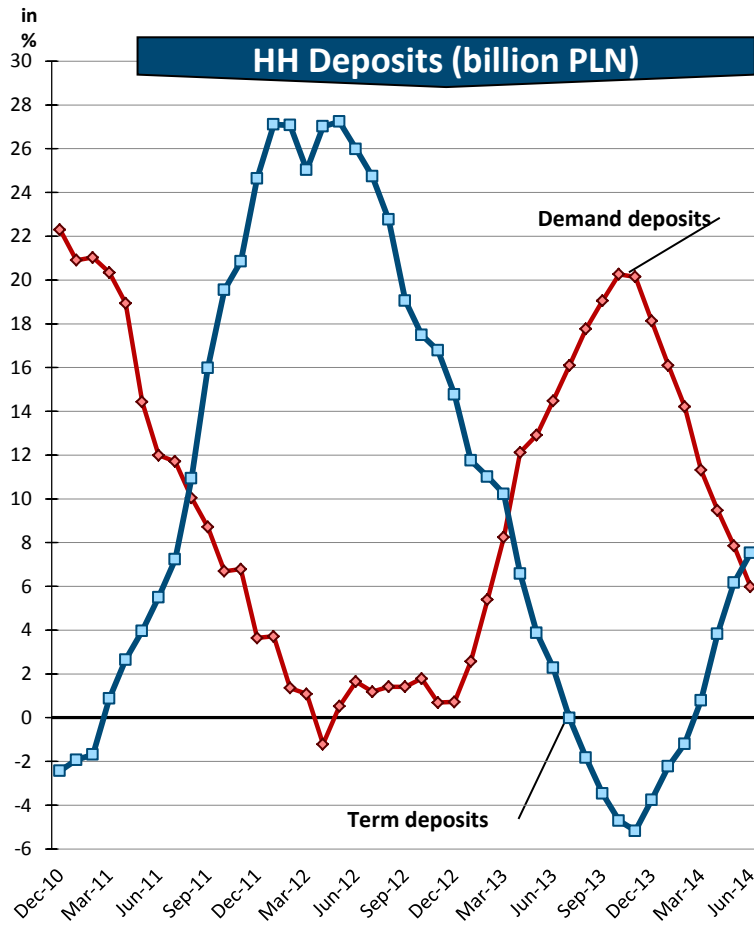
SUMMARY

- 1 Volumes**
 - All key banking volumes keep growing.
 - Deposits grow faster than loans.
 - Retail volumes increase faster than corporate ones.
- 2 Margins**
 - Deposit margins have been under pressure during 2013 which could be attributed to falling market interest rates. In contrast, lending margins were not significantly affected due to typical construction of loan contracts, assuming passing market rate risk to clients.
 - In late 2013/early 2014, banks managed to adjust to lower rates environment and deposit margins stabilized.
- 3 Lending Quality**
 - The overall lending quality is improving. Both consumer loans and corporate debt show decreasing NPL rates.
 - The only loan category where quality is falling is mortgage. The cause is ageing portfolios and only limited dilution from new loans due to very slow new sales.
- 4 Profitability**
 - Total interest revenues are increasing thanks to growing volumes.
 - Pressure on fee and commission income persists mainly due to unfavourable regulatory decisions (e.g. card interchange, bancassurance).
 - However, slowing f&c income is more than compensated by interest income.

RETAIL VOLUMES KEEP GROWING

Annual growth rate in outstanding loans / deposits at banks
Dec.2010-Jun.2014

HOUSEHOLDS

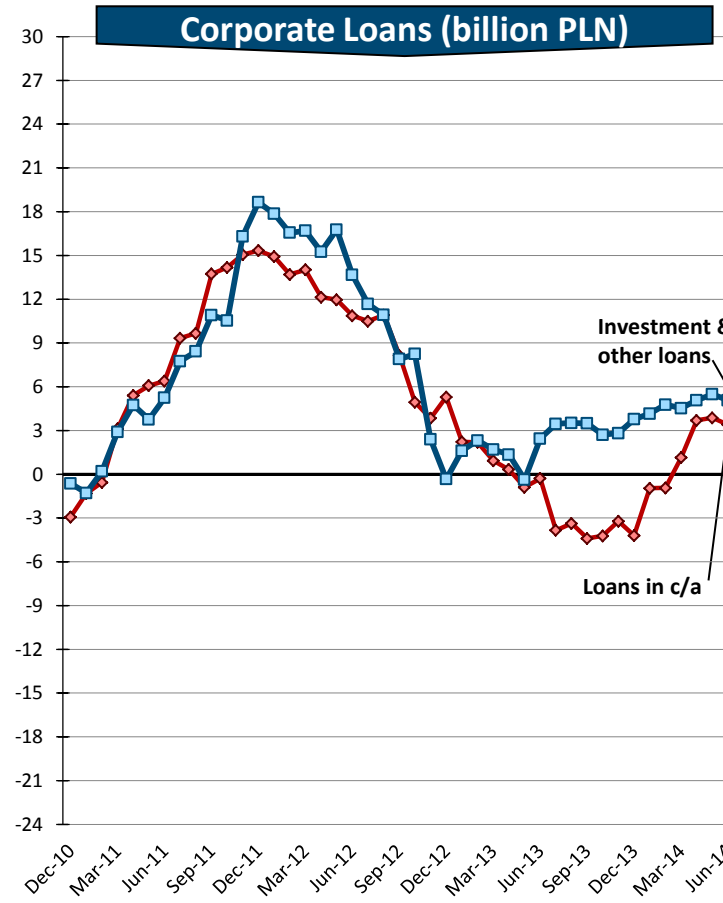
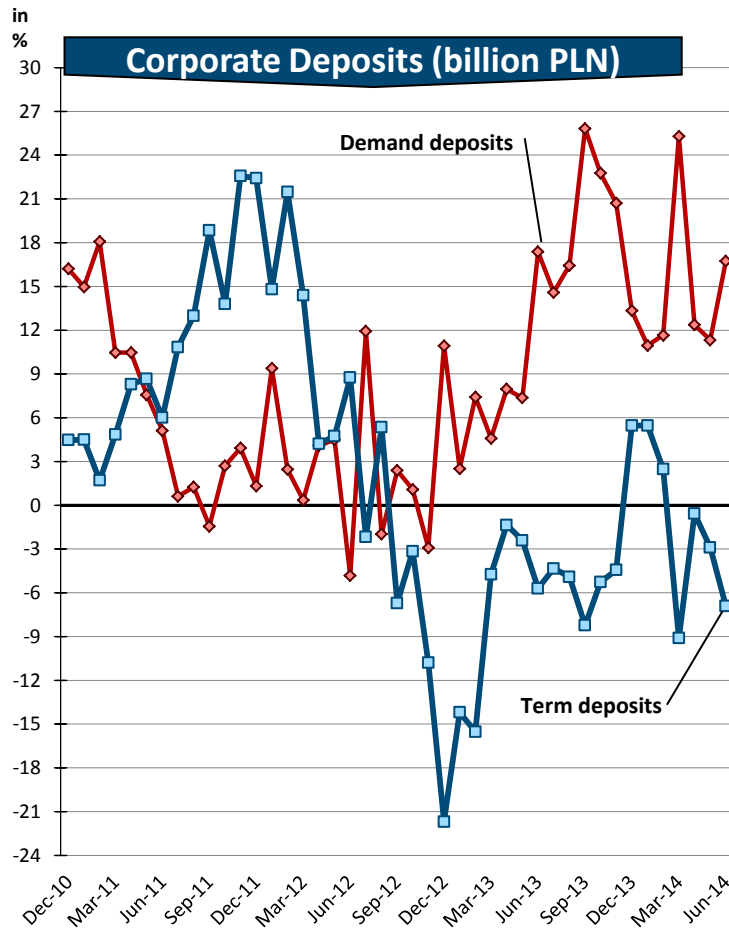


- Household deposits keep growing. The term structure is fluctuating inline with changing interest rates expectations
- Consumer lending is steadily recovering since late 2012. In contrast, mortgage lending continues to stagnate.

Recent trends in the banking sector in Poland, June 2014

CORPORATE LOANS AND DEPOSITS ARE INCREASING AGAIN

Annual growth rate in outstanding loans / deposits at banks
Dec.2010-Jun.2014



CORPORATE

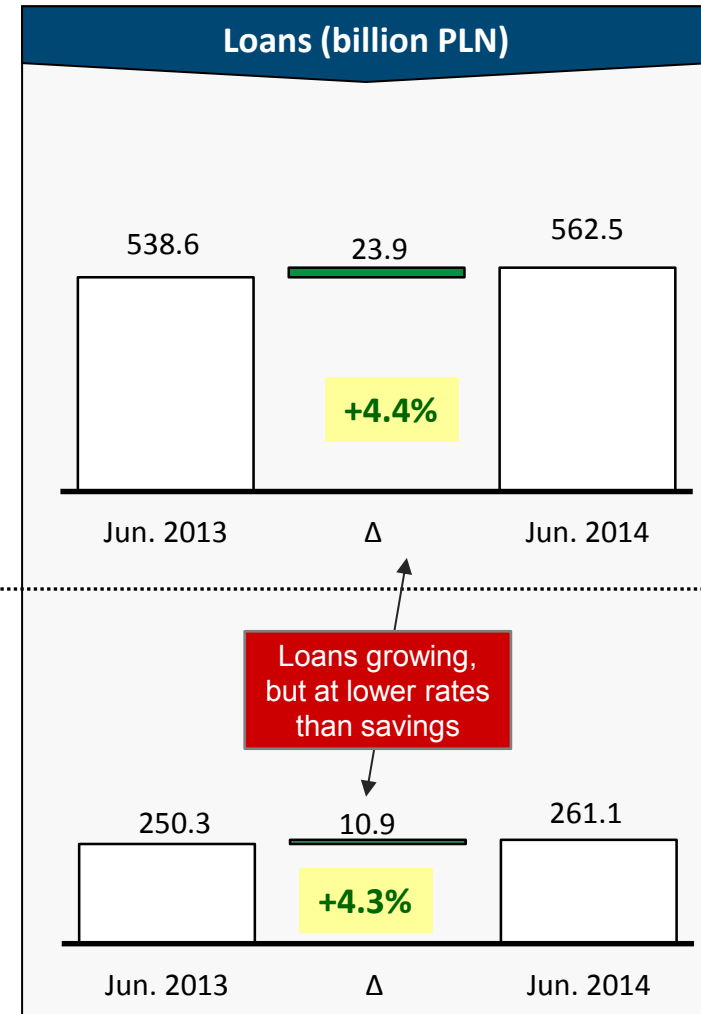
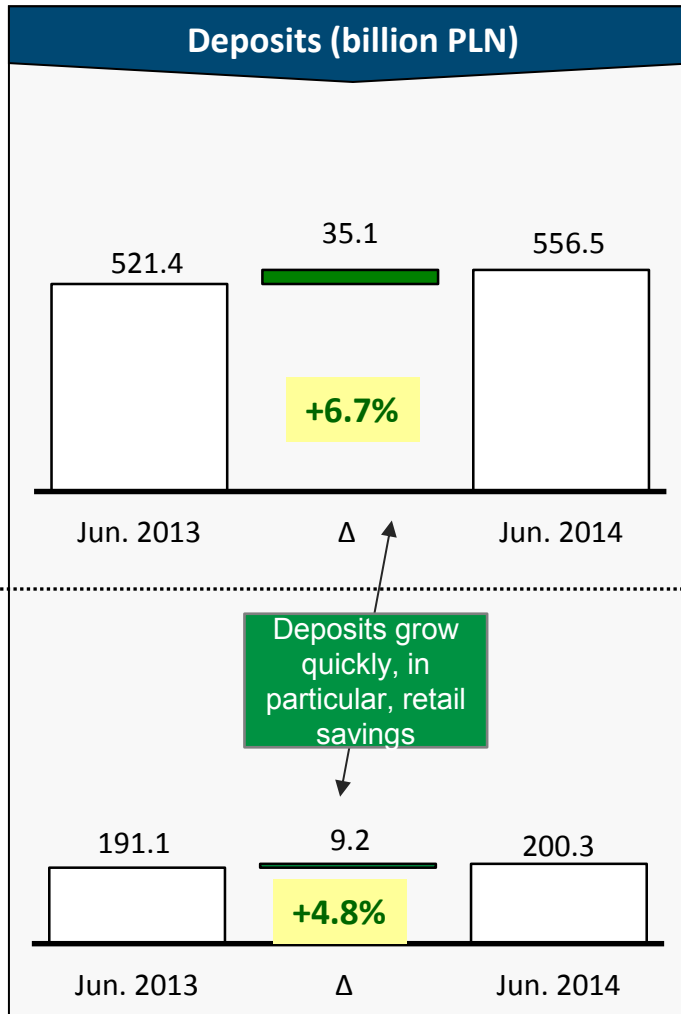


- The structure of corporate deposits is changing in favour of short term funds.
- Corporate lending has been growing again since early 2014 as the economy showed first signs of recovery.

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ALL KEY BANKING VOLUMES ARE GROWING

Loans and deposits by business segment, Jun.2013-Jun.2014
in billion PLN



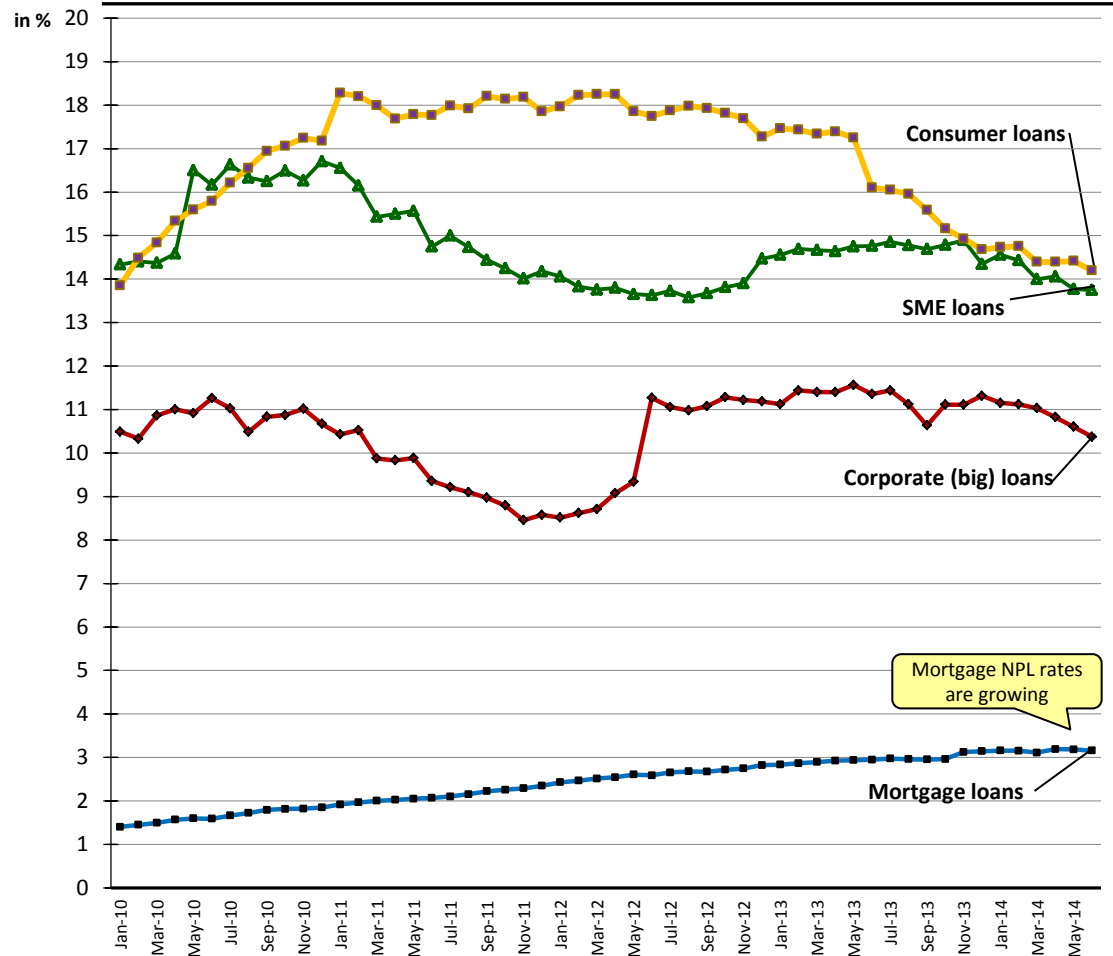
Recent trends in the banking sector in Poland, June 2014

*Corporate subjects only. Excluded: non-monetary financial institutions and public sector

Source: NBP, Inteliace Research

THE QUALITY OF CONSUMER AND CORPORATE LENDING HAS RECENTLY IMPROVED. HOWEVER, MORTGAGE LOANS ARE STILL DETERIORATING

The share of non performing receivables in total lending by segment/product, Jan.2010-Jun.2014



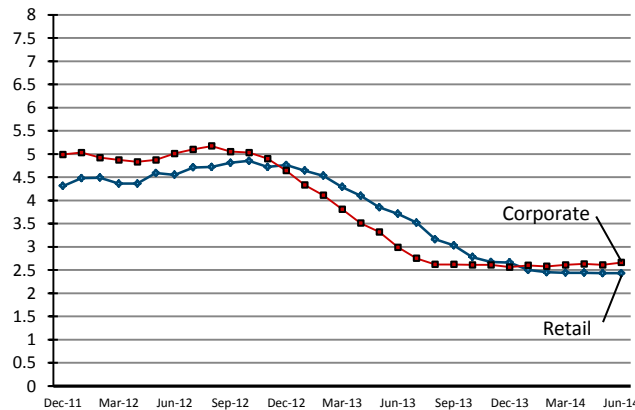
- Quality of lending portfolios of banks is improving across all key segments with exception of mortgage loans.
- Mortgage lending quality is gradually deteriorating as mortgage portfolios of banks are getting older and there is little dilution due to low new sales.

BOTH RETAIL AND CORPORATE MARGINS HAVE NORMALIZED AFTER THE DROP OF MARKET INTEREST RATES IN 2013

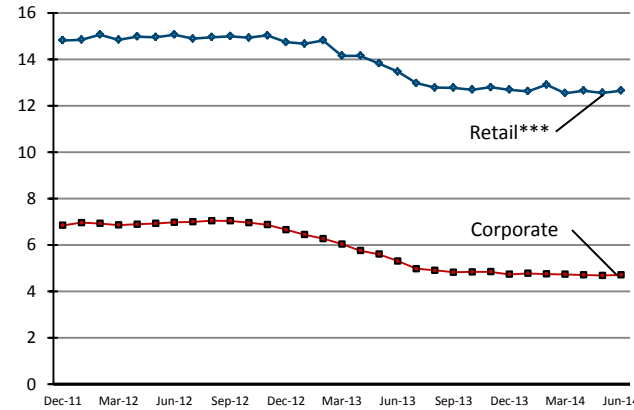
Dec.2011-Jun.2014, in percent, PLN volumes only

Nominal Interest paid or charged by bank

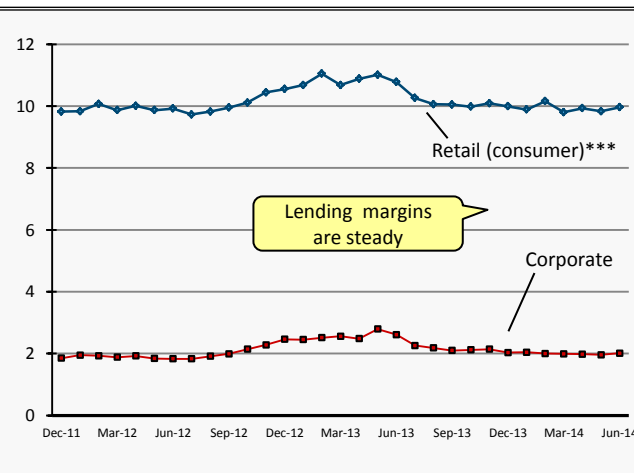
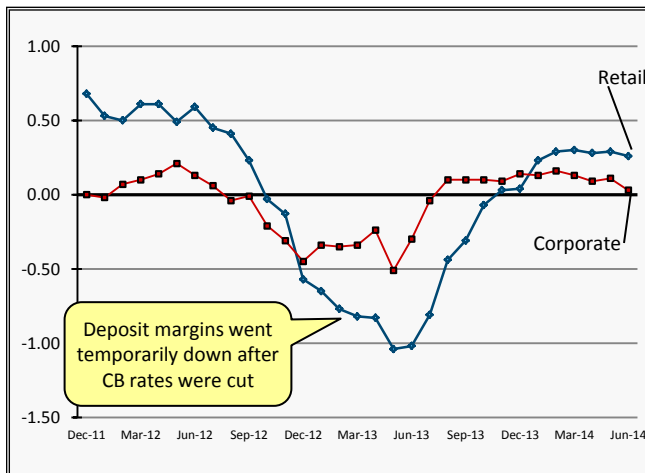
Deposits* (stock, average)



Loans* (stock, average)



Interest Margin** (on WIBOR 6M)



- Deposit margins returned to positive territory after a significant drop in mid-2013 caused by quickly falling market interest rates.
- Lending margins have stabilized (at 10% for consumer lending and ~2% for corporate loans) as banks have been able to pass changes in market interest rates on clients.

Recent trends in the banking sector in Poland, June 2014

* Stock of term deposits or loans respectively (loans and funds in current account excluded)

** Theoretical margin calculated against WIBOR 6M

*** Consumer lending : Loans to households other than mortgage

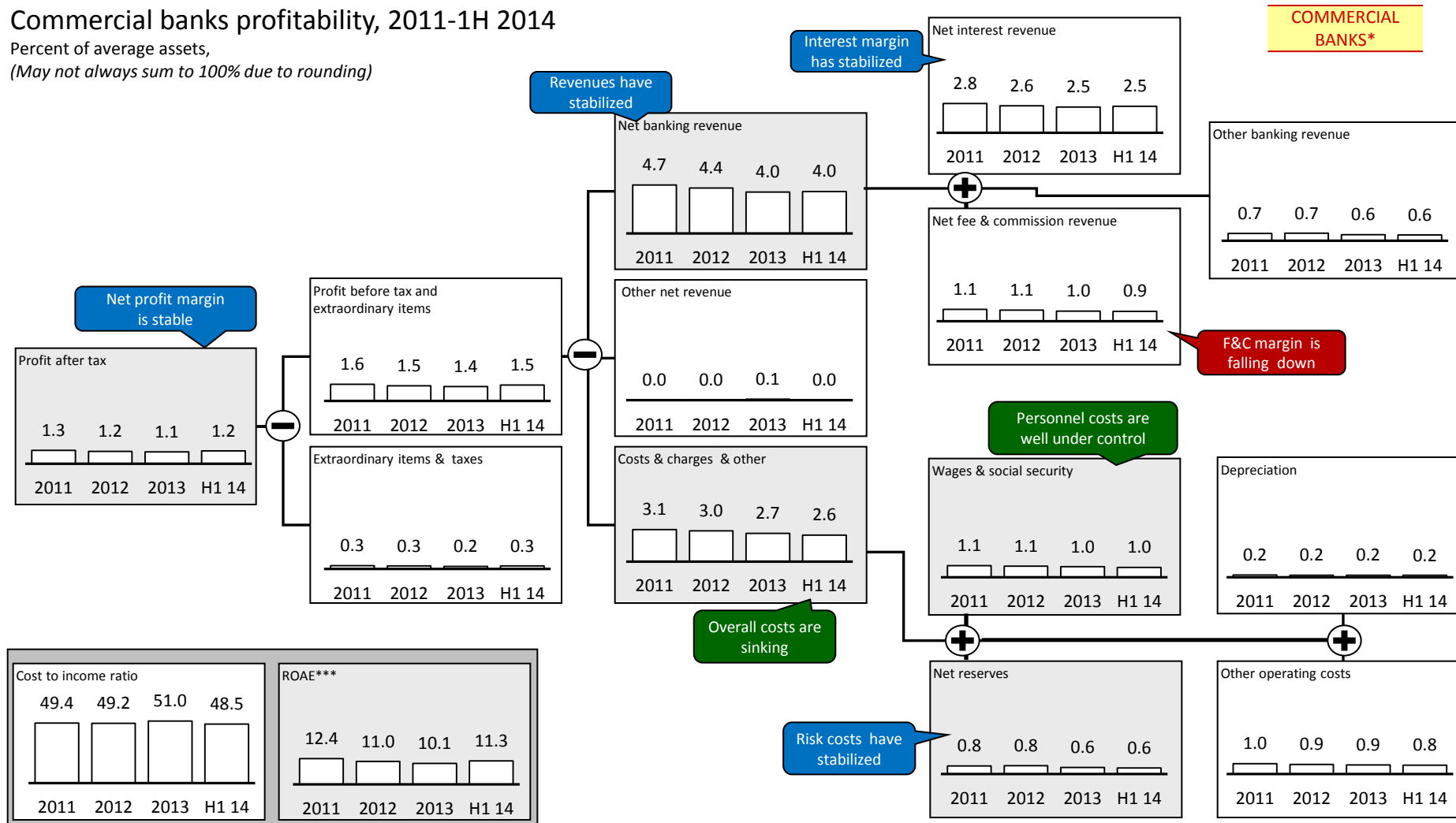
Source: NBP, Inteliace Research

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PROFITABILITY OF BANKS REMAINS STABLE ALTHOUGH FEE & COMMISSION REVENUE IS FALLING

Commercial banks profitability, 2011-1H 2014

Percent of average assets,
(May not always sum to 100% due to rounding)



Recent trends in the banking sector in Poland, June 2014

* Excluding cooperative banks and foreign bank branches operating in Poland

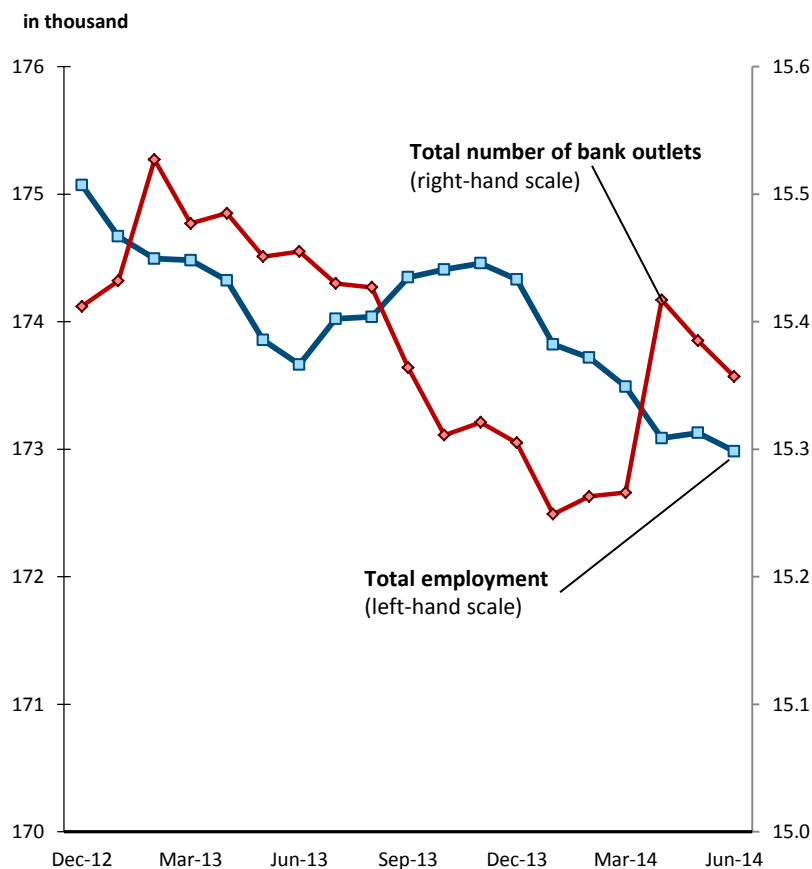
**Data for 1H 2014 annualized

*** Based on average equity

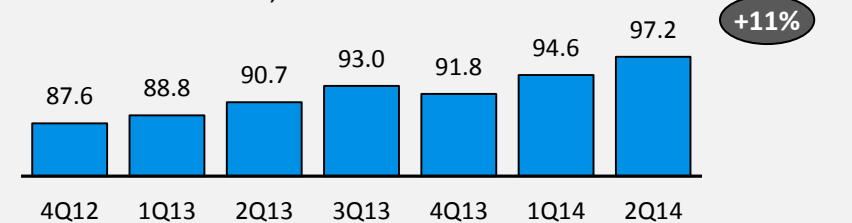
Source: KNF, NBP, Inteliace Research

FALLING EMPLOYMENT AND SHRINKING BRANCH NETWORKS CONTRIBUTE TO HIGHER PRODUCTIVITY IN POLAND'S BANKING SECTOR

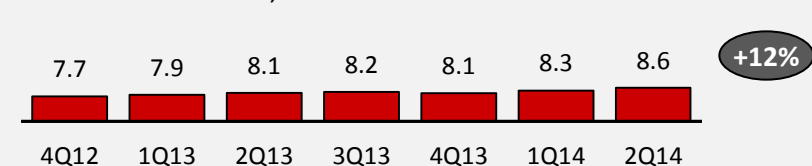
Evolution of bank outlets and employment at banks*
Dec.2012-Jun.2014



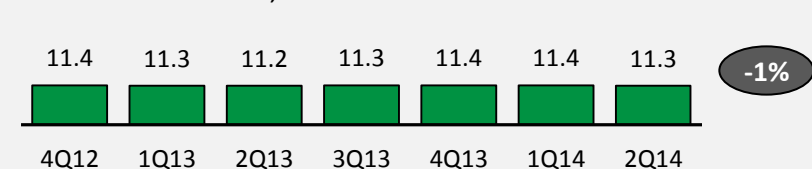
Average bank* assets per bank outlet
Dec.2012-Jun.2014, in million PLN



Average bank* assets per bank employee
Dec.2012-Jun.2014, in million PLN

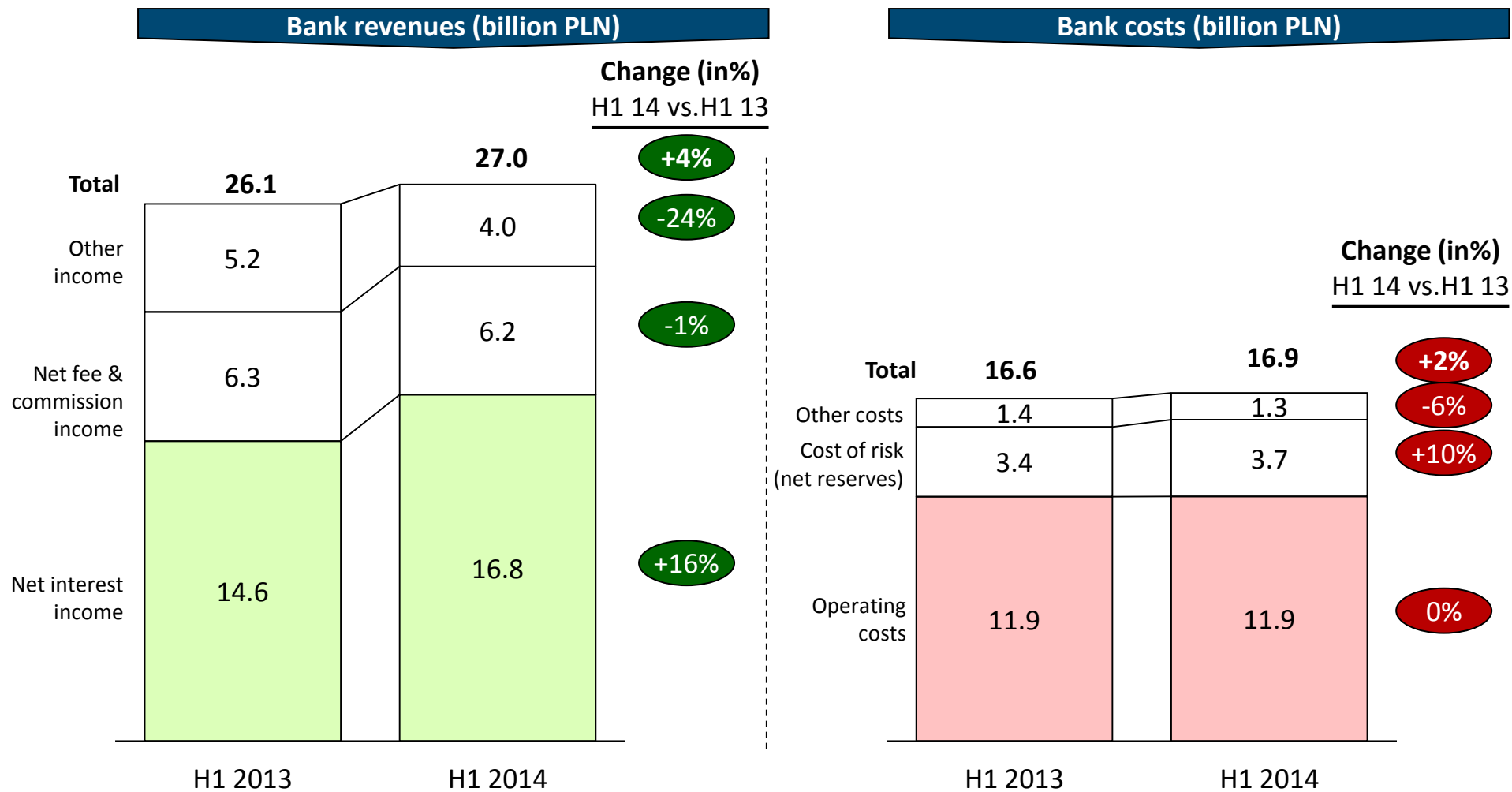


Average number of employees per bank* outlet
Dec.2012-Jun.2014, in FTE



REVENUES GROW FASTER THAN COSTS

Revenues and costs of commercial banks in Poland, H1 2013 vs. H1 2014



Recent trends in the banking sector in Poland, June 2014

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Inteliace Research is an independent and privately owned research firm based in the heart of Eastern Europe in Warsaw / Poland.

Our company specializes in value-added research services and tailored business intelligence solutions.

Through our customized research services we help our clients to better understand their customers, competitors and overall market dynamics.

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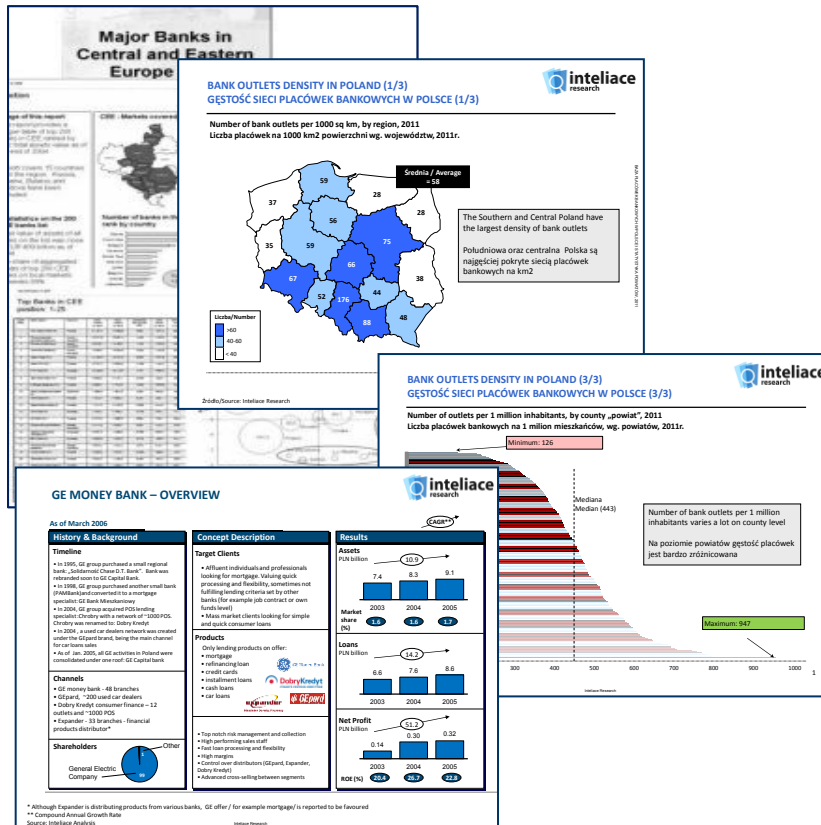
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2014

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