

RECENT TRENDS IN POLAND'S BANKING SECTOR AND BANK BPH – 3Q 2014

Summary



December 2014

Inteliace Research

AGENDA

- **Banking sector**

- **Bank BPH**

POLAND'S BANKING SECTOR: SUMMARY AS OF Q3 2014

SUMMARY

1

Volumes

- All key banking volumes keep growing.
- Most growth taking place in retail segment.
- Deposits grow faster than loans.

2

Margins

- Deposit margins have been under pressure again due to falling market interest rates following central bank rate cuts.
- Lending margins are in an increasing trend

3

Lending Quality

- The overall lending quality is improving. Both consumer 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 mortgage origination.

4

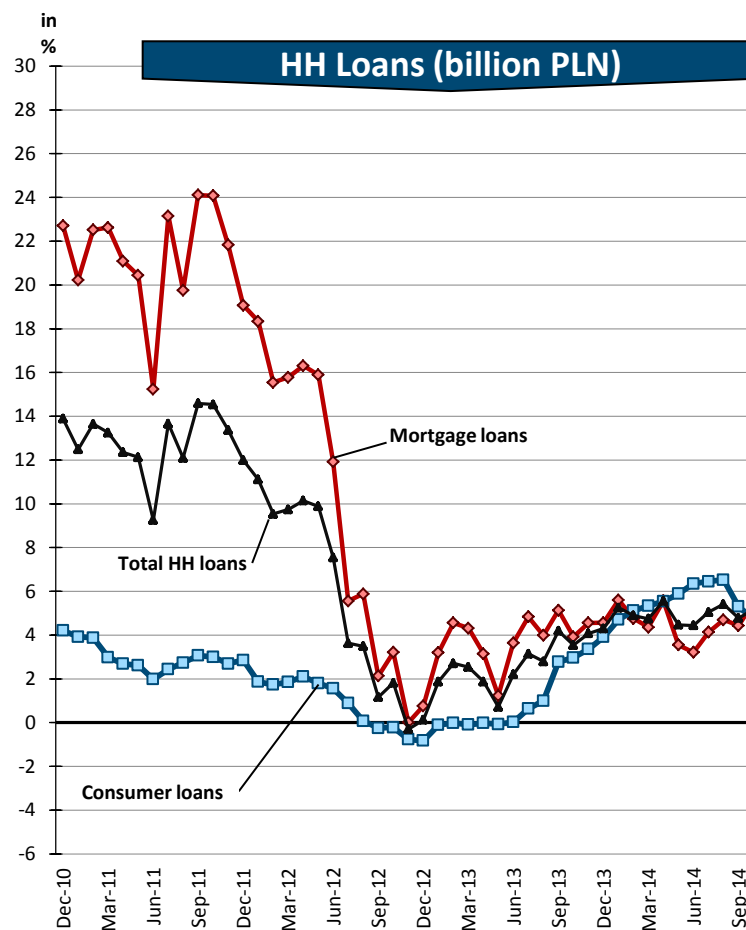
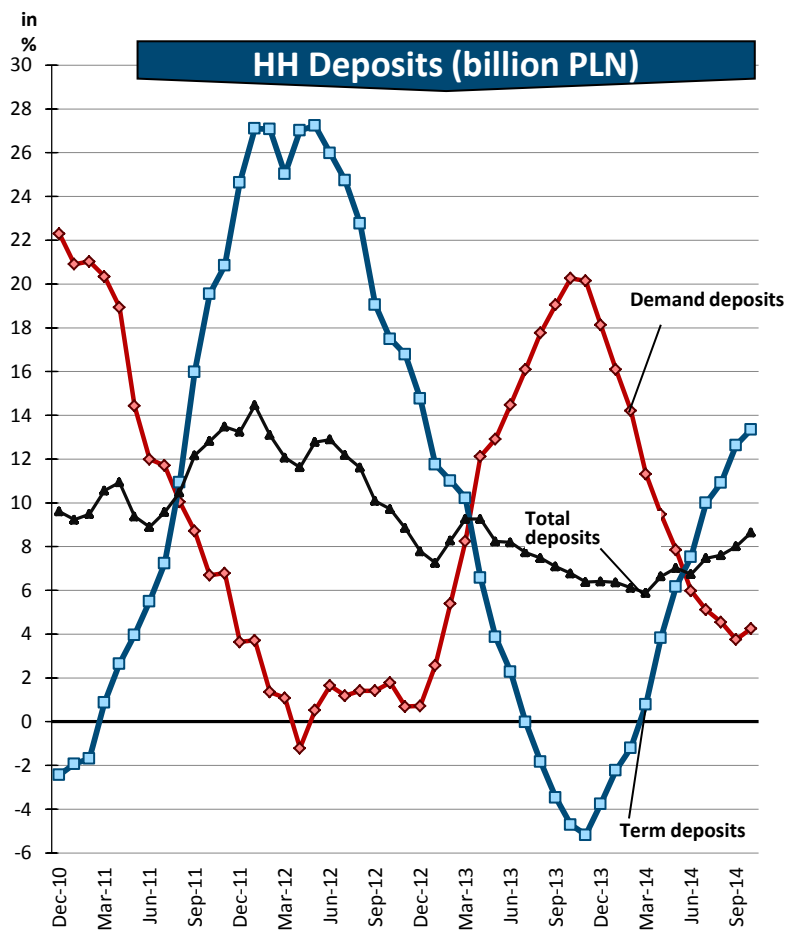
Profitability

- Total interest revenues are increasing thanks to growing volumes.
- Pressure on fee and commission income persists mainly due to regulatory developments (e.g. payment card interchange, fx mortgage repayment, bancassurance etc.).
- However, slowing f&c income is more than compensated by interest income and falling risk cost.

BOTH RETAIL DEPOSITS AND RETAIL LOANS ARE GROWING

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

HOUSEHOLDS

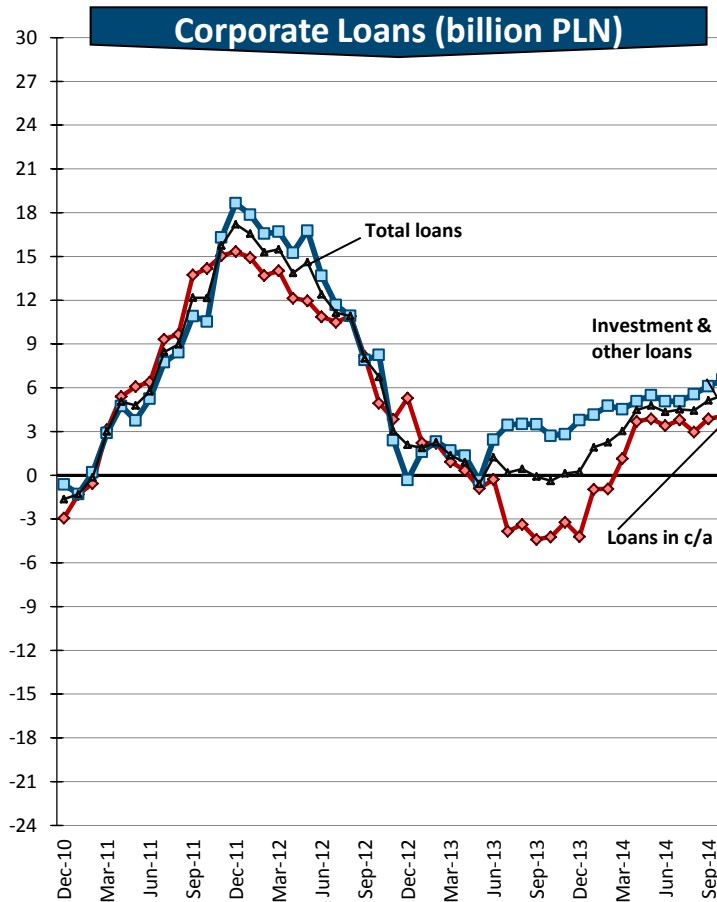
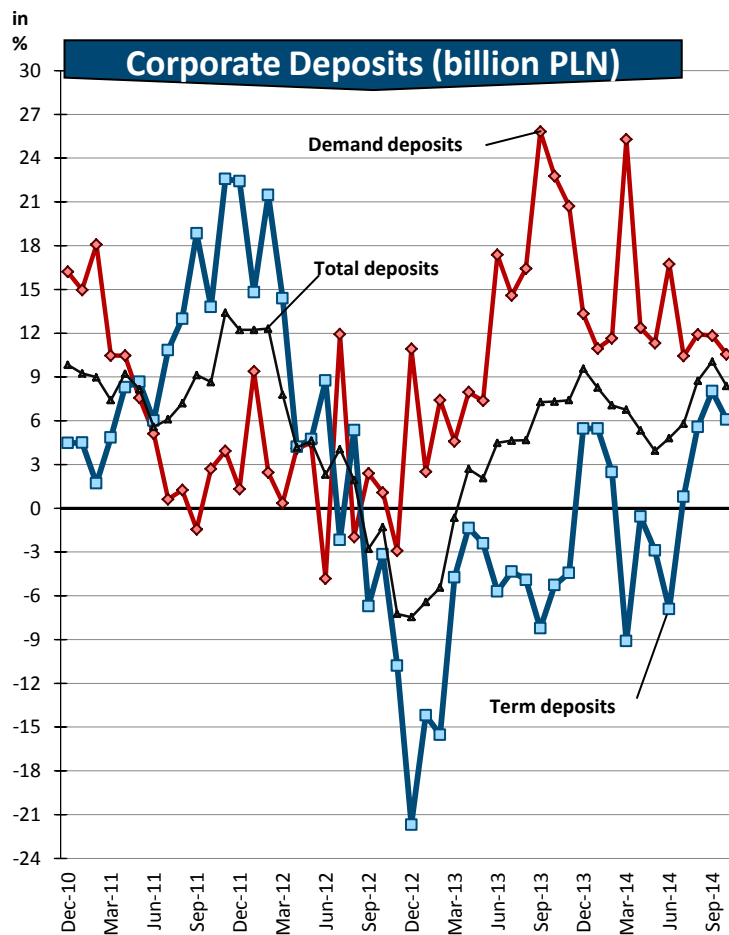


- Household deposits keep growing. The term structure is fluctuating inline with changing interest rates expectations
- After a temporary slow-down in 2014, mortgage loans are growing again faster than consumer lending.

Recent trends in the banking sector in Poland and bank BPH, December 2014

THE GROWTH IN CORPORATE VOLUMES HAS BEEN GRADUALLY ACCELERATING SINCE EARLY 2013

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



CORPORATE



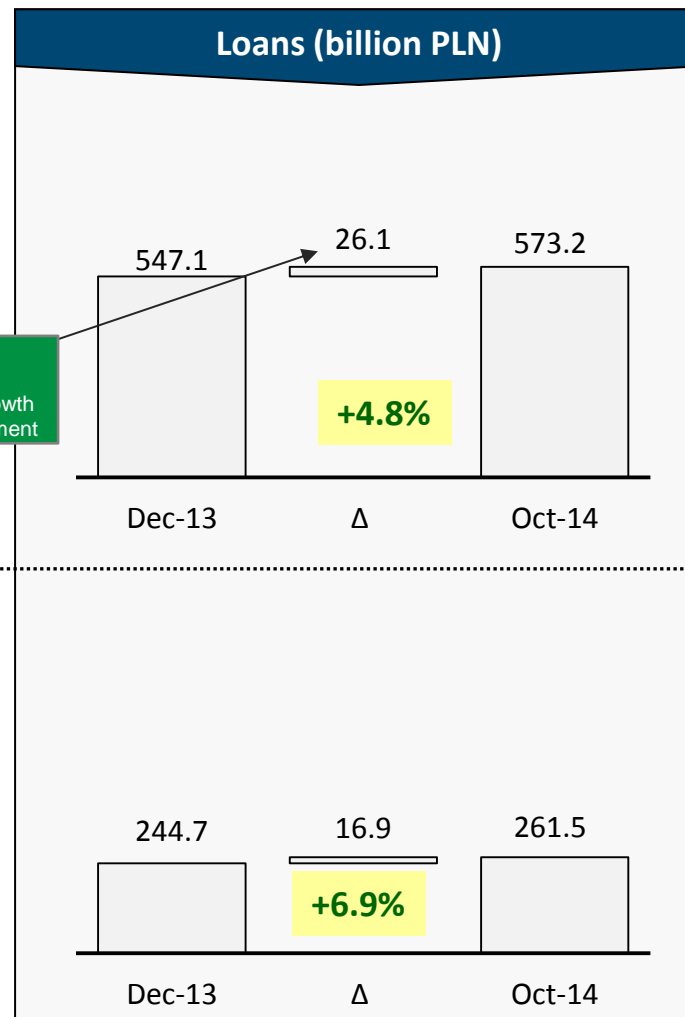
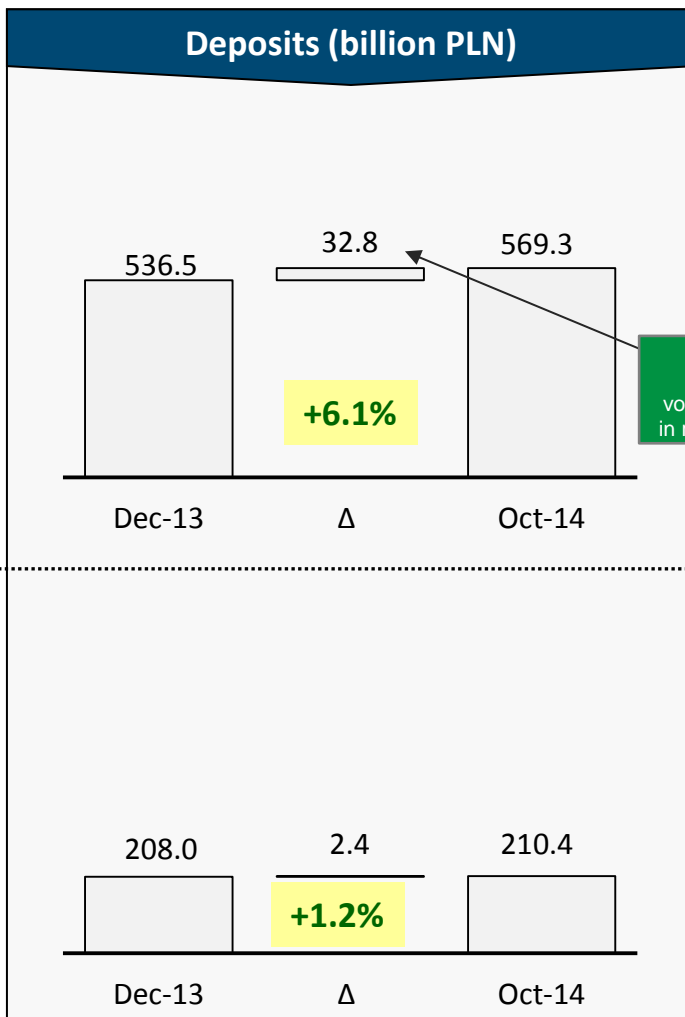
- The growth in corporate volumes has been positive and increasing since the beginning of 2013.
- Corporate deposits have been growing slightly faster than corporate loans recently. However, looking forward, it is corporate lending, which is expected to grow faster than deposits.

Recent trends in the banking sector in Poland and bank BPH, December 2014

MOST OF RECENT BANKING VOLUMES GROWTH TOOK PLACE IN THE RETAIL SEGMENT

Recent changes in outstanding loans and deposits by business segment, Dec.2013-Oct.2014

in billion PLN



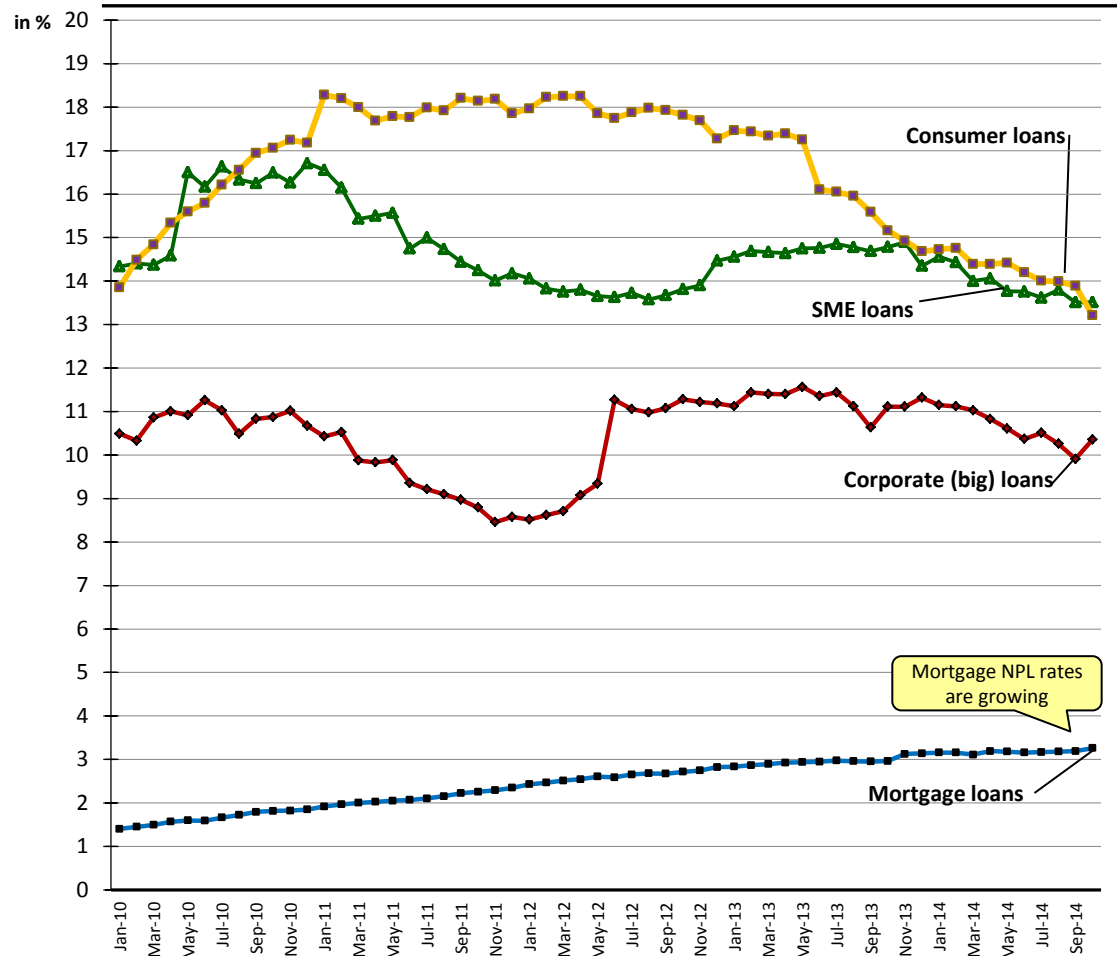
Highest absolute volumes growth in retail segment

Recent trends in the banking sector in Poland and bank GPI, December 2014

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

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-Oct.2014



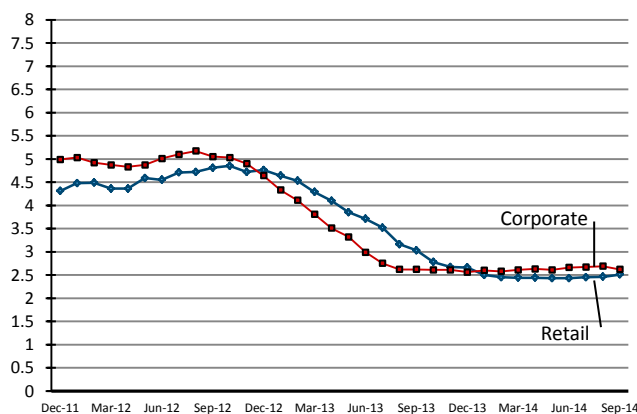
- Quality of lending portfolios of banks is improving across all key segments with exception of mortgage loans.
- Mortgage lending quality is gradually deteriorating as mortgage portfolios of banks are getting older and there is little dilution due to low new sales.

DEPOSIT MARGINS ARE SHRINKING AGAIN AFTER THE RECENT DROP IN REFERENCE RATES

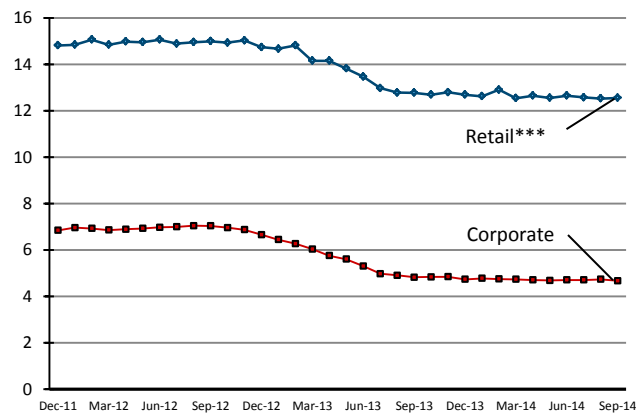
Dec.2011-Sep.2014, in percent, PLN volumes only

Nominal Interest paid
or charged by bank

Deposits* (stock, average)

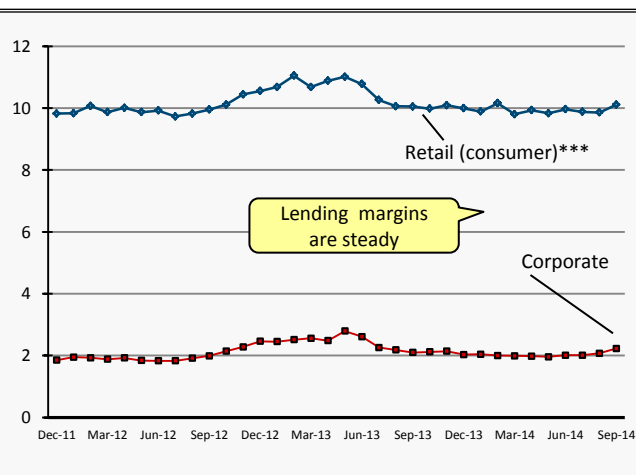
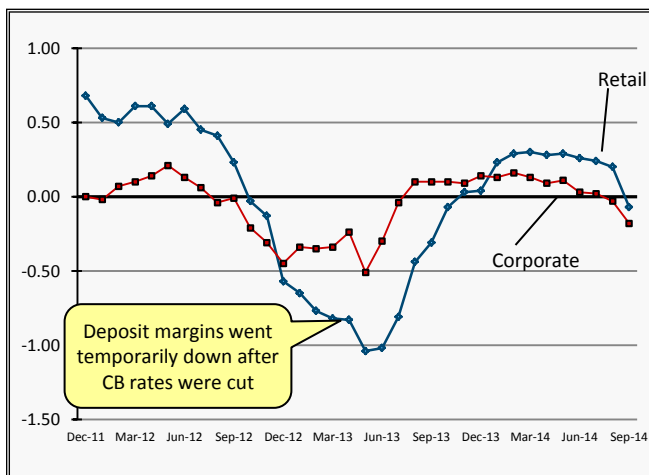


Loans* (stock, average)



- Deposit margins are under pressure again after the drop of reference rates in 2014.
- Lending margins have stabilized (at 10% for consumer lending and ~2% for corporate loans) as banks are able to pass changes in market interest rates on clients.

Interest Margin**
(on WIBOR 6M)



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

** Theoretical margin calculated against WIBOR 6M

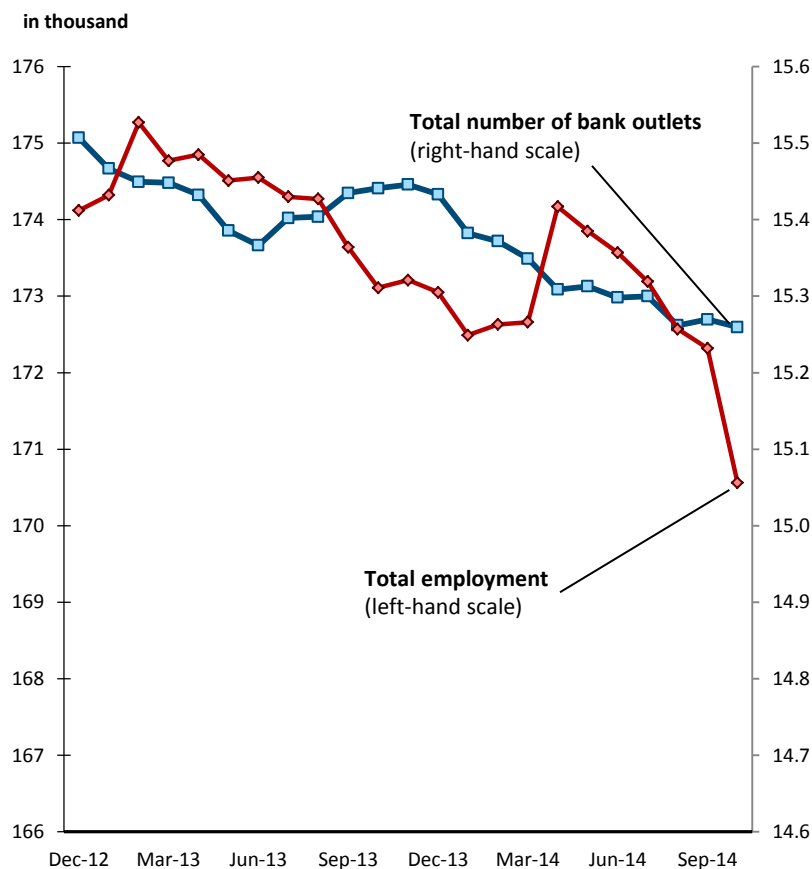
*** Consumer lending : Loans to households other than mortgage

Source: NBP, Inteliace Research

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

Evolution of bank outlets and employment at banks*

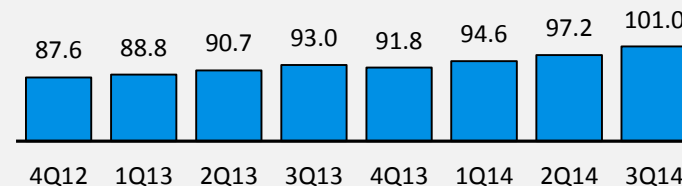
Dec.2012-Jun.2014



Average bank* assets per bank outlet in million PLN

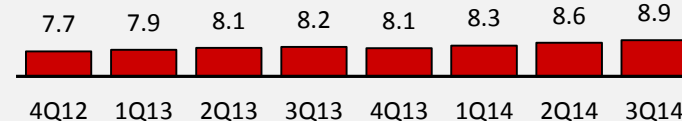
Change (in%)
Dec.12-Sep.14

+15%



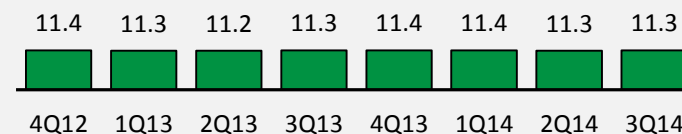
Average bank* assets per bank employee in million PLN

+16%



Average number of employees per bank* outlet in FTE

0%



AGENDA

- **Banking sector**

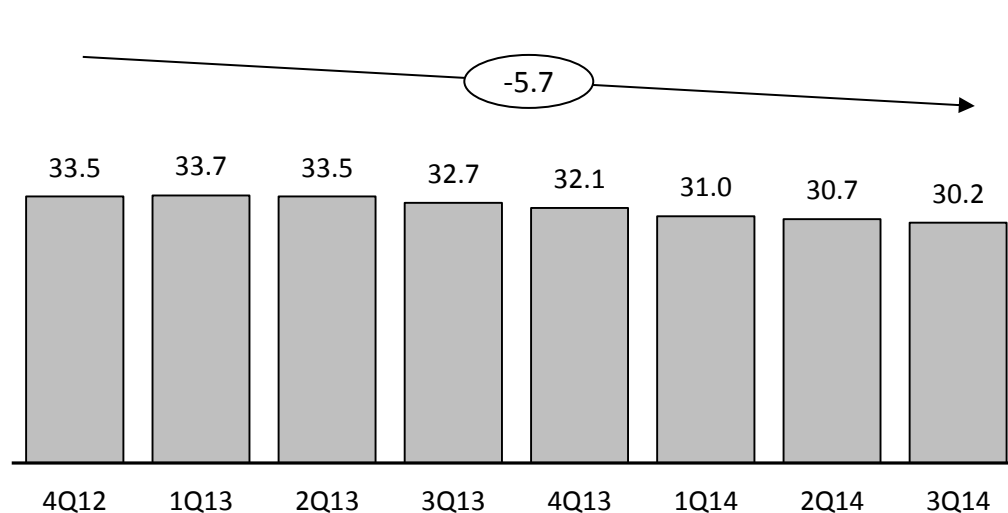
- **Bank BPH**

SINCE 2012, BANK BPH HAS BEEN SHRINKING WHILE THE BANKING MARKET HAS BEEN GROWING

BANK BPH – total assets evolution, 4Q 2012-3Q 2014

PLN billion

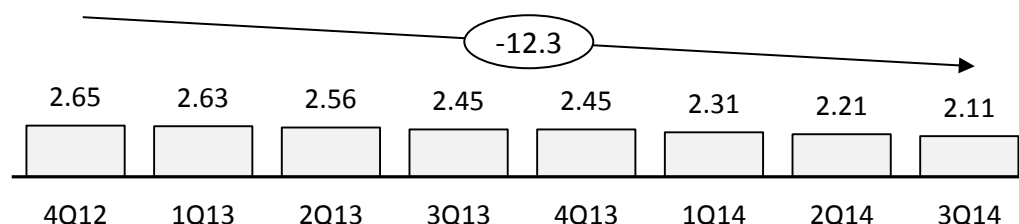
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- BANK BPH has been continuously getting smaller since 2012. At the same time the banking market has been growing.
- As a consequence of negative growth rates, the market share of BANK BPH, if measured by assets, has fallen to 2.1% in third quarter of 2014.

Market share evolution, 4Q 2012-3Q 2014

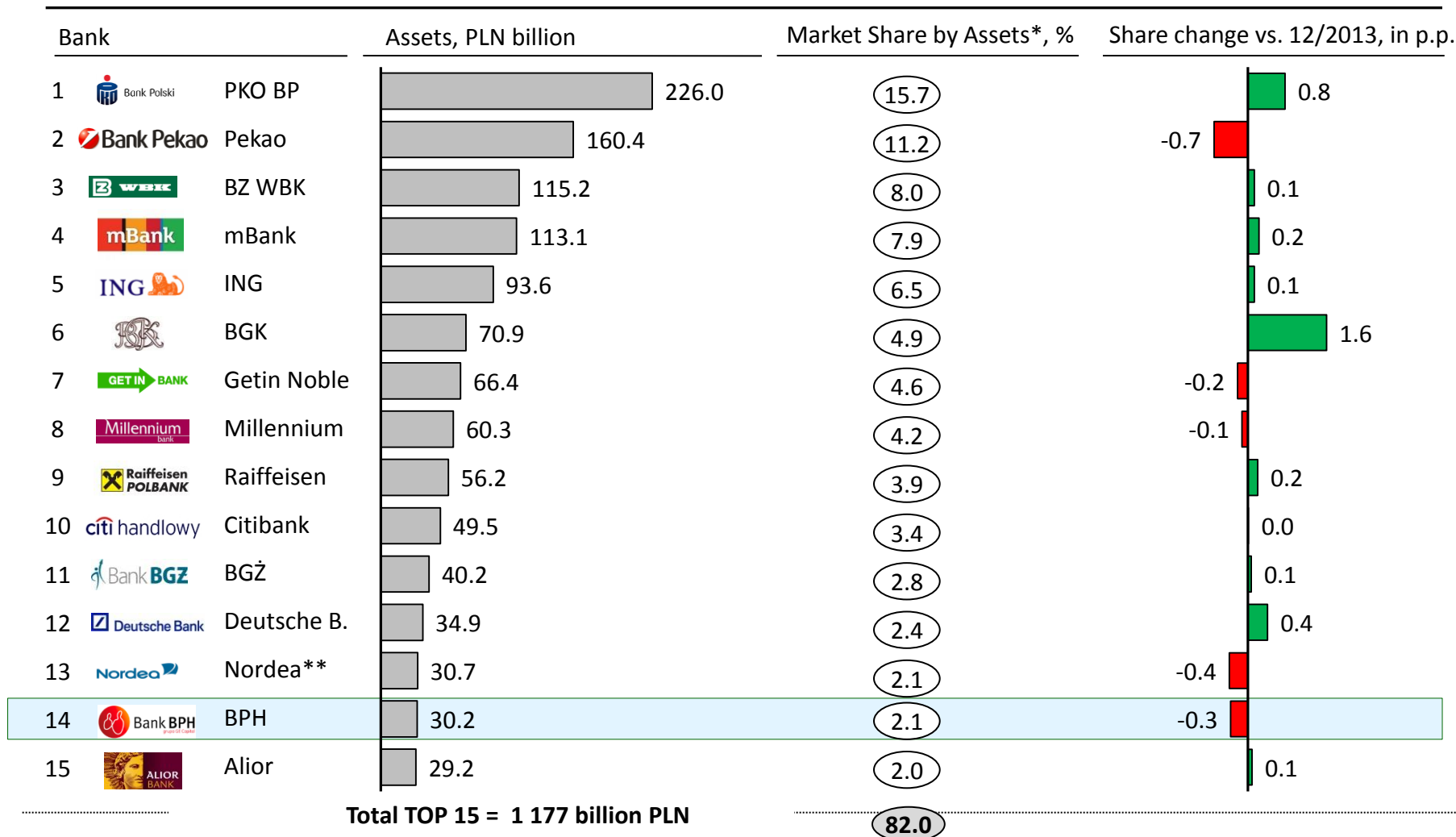
Percent (of commercial banks and foreign bank branches assets)



BANK BPH RANKED # 14 IN TERMS OF TOTAL ASSETS AS OF 3Q 2014

Top 15 commercial banks in Poland by total assets, as of 3Q 2014

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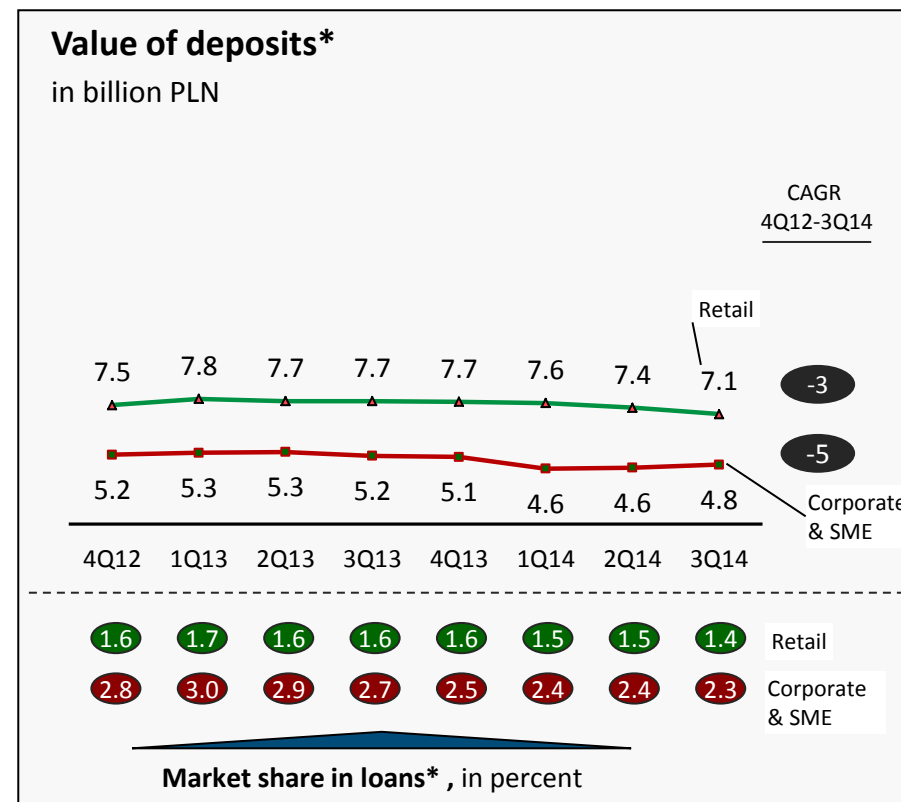
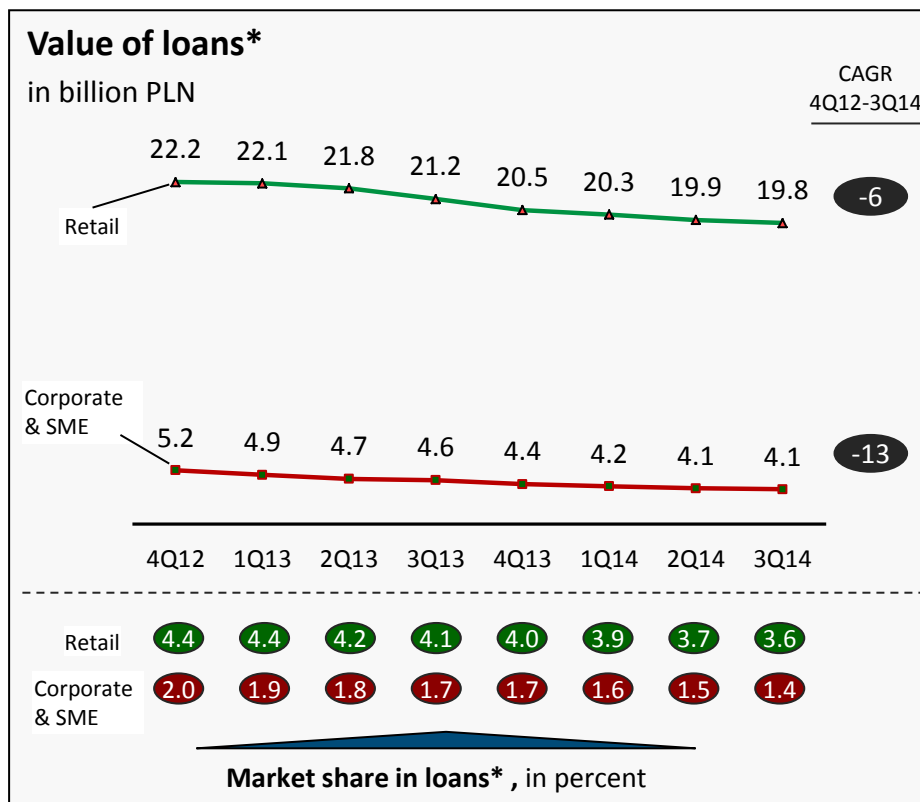
* Market share among commercial banks and foreign bank branches (cooperative banks excluded)

** Nordea bank will merge with PKO in Q4 2014

Source: KNF, banks, press, Inteliace Research

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BANK BPH HAS BEEN LOOSING MARKET SHARE IN KEY PRODUCT/CLIENT SEGMENTS RECENTLY

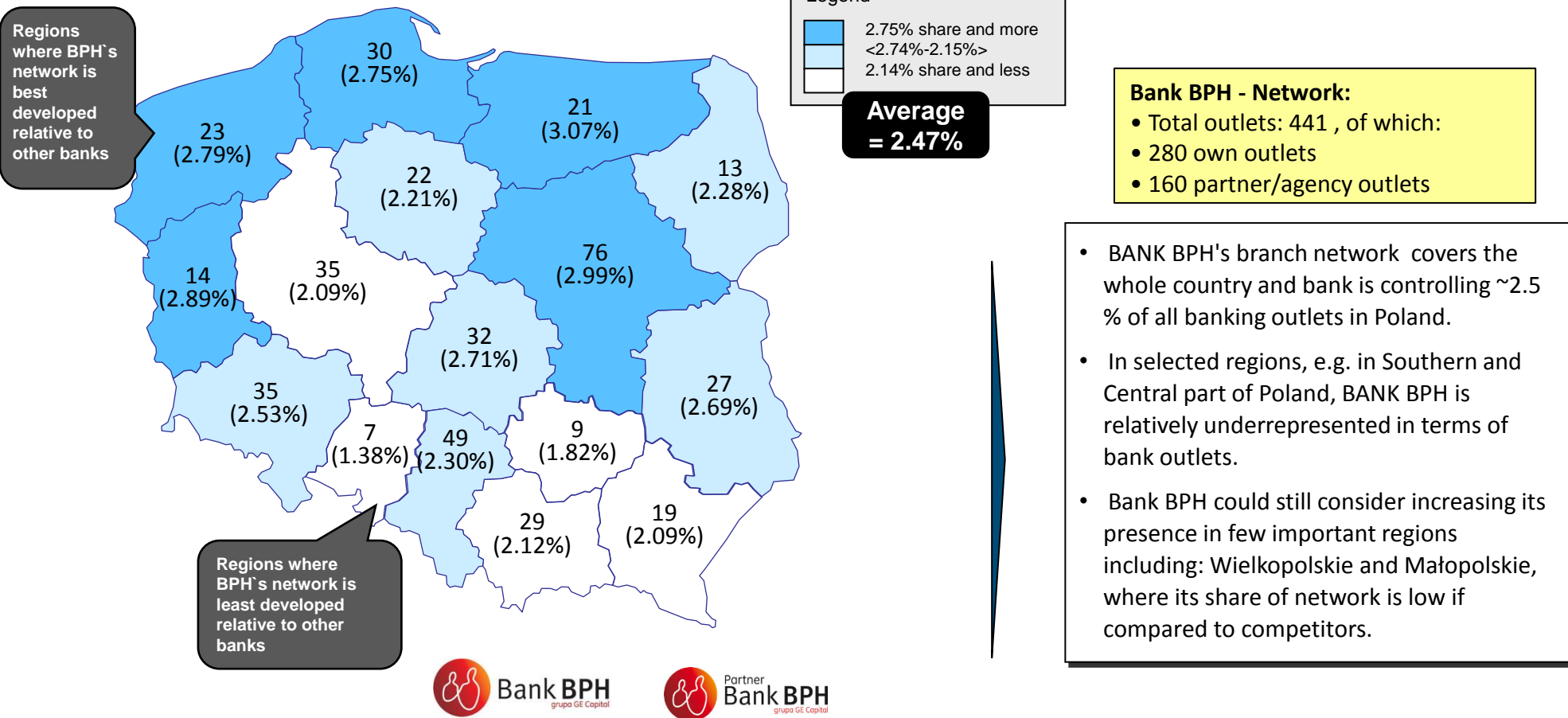


Recent trends in the banking sector in Poland and bank BPH, December 2014

- As combined loan volumes exceed client deposits, the difference has to be financed on the interbank market and by the major shareholder.
- Bank's market share has been falling recently across key segments.

IN SELECTED REGIONS, THE BRANCH NETWORK OF BANK BPH SEEMS TO BE UNDERDEVELOPED

BANK BPH - branch network by region and its share in the overall banking network, Q1 2014
 Number of outlets and % share in the total banking network*

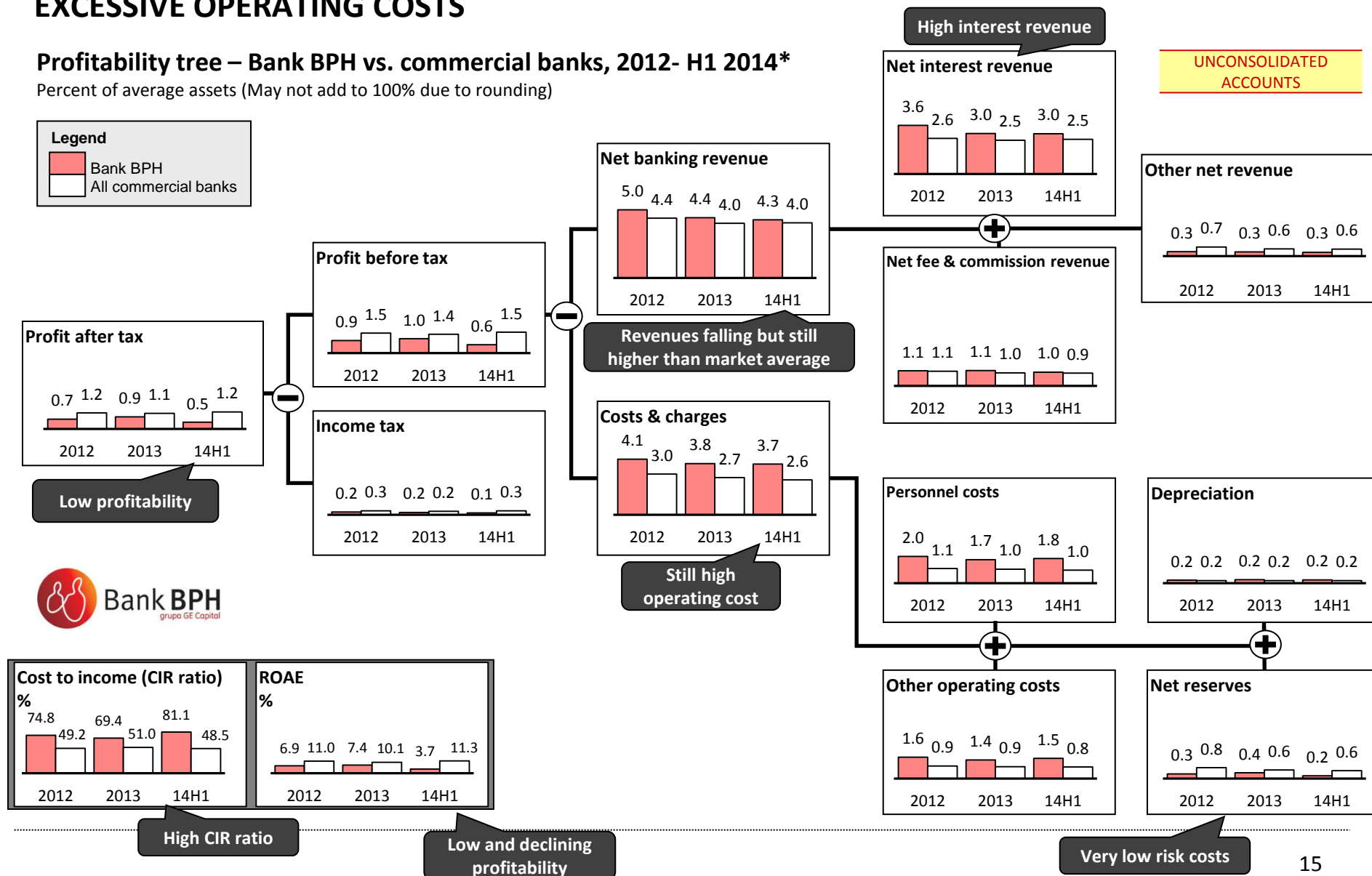
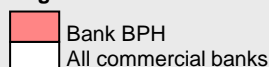


PROFITABILITY OF BANK BPH IS LOW AND FALLING, PRIMARILY DUE TO EXCESSIVE OPERATING COSTS

Profitability tree – Bank BPH vs. commercial banks, 2012- H1 2014*

Percent of average assets (May not add to 100% due to rounding)

Legend

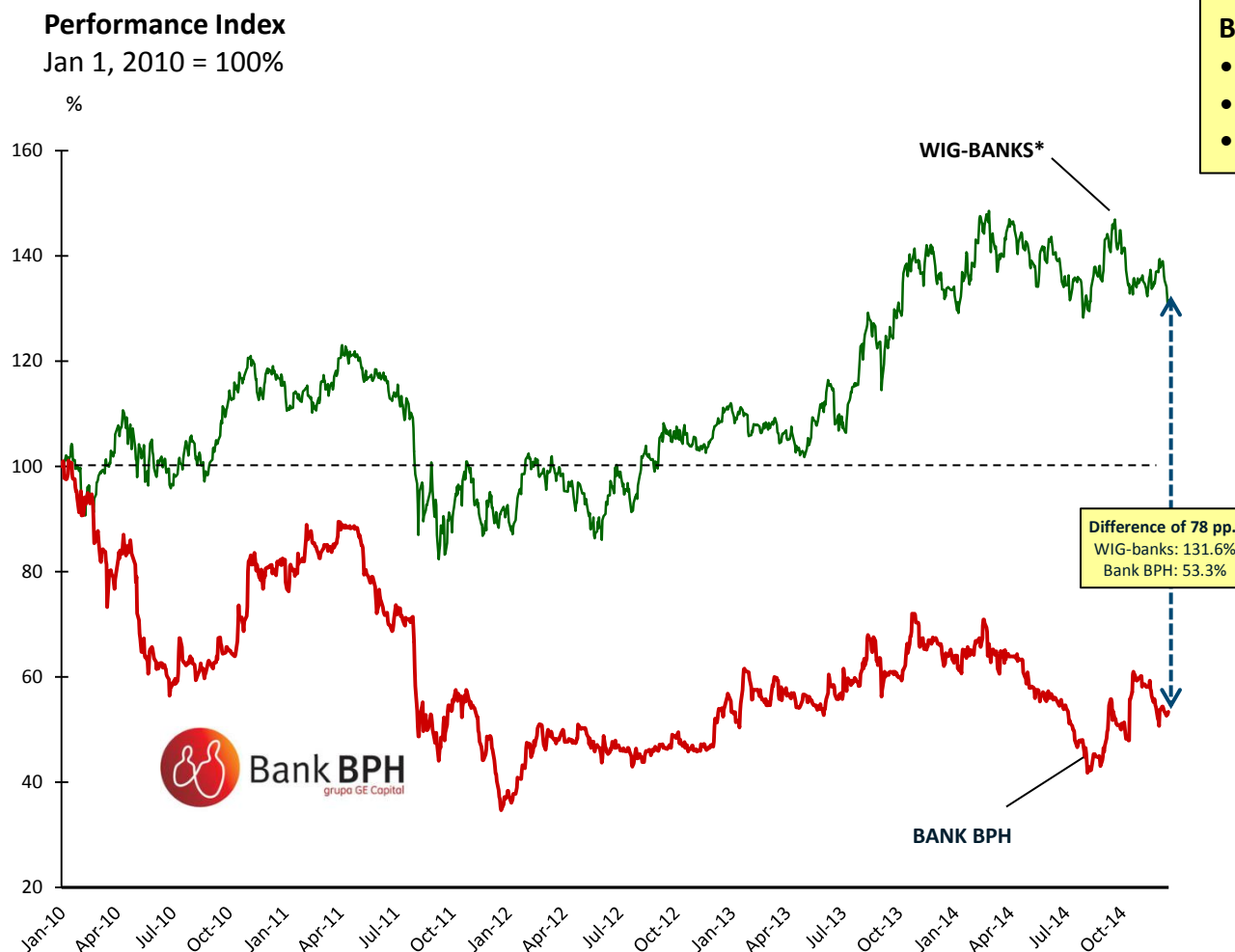


* Data for H1 2014 annualized

Source: BANK BPH, KNF, Inteliace Research

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SINCE EARLY 2010, BANK BPH HAS BEEN STRONGLY UNDERPERFORMING ITS PEER GROUP



Bank BPH multiples (Dec. 19, 2014)

- Market cap: PLN 3.6 billion (EUR 0.84 b)
- P/E** ratio: 24.9
- P/B** ratio: 0.72

- Bank BPH has relatively low valuation as it is being traded significantly below its book value (P/B of 0.72).
- During last four years , bank BPH has strongly underperformed its peer group.

Recent trends in the banking sector in Poland and bank BPH, December 2014

* Performance Index for banks listed on the Warsaw Stock Exchange








** Based on book value as of Q3 2014 and net profit for the period Q4 2013 – Q3 2014.

Source: WSE, Inteliace Research

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MAJOR BANK ACQUISITIONS IN POLAND AFTER 2013

 Upcoming deals

Date	Buyer	Target	Price paid* (for 100%)	Market share acquired**	Description
2012	Santander	Kredyt Bank 	1.0 billion EUR (P/BV: 1.4)	~3.4%	<ul style="list-style-type: none"> Santander agreed to acquire Kredyt Bank from KBC Group by merging it with its other business in Poland – BZ WBK. Santander paid with a new issue of BZ WBK shares. The agreement was based on an exchange ratio of 6.96 shares of BZ WBK for every 100 shares of Kredyt Bank.
2012	Getin Noble Bank	Retail business of DnB NORD 	n/a	<0.2%	<ul style="list-style-type: none"> DnB Nord decided to divest retail operations in Poland and offered for sale its retail branch network (40 outlets), retail and SME clients (35,000) and retail lending portfolio (~1 billion PLN).
2013	PKO BP	Nordea bank 	2.65 billion PLN (P/BV: 1.07***)	2.5%	<ul style="list-style-type: none"> Nordea decided to withdraw from Poland and it offered its multiple businesses for sale in 2013 . PKO acquired a bundle of Nordea bank Polska, portfolio of corporate loans to Polish top companies of Nordea bank AB, leasing operations via Nordea Finance Polska and a life insurer - Nordea Polska TuNŻ S.A. Nordea AB will finance lending portfolios over next 7 years.
2013	BNP Paribas	Bank BGŻ 	4.2 billion PLN (P/BV: 1.2)	2.7%	<ul style="list-style-type: none"> Rabobank signed an agreement to sell 98.5% stake in BGŻ to BNP Paribas. Transaction will be very important for BNP group. The market share of BNP in Poland is expected to almost triple from current 1.5% (as of 2013) after the transaction is completed.
2014	Alior Bank	Bank Meritum 	0.36 billion PLN (P/BV: 1.2)	~0.2%	<ul style="list-style-type: none"> Alior agreed to acquire 98% share in Meritum at attractive terms. Transaction to be financed with cash and new Alior shares.
?	?	Bank BPH 	? Expected value of PLN ~4-5 billion	2.1% (Q3 14)	<ul style="list-style-type: none"> Owner of the bank, General Electric Company is looking for buyers of BPH as it wants to exit the investment which has failed to provide satisfactory return over recent years.
?	?	Raiffeisen Polbank 	? Expected value of PLN ~7-10 billion	3.9% (Q3 14)	<ul style="list-style-type: none"> According to press speculations, Raiffeisen is considering sale of parts of its Polish business, which could be an effect of Group policy change towards its foreign investments. Earlier, Raiffeisen has committed to the local regulator to make an IPO in the Warsaw Stock Exchange.

* Implied price (valuation) of a 100% stake

** Market share in terms of total assets

Source: Banks, press, Inteliace Research

*** Multiples as declared by PKO

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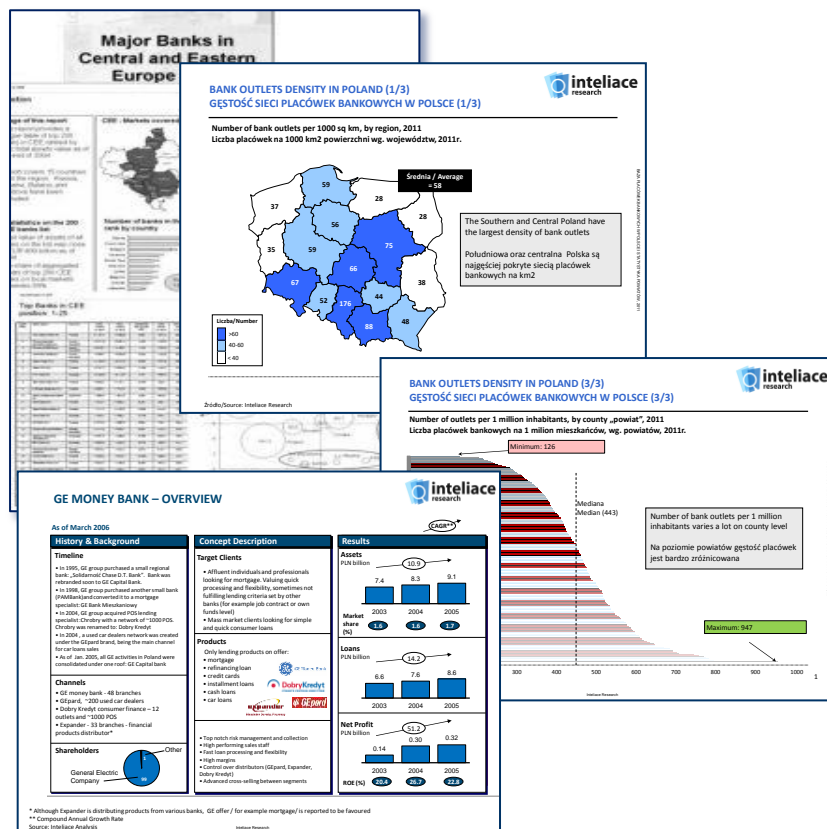
Through our customized research services we help our clients to better understand their customers, competitors and overall market dynamics.

The lead researcher and founder of Inteliace Research is Marcin Mazurek.

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