

RECENT TRENDS IN THE POLISH BANKING SECTOR & BANK MILLENNIUM

Loose slides



December 2010

Intelace Research

AGENDA

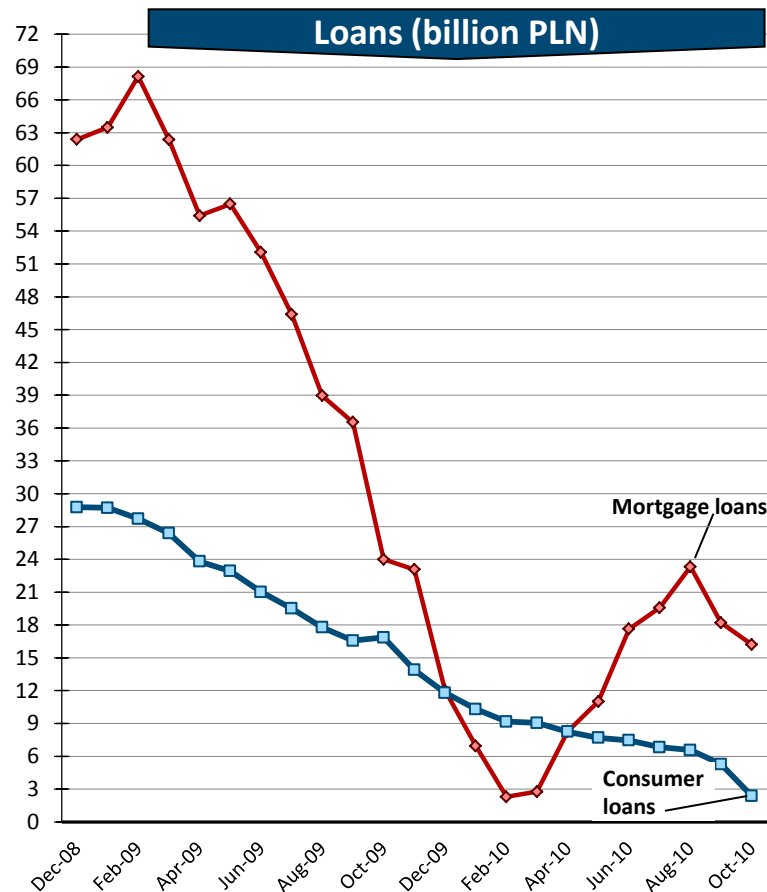
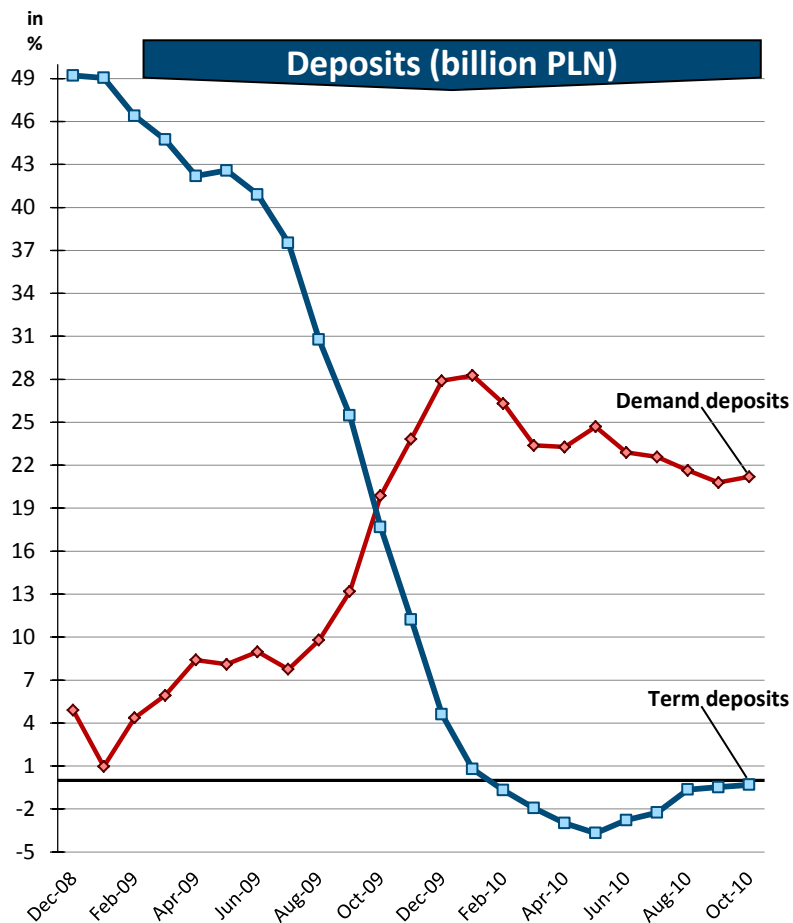
- **Banking sector**
- **Bank Millennium**

GROWTH OF RETAIL VOLUMES IS DECELERATING



HOUSEHOLDS

Annual growth rate in outstanding loans / attracted deposits
Dec.2009-Oct.2010



- The rate of growth of retail deposits is stable. Most of new inflows go to demand / saving accounts
- Growth of retail loans is decelerating. In particular, annual change of outstanding consumer loans is approaching zero. Stock of mortgage loans is also increasing slower after a short recovery in 3Q 2010

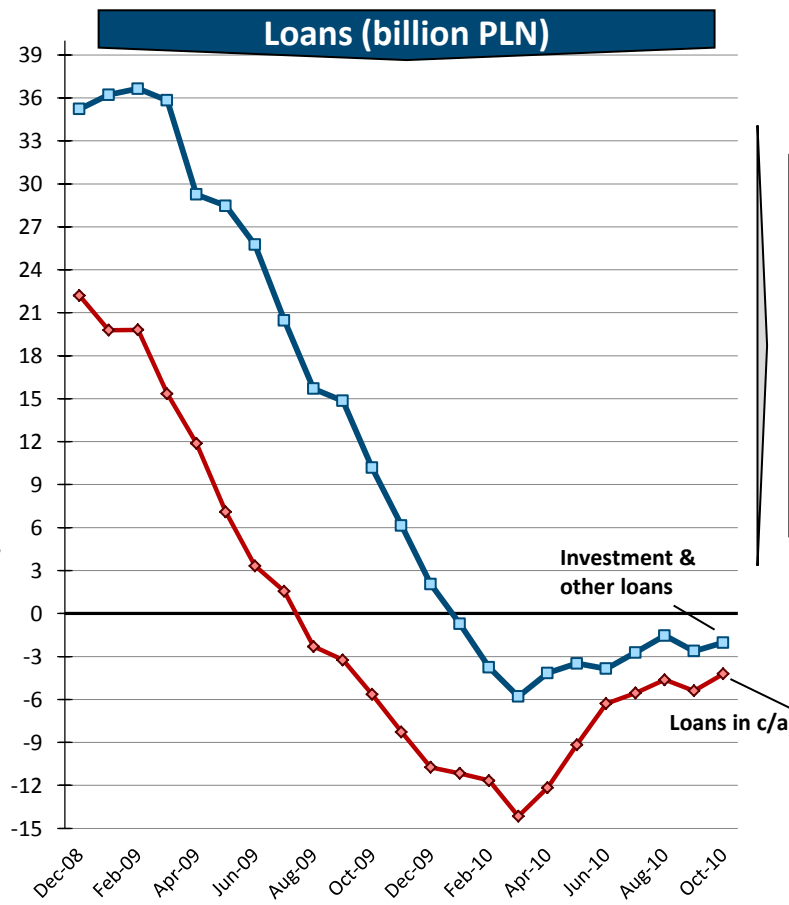
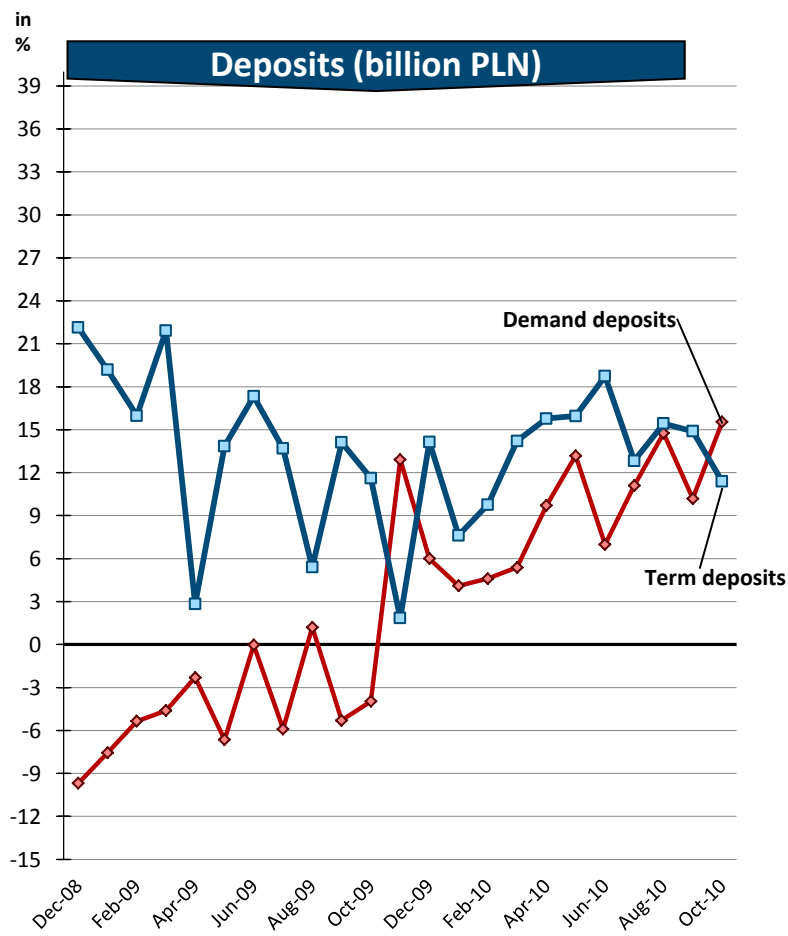
BANKING SECTOR & BANK MILLENNIUM

IN CASE OF CORPORATE VOLUMES THE WORST SEEMS TO BE OVER



CORPORATE

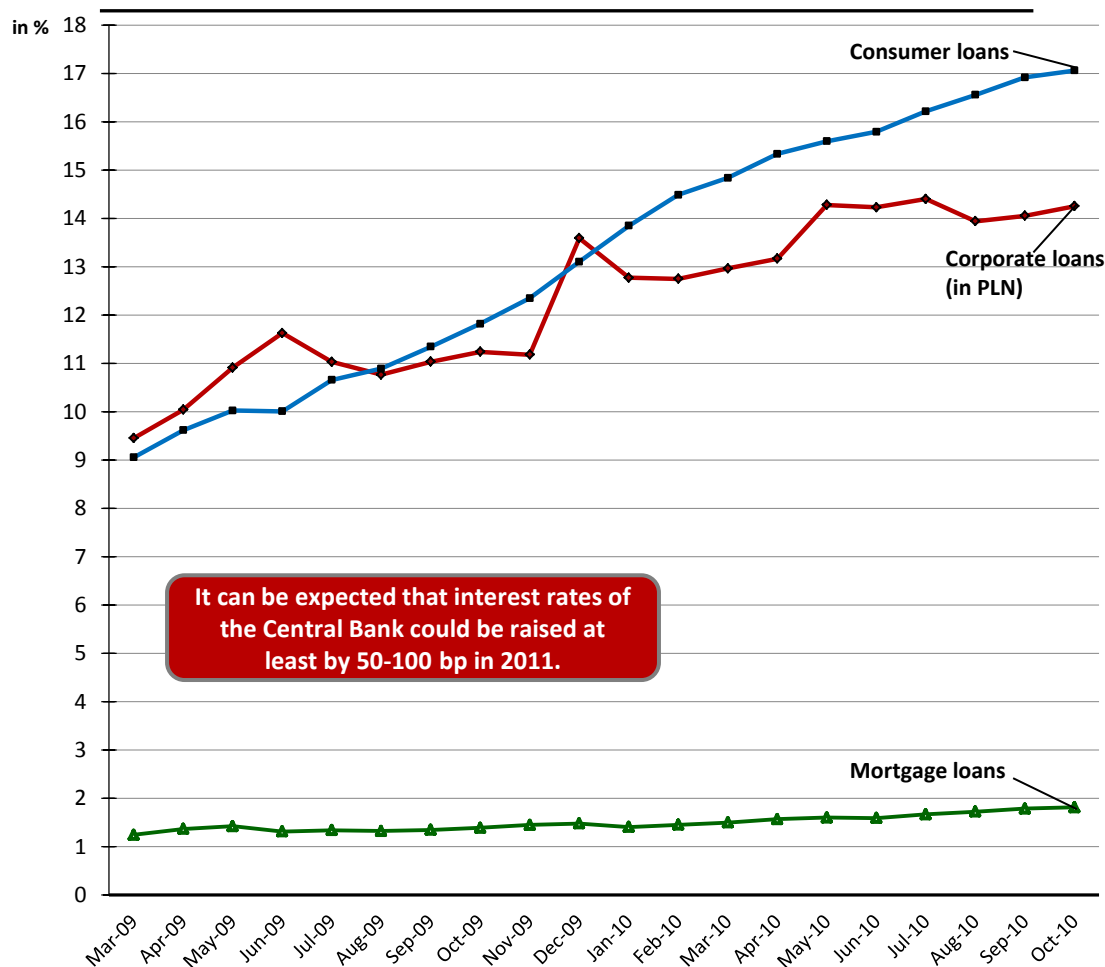
Annual growth rate in outstanding loans / attracted deposits
Dec.2009-Oct.2010



- Corporate lending shows still negative growth rates, however, there are also first signs of a recovery
- Corporate deposits remain strong as firms are hoarding cash and postpone investments

SHARE OF NON-PERFORMING LOANS KEEPS GROWING

Ratio of non performing receivables in the total lending portfolio, by segment/product, Mar.2009-Oct.2010



- Quality of lending portfolios of banks is constantly deteriorating
- While the share of NPLs in corporate business seems to stabilize, retail NPLs continue growing fast
- Expected nominal interest rate increases by the Central Bank in 2011, may further affect quality of outstanding loans

* Theoretical margin. Difference between the nominal rate charged or paid by the bank and the reference rate: WIBOR 3M

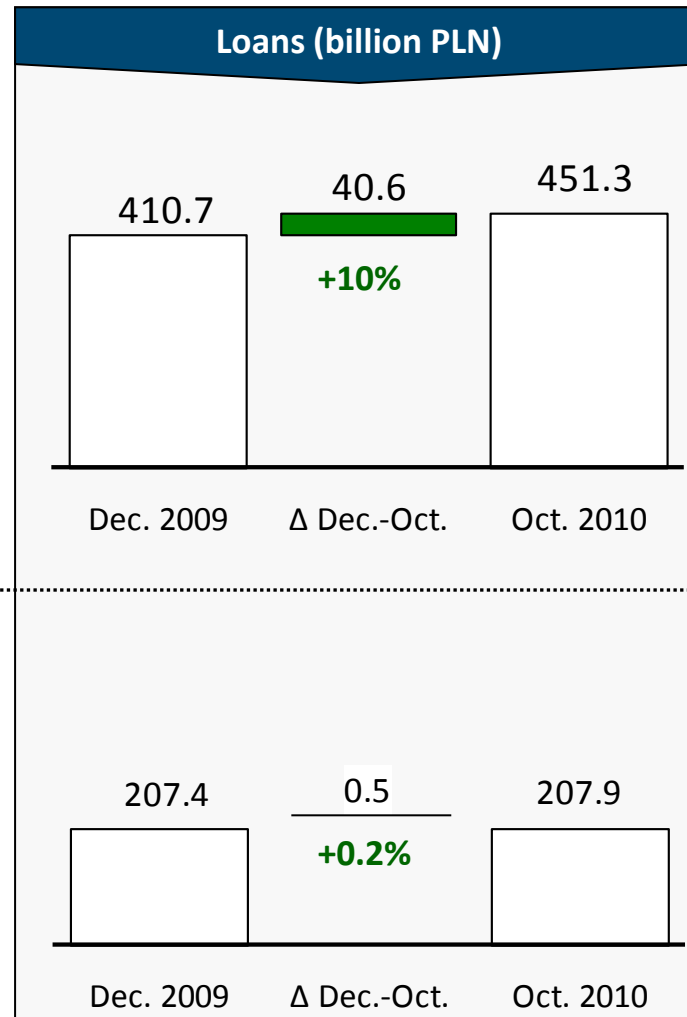
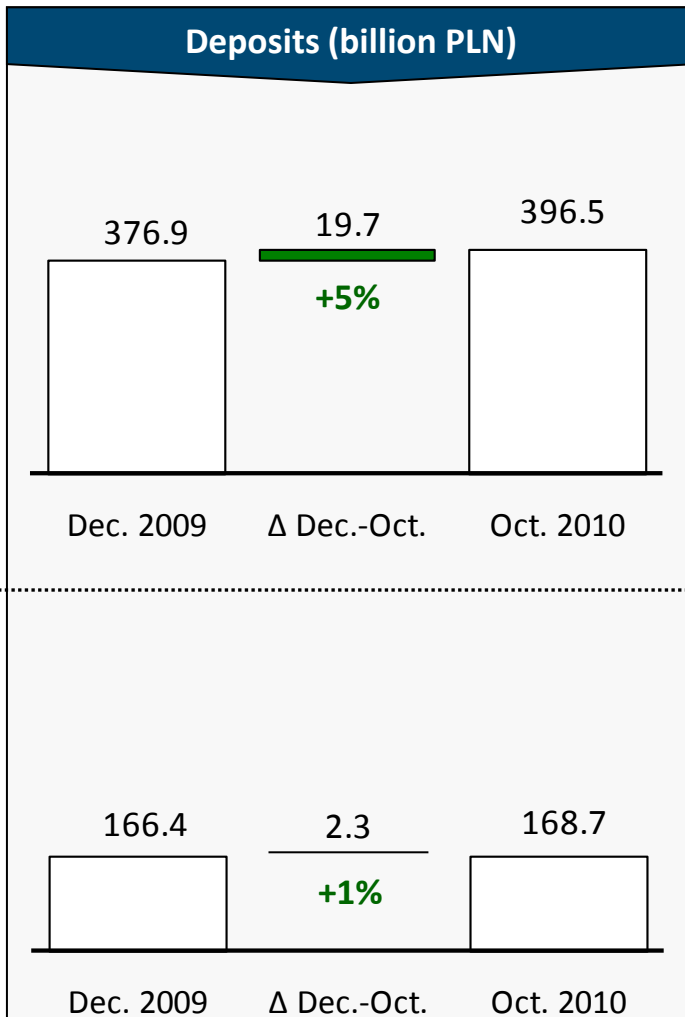
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Source: NBP, Intelce Research

IN THE FIRST 10 MONTHS OF 2010, BANKING VOLUMES INCREASED MOSTLY IN THE RETAIL SEGMENT

Loans and deposits by business segment, Dec.2009-Oct.2010

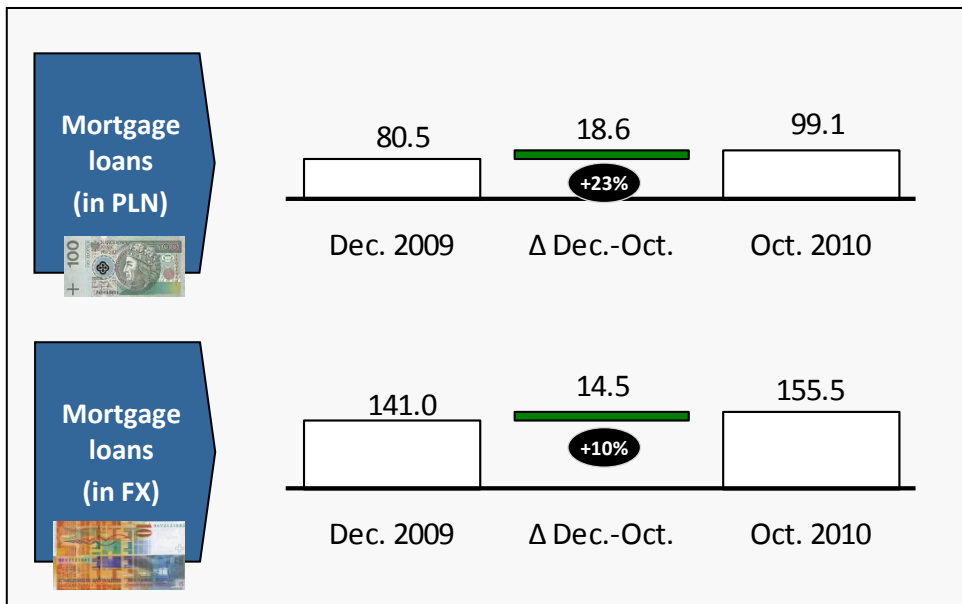
In billion PLN



MORTGAGE LOANS CONTINUED TO GROW. IN CONTRAST, CONSUMER LENDING DECELERATED

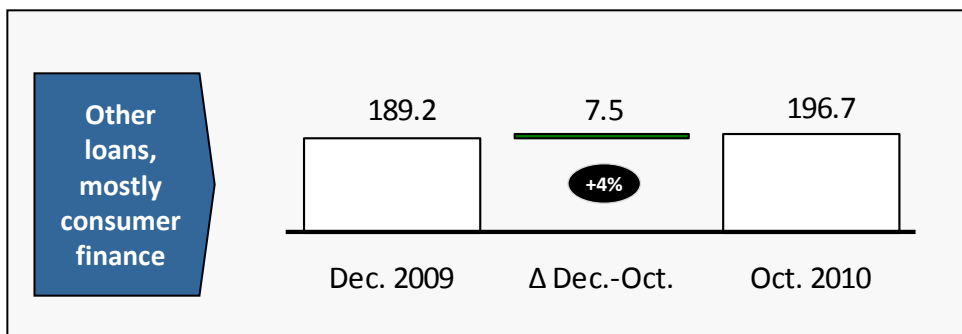
Loans to households by product type

In billion PLN



Comment

- New mortgage lending is growing fast
- Mortgage loans in local currency dominate in new sales
- The portfolio of mortgage loans denominated in FX is still significantly higher than the stock of loans in local currency

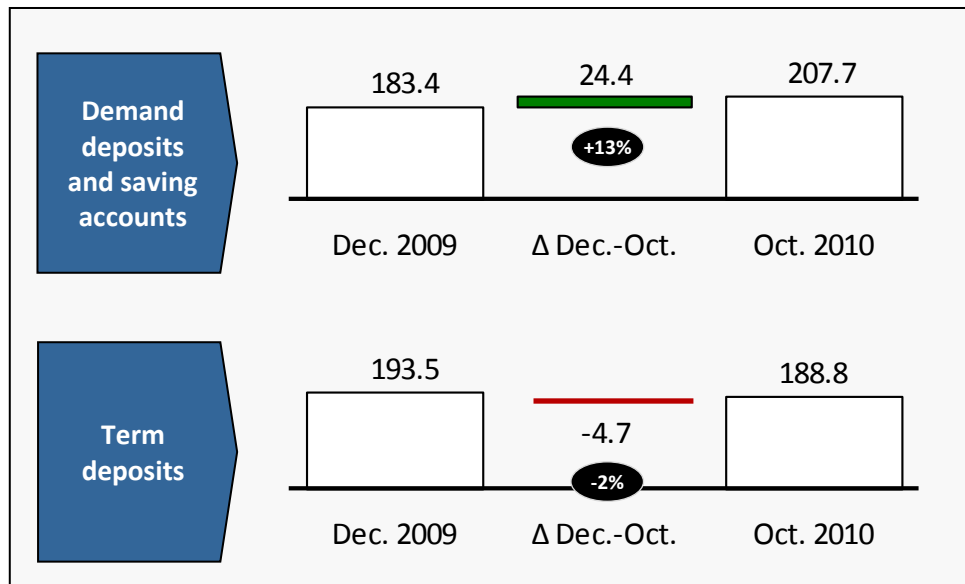


- Outstanding consumer debt is growing slowly
- High level of non-performing loans and more and more unfavorable regulatory environment discourage banks from selling new consumer lending products

CURRENT ACCOUNT DEPOSITS INCREASED WHILE TERM DEPOSITS FELL DOWN. INVESTMENT FUNDS WERE POPULAR AGAIN

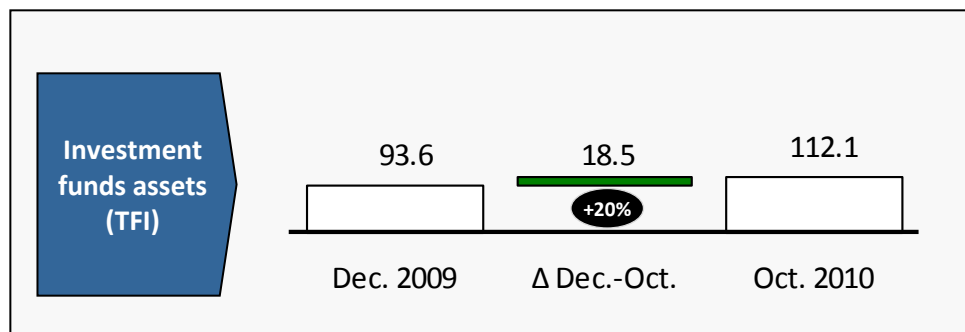
Deposits and investments of households by product type

In billion PLN



Comment

- Overall retail deposits are growing
- Demand deposits and saving accounts are increasingly popular



- Investment fund assets are growing quickly following favorable trend in equity markets

KEY RISKS TO WATCH

Key risks

Slowing growth of volumes

- Growth of retail volumes is slowing down. Consumer loans may shortly show a negative growth on an annual basis
- New mortgage lending is weakening again after the recovery in 2Q/3Q 2010
- Corporate deposits experience solid growth, while loans are still in the negative territory
- Both recent and possible future regulatory changes are not expected to support the weak growth of retail lending

Falling quality of lending

- Volume of non-performing loans is growing across all client segments
- The level of NPLs exceeded 17% in case of consumer loans and is heading towards 2% in case of mortgage loans
- Recent appreciation of the Swiss Franc, if it were to persist, could speed up the growth of FX mortgage NPLs

Falling interest margins

- During Q2-Q3 , interest margins in both retail and corporate business were slightly down
- Expected Central Bank rate increases in 2011 will not help banks to reverse the trend of falling margins
- Intense competition [falling market concentration] will force banks to lower margins and compensate the loss with higher productivity and cost adjustments

Profitability of the sector

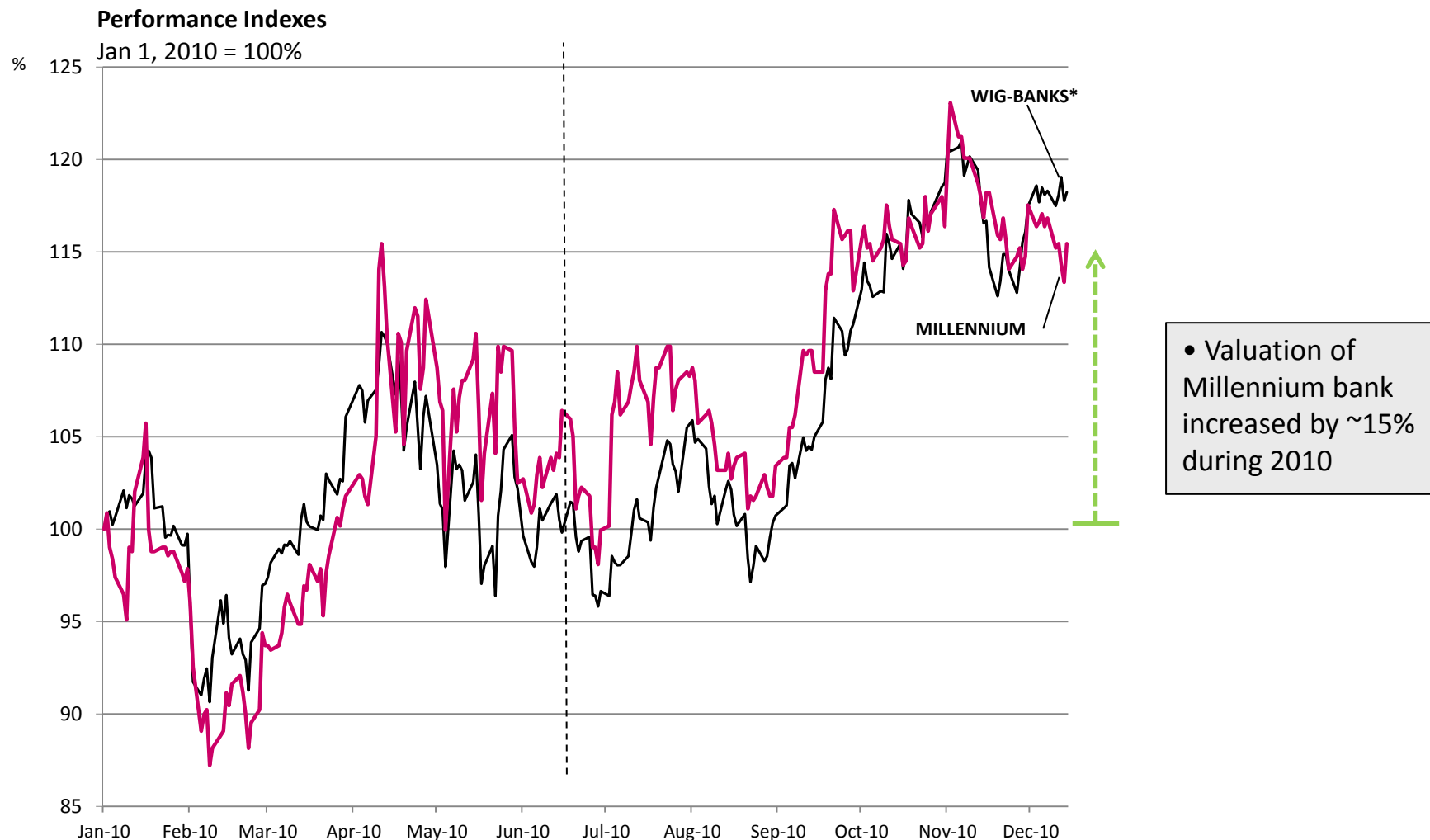
- During Q1-Q3 2010, the net result of the banking sector increased by ~26% YoY . Considering all the risks banks will face in 2011, it should be expected , that the 2011 profits will be significantly lower than those of 2010. Most likely, the growth rate of net result in 2011 will not exceed 10% on a YoY basis.

AGENDA

- **Banking sector**














- **Bank Millennium**

IN 2010, BANK MILLENNIUM PERFORMED IN LINE WITH THE BANKING INDEX ON THE WARSAW STOCK EXCHANGE



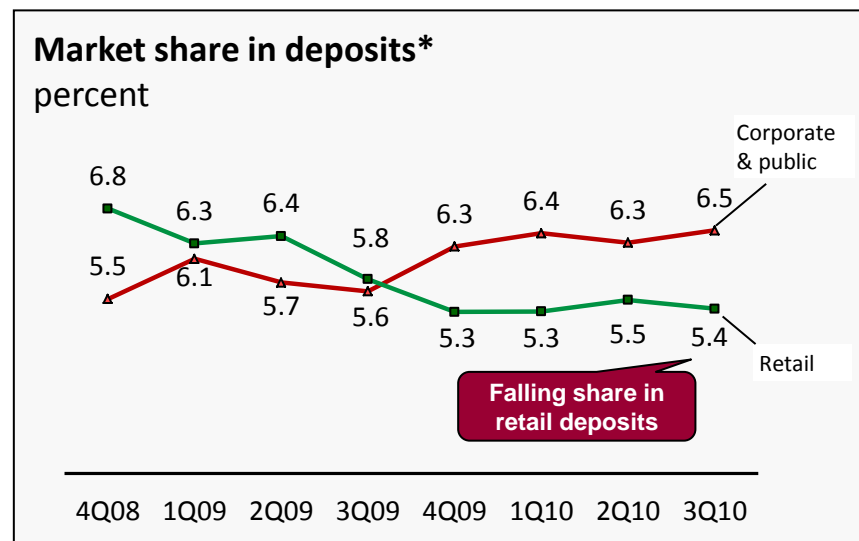
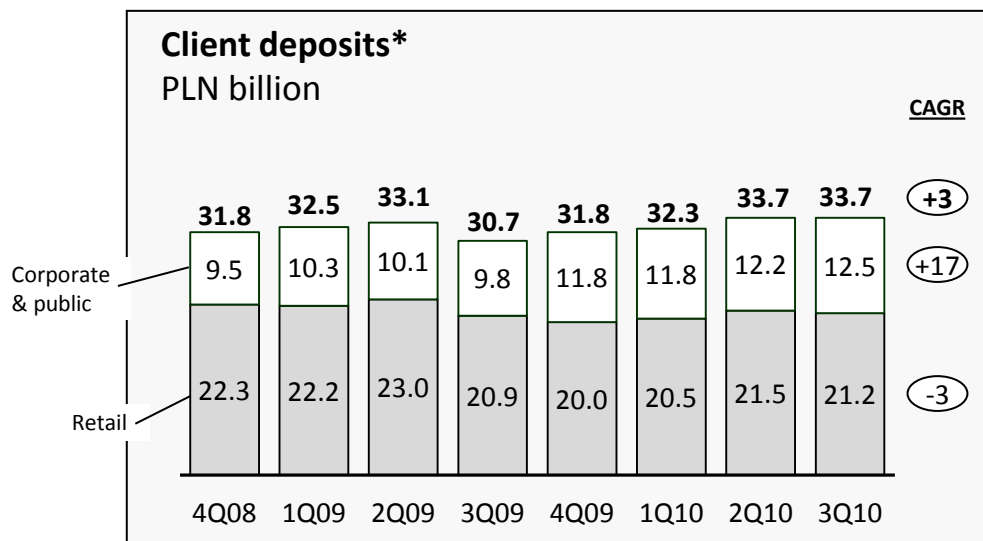
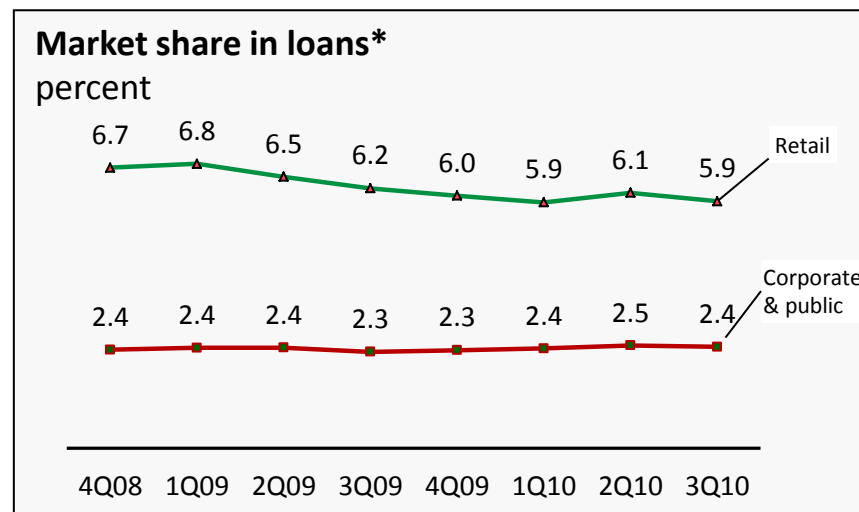
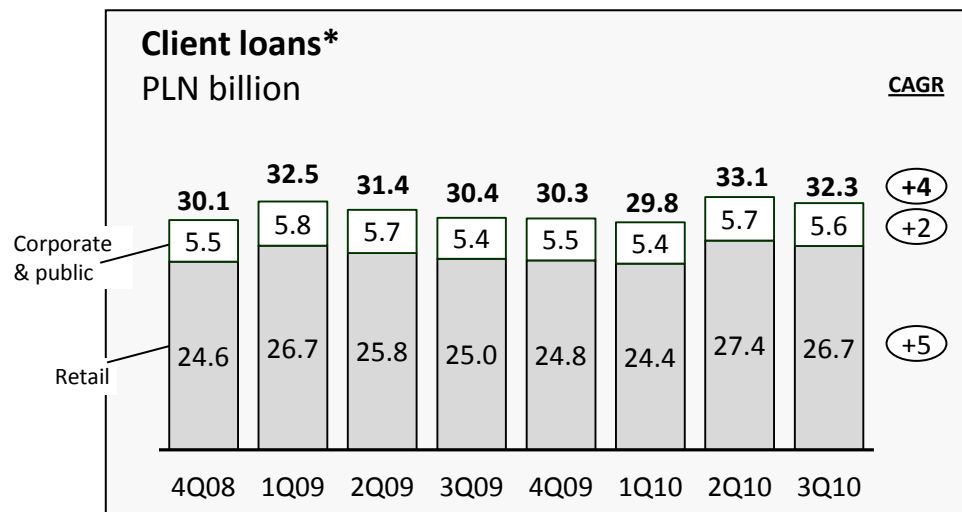
MILLENNIUM IS THE SEVENTH MOST VALUABLE BANK IN POLAND

As of Dec 21, 2010

Bank		Market capitalization Billion PLN	Valuation*		
			P / Earnings	P / Book Value	P / Assets
	PKO BP	54.9	17.5	2.4	0.33
	Pekao	48.8	19.4	2.5	0.36
	BZ WBK	15.6	15.4	2.4	0.28
	BRE	13.1	21.0	1.9	0.15
	Citibank	12.2	16.3	1.9	0.30
	ING	11.8	15.8	2.1	0.19
	Millennium	6.0	21.0	1.5	0.13
	BPH	5.3	n/a	1.2	0.15
	Getin...	4.8	10.4	1.5	0.12
	KB	4.1	23.8	1.5	0.09
	BNP Fortis	3.3	49.2	2.4	0.17
	Nordea	2.4	9.0	1.3	0.11
	BOŚ	1.2	18.6	1.1	0.09
Weighted average			18.6	2.1	0.24

BANKING SECTOR & BANK MILLENNIUM

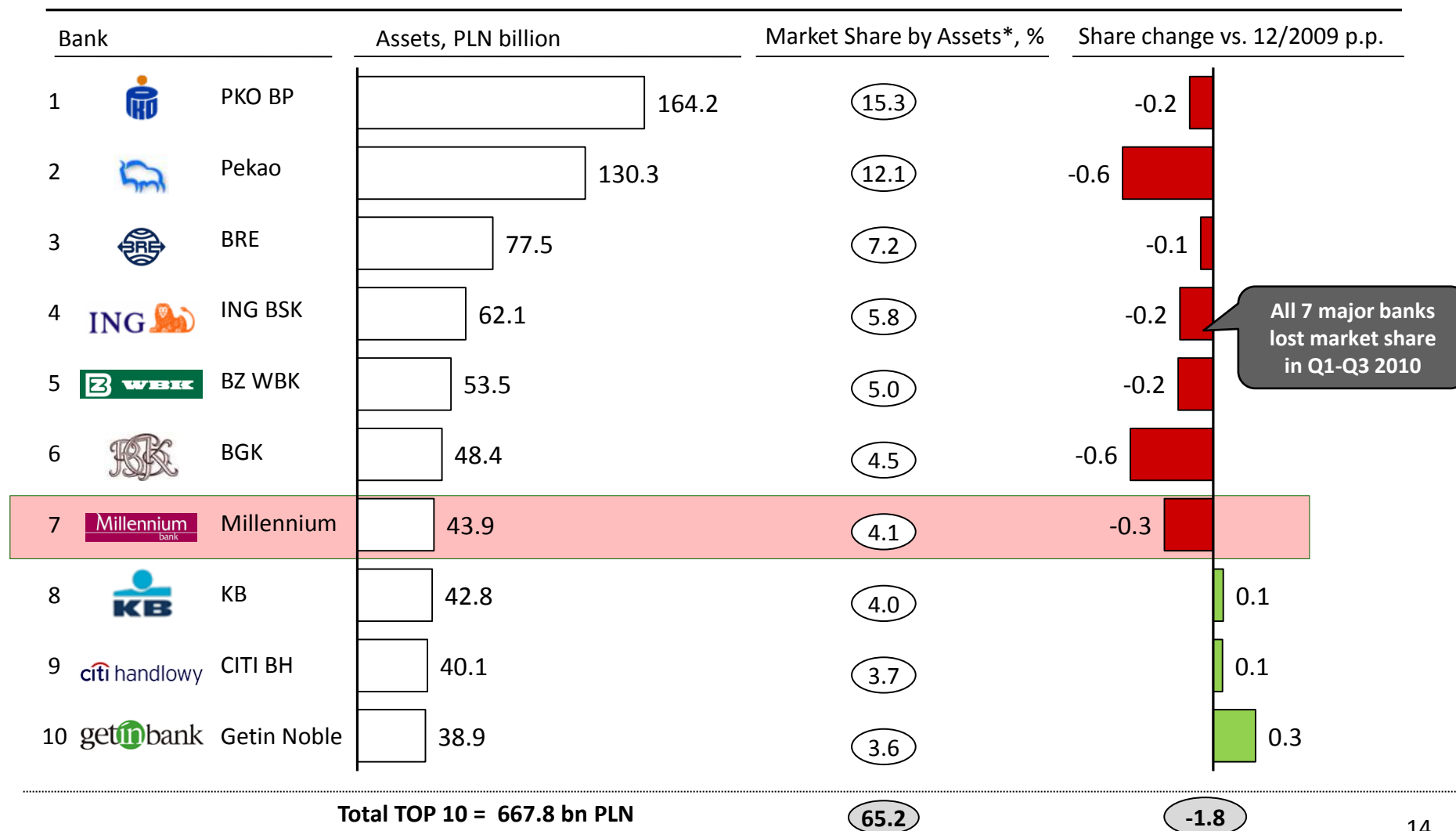
MOST OF ITS VOLUMES COME FROM THE RETAIL SEGMENT



AS A RESULT OF HIGH COMPETITION, MILLENNIUM AND OTHER TOP BANKS HAVE BEEN LOOSING MARKET SHARE TO SMALLER PLAYERS DURING Q1-Q3 2010

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Top 10 commercial banks in Poland, as of 3Q 2010



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

Source: KNF, banks, press, Intelace Research

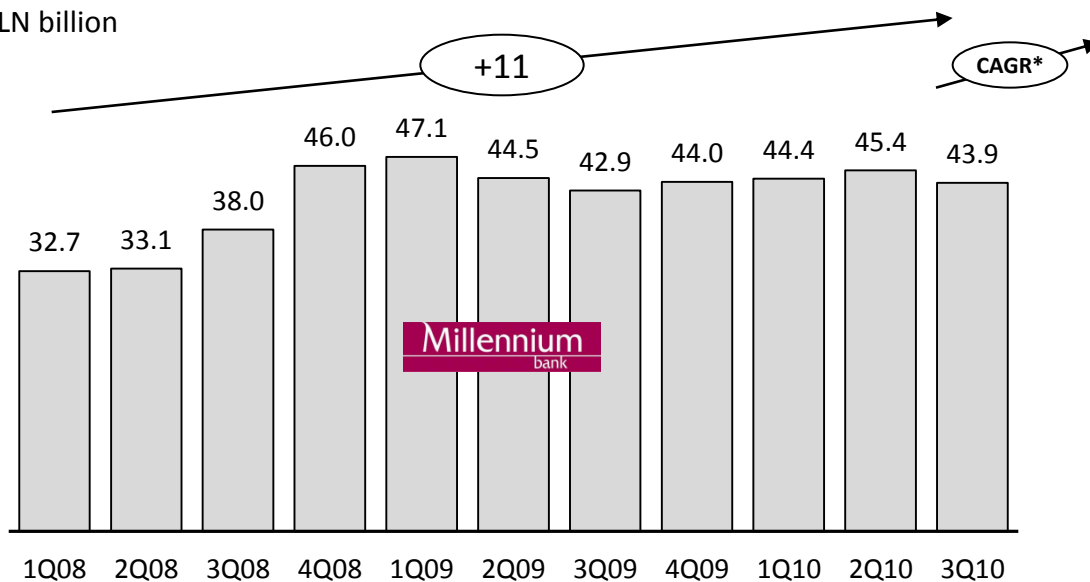
Intelace Research

AND MILLENNIUM BANK HAS BEEN LOOSING MARKET SHARE ALREADY FOR SOME TIME

Millennium bank - assets evolution, 1Q2008-3Q2010

UNCONSOLIDATED
ACCOUNTS

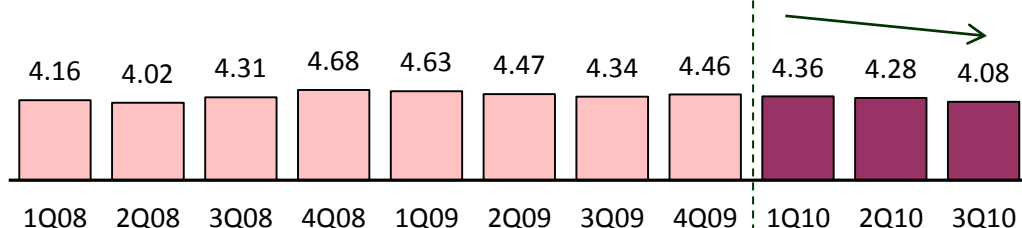
PLN billion



- Bank Millennium was able to grow quickly until 1Q 2009. Since then, its assets have been stagnating
- Market share of Millennium has been slightly falling since 2008. If the trend does not reverse, Millennium's market share may soon fall below 4%

Market share evolution, 1Q2008-3Q2010

Percent (of commercial banks and foreign bank branches assets)



* Compound Annual Growth Rate

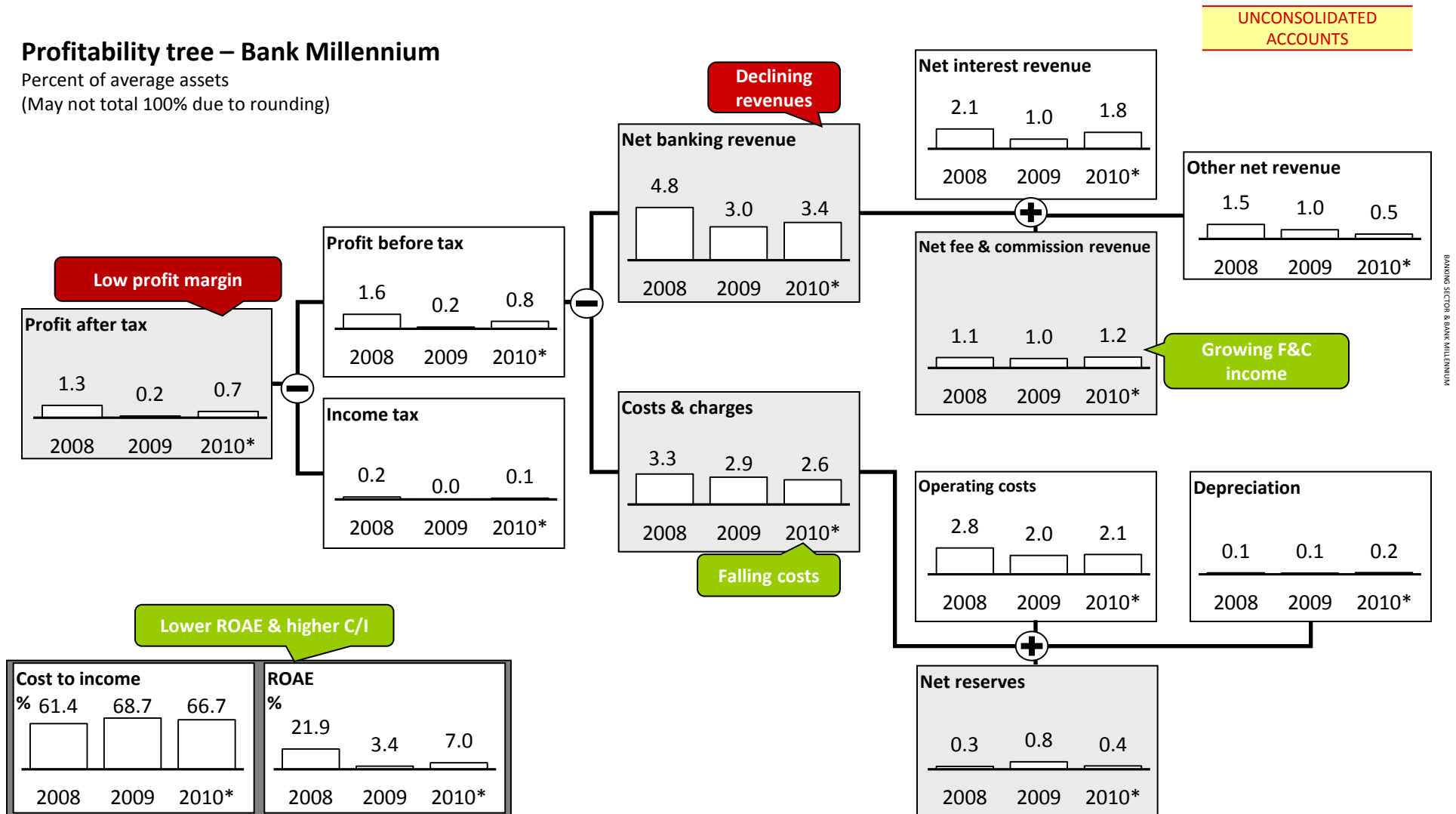
Source: Bank Millennium, Rzeczpospolita, Intelce Research

Intelce Research

BANK MILLENNIUM IS STRUGGLING WITH VOLATILE REVENUES AND RELATIVELY HIGH OPERATING COSTS

Profitability tree – Bank Millennium

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



*Results for Q1-Q3 2010, annualized

Source: Bank Millennium, Intelace Research

About this report

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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.

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

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O INTELACE RESEARCH

Intelace Research



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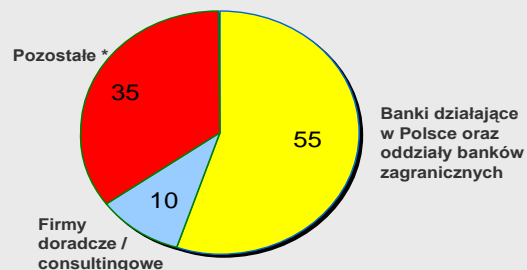
Oferujemy wyspecjalizowane badania rynku i doradztwo strategiczne w sektorze finansowym w Polsce oraz w Europie Centralnej i Wschodniej (CEE)

Nasi kluczowi klienci:

- Banki zagraniczne w Polsce i CEE
- Lokalne banki w Polsce i CEE
- Firmy ubezpieczeniowe
- Organizacje płatnicze/wystawcy kart
- Firmy doradcze

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w procentach



* W tym firmy ubezpieczeniowe, asset management oraz inne usługi finansowe

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