

RETAIL MORTGAGE LENDING IN POLAND 2007



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EXECUTIVE SUMMARY – RETAIL MORTGAGE IN POLAND 2006

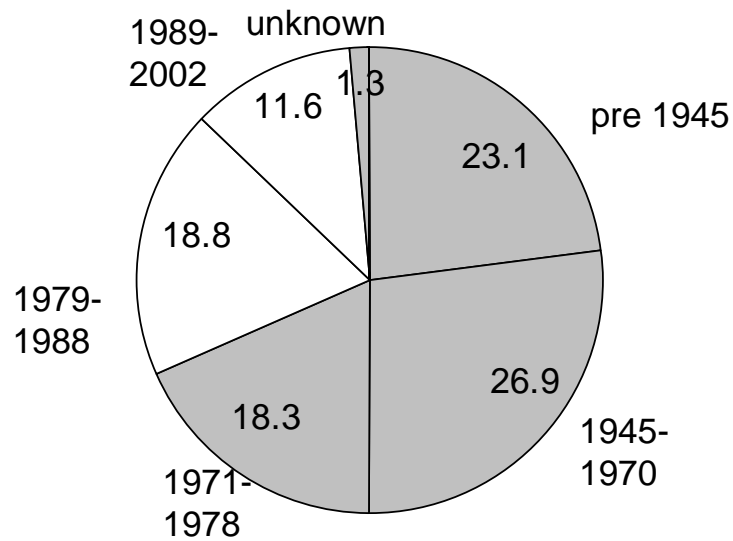
- **Deficit of residential real estate.** There is a severe deficit of residential real estate in Poland. Around 38 million inhabitants or 14 million households live nowadays in ~12 million populated dwellings which means a deficit of at least 2 million dwellings. The situation is even worse taking into consideration that the existing infrastructure is quite old, partially devastated and in many cases lacking running water or canalization. The current supply of ~114 thousand new dwellings (2006) is by large insufficient to satisfy the demand gap and the result are quickly growing prices
- **Rapid growth of demand for mortgage lending.** Starting from very low levels mortgage lending is nowadays almost exploding in Poland. Favorable macroeconomic situation and interest rates on their lowest levels since many years make mortgage more accessible than ever for an average bank client. Recent limitations of FX-denominated loans did not have a negative impact on the overall demand. A more serious threat may result however from the permanent shortage of new real estate, which is driving prices high to extreme levels and discouraging people from buying new flats/homes
- **Supply of mortgage lending.** The mortgage lending market is extremely competitive. Especially smaller banks offer mortgage loans with margins going as low as 0.9%. Moreover banks usually offer help in the application process and may offer covering the related expenses (valuation etc.) Also the role of intermediaries like: Expander, Open Finance is growing. It is estimated that major intermediaries are already responsible for ~20-25% sales of all new housing loans
- **Great perspectives and some risks.** Very low penetration of mortgage lending (7% of GDP in 2006) indicates that the market is still in the initial phase of development. The housing deficit will have to be covered within next 10-20 years and mortgage lending will be the most important source of funding it. Provided there will be no substantial shocks in the economy we predict that the outstanding value of mortgage lending will grow 32% on average through 2008

THE HOUSING STOCK IS OLD. ALMOST 50% POPULATION HAS STILL TO SHARE THEIR ROOMS

Inhabited dwellings structure, as of 2002

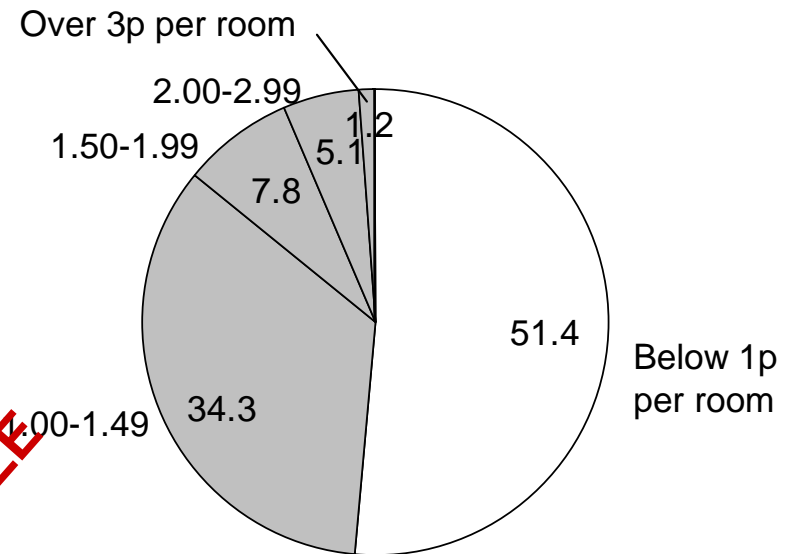
in percent, 100% = 11.6 million

By the year of construction



Most flats are relatively old

By the average number of people per one room



Almost 50% of people share their room with others



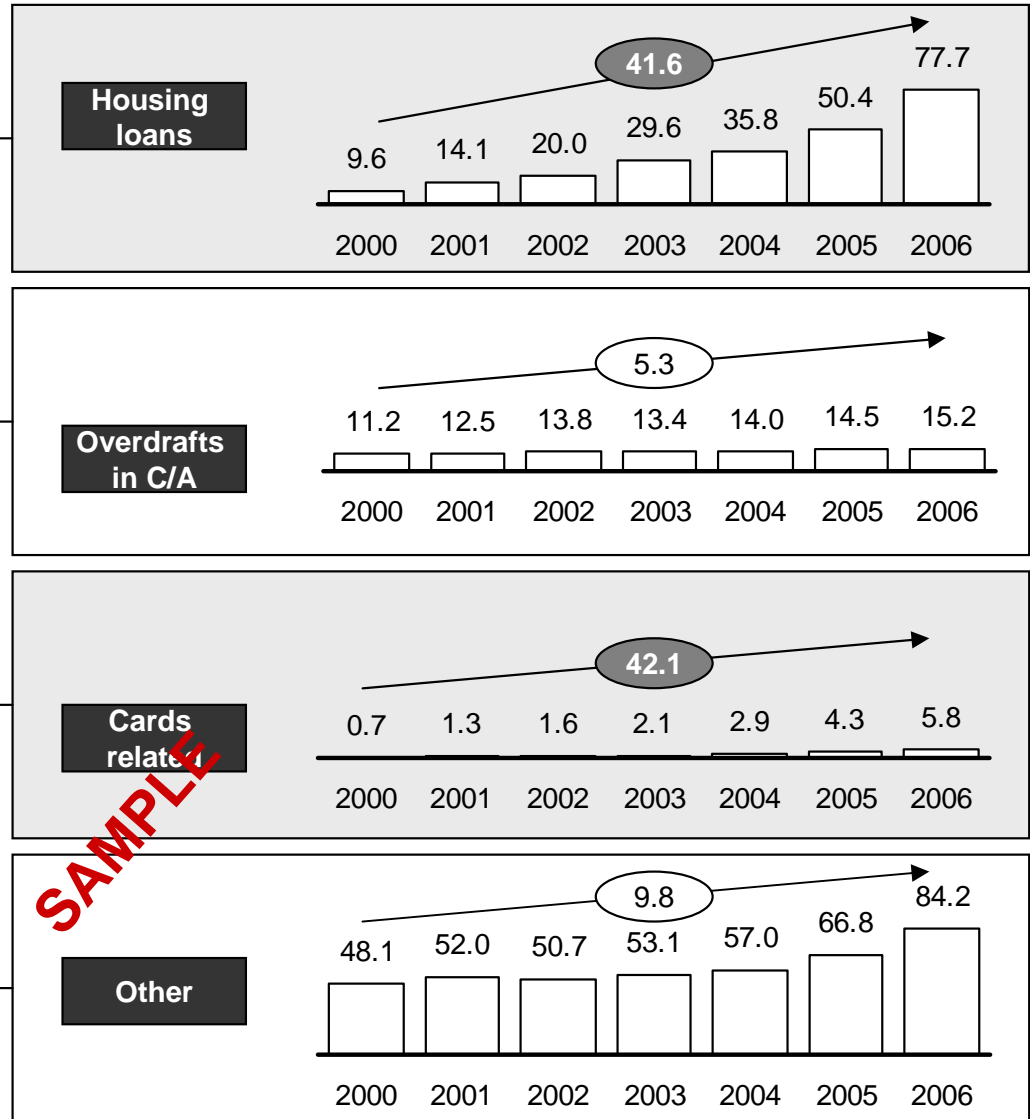
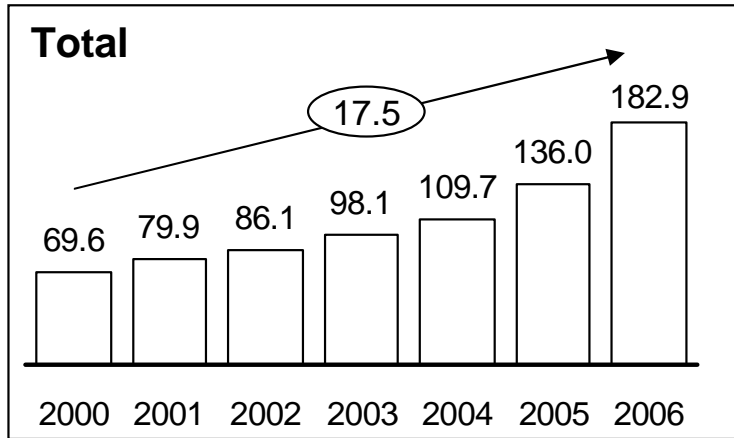
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HOUSING LOANS AND CREDIT CARD DEBT GROW AT HIGHEST RATES

CAGR**

■ Highest growth rates

Lending to households* by loan type, 2000-2006
 PLN billion



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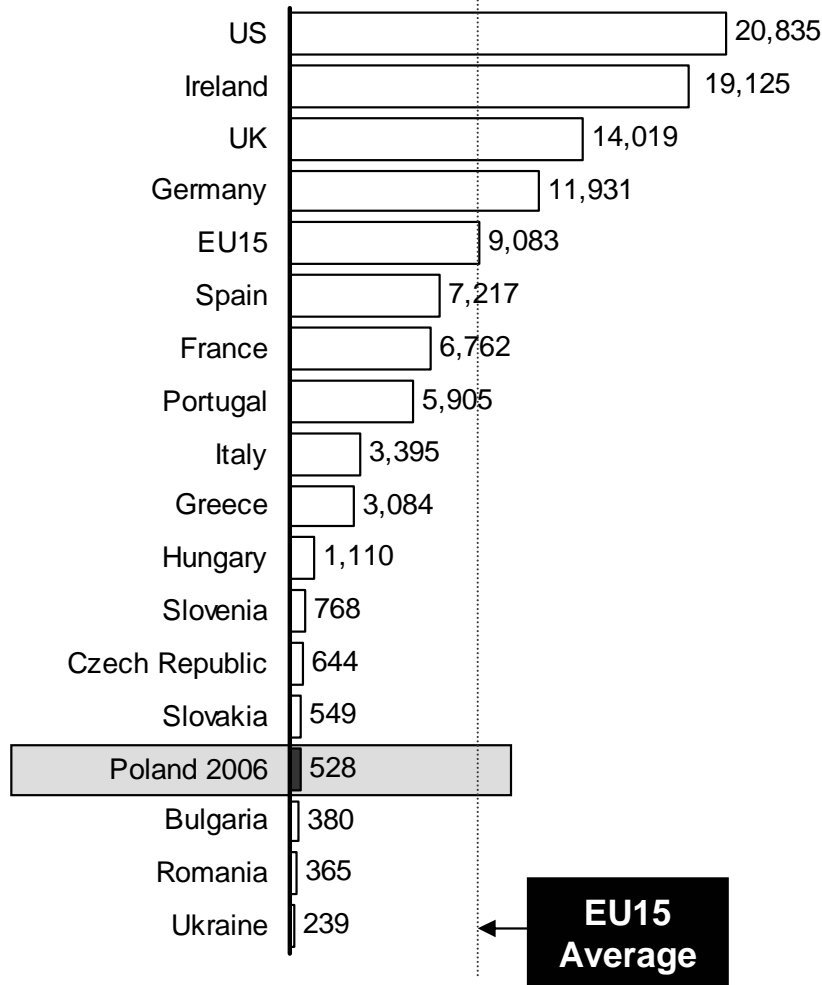
* Including individual entrepreneurs and farmers

** Compound Annual Growth Rate

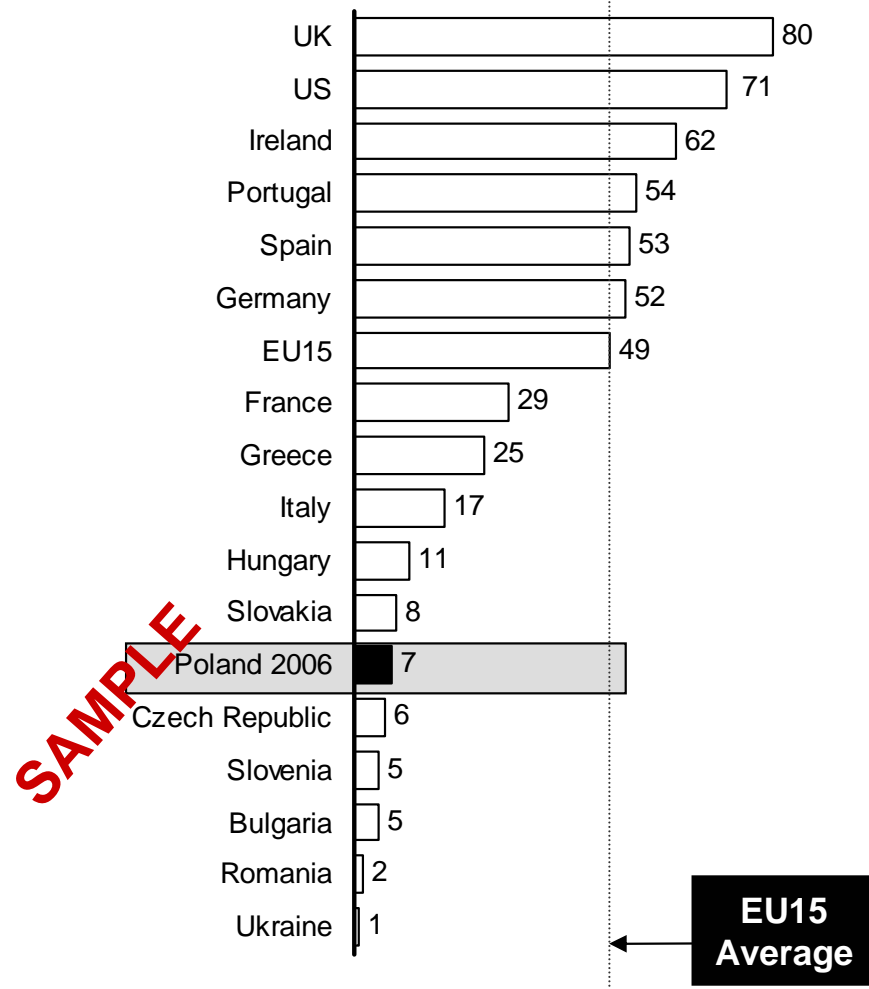
Source: NBP, Intelace Research

IF COMPARED TO OTHER COUNTRIES, POLISH MORTGAGE PENETRATION BENCHMARKS ARE STILL EXTREMELY LOW

Mortgage debt per capita, 2005
EUR



Mortgage debt/GDP, 2005
percent



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“REKOMENDACJA S” – A REGULATORY CHANGE TO LIMIT THE FX-DENOMINATED MORTGAGE LENDING HAD ONLY A LIMITED EFFECT

Background:

As a result of the joint initiative of the Polish Banks Association (ZBP) and the Banking Supervision Commission (KNB), a new regulation concerning FX-denominated retail mortgage lending “**Rekomendacja S**” has been adopted and implemented as of July 1, 2006

The new regulation was intended to prevent possible risks resulting from:

- abrupt currency depreciation (PLN vs. FX)
- increase of FX interest rates (CHF, EUR)

Key changes:

- Calculation of client’s ability to repay a FX-denominated loan is more rigorous and takes into consideration cumulative effects of possible unfavorable interest and exchange rate evolution
- Loans in the local currency are to be offered by banks as the first choice and preferred option
- Extensive simulations with various scenarios need to be presented by the bank and accepted by the client prior to signing a loan contract

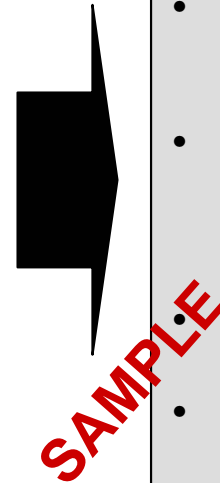
Komisja Nadzoru Bankowego

Rekomendacja S

dotycząca dobrych praktyk w zakresie ekspozycji kredytowych zabezpieczonych hipotecznie

First observation of the market after July 1, 2006:

- Most banks have reduced maximum FX-denominated loans amount offered* by more than 20%
- Some banks have eased their general lending criteria and managed to offset in full the new regulation (Multibank, mbank, Raiffeisen, GE money)
- Many banks still do not offer local currency loans as the first choice
- The new regulation is often perceived as overdone and adopted against client’s interest
- The share of FX-denominated loans has indeed dropped in the second half of 2006. This is however more the effect of shrinking interest spread: CHF/PLN than the legislation itself

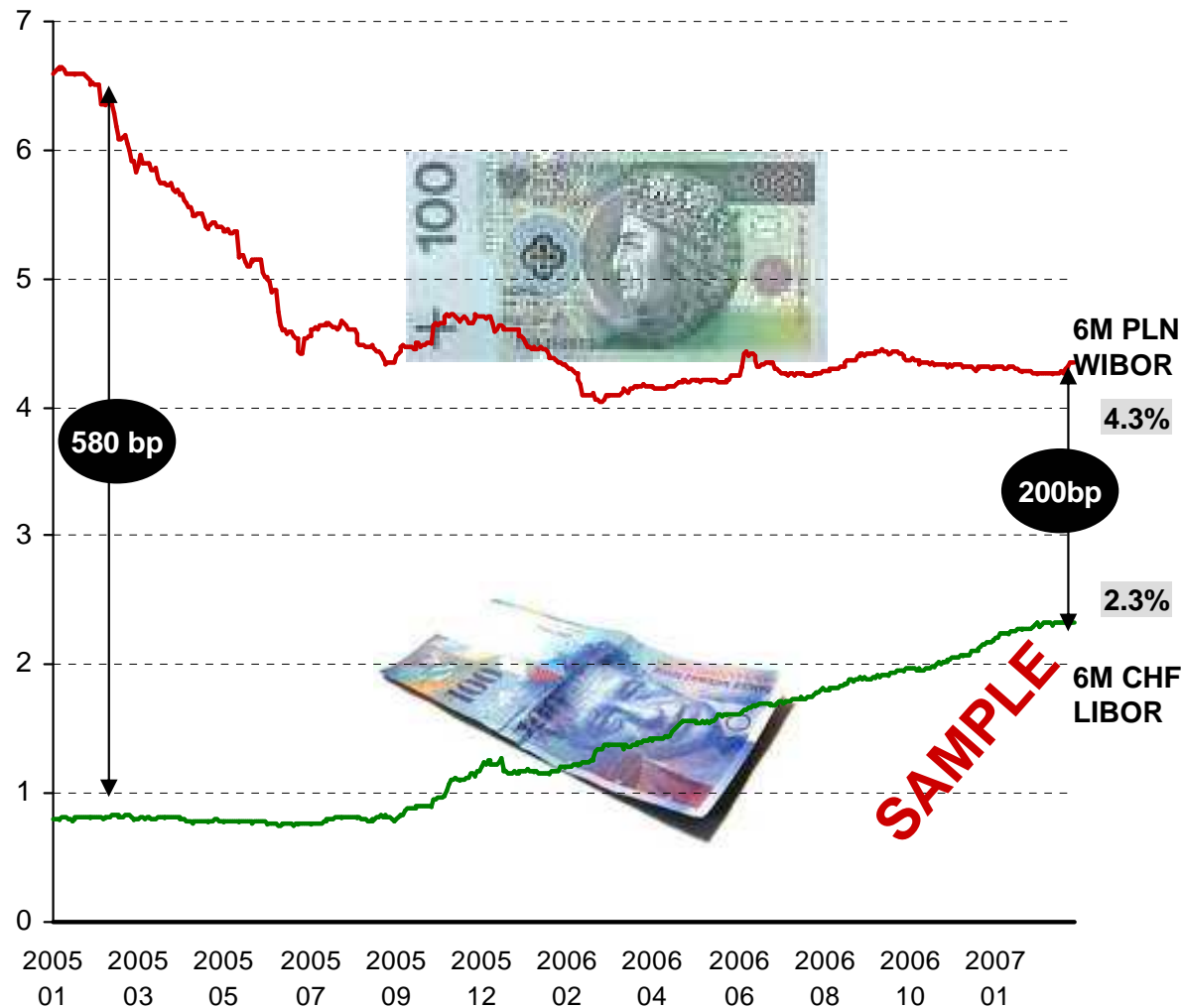


* Assuming that situation of the client did not change

THE CHF/PLN INTEREST RATE SPREAD IS SHRINKING. IT IS HOWEVER STILL SIGNIFICANT TO JUSTIFY THE CHOICE OF SWISS CURRENCY

Interbank interest rates, 2005 – Feb. 2007

percent



- The spread between PLN and CHF inter-bank rates fell by more than 50% since January 2005; Nevertheless it is still significant (200 bp.)
- The interest spread CHF/PLN is likely to keep falling in the mid-term perspective

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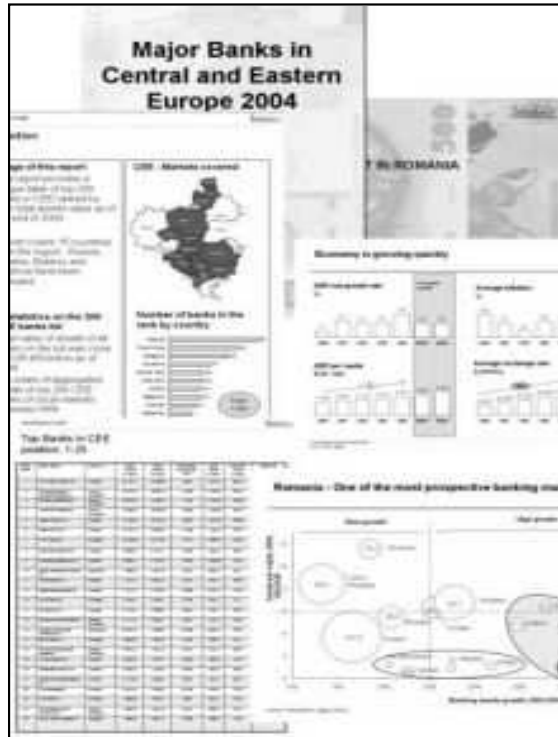
Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

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