

BANKING MARKET IN POLAND 2007 – CEE BANKING SERIES – UPDATE 1H 2007



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**by Marcin Mazurek, Intelace Research
October 2007**

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EXECUTIVE SUMMARY – BANKING MARKET IN POLAND: 2006/2007

- **Profits are going up.** In 2006 the combined net profit of commercial banks in Poland increased 17% to 2.6 bn EUR. Key profitability ratios of banks improved significantly: ROAA rose to 1.7%, while ROAE exceeded 16%. These favorable developments were attributable in the first line to quickly growing volumes (commercial banks assets increased by 16%) and other factors like stable margins and well controlled costs
- **Concentration is growing.** The upcoming merger of Pekao with large part of BPH will produce a new market leader in terms of assets, controlling ~17% of the market. The new Pekao will play a key role in corporate business (~32% and 24% market share in deposits and lending respectively as of 2006) and will hold 2nd position in retail. Apart of this big merger there have been recently three smaller M&A transactions on the market: GE Money Bank won the BPH200 tender, Fortis took over Dominet bank and DnB Nord acquired BISE
- **New investments in infrastructure.** Since 2005 there is a visible trend among banks to expand physical distribution networks. Despite significant growth of electronic channels, banks try to exploit the opportunity of coming closer to clients by opening more smaller and multifunctional outlets. The combined investment plans of commercial banks add to over 1500 new outlets until 2008. It is noticeable that a big part of newly opened outlets are franchising/partner networks operated by 3rd parties. At the same time banks invest in specialized networks (new brands) focused on a single product or customer segment and improve functionality of direct channels
- **Perspectives better than ever.** Strong economic growth, rising corporate spending and growing wealth of individuals will translate into increased demand for banking services. In mid-term horizon retail banking will remain the key growth driver with very strong mortgage lending business. At the same time increased corporate investments will also revive lending that has stagnated for several years until 2006. In short term perspective a moderate rate increase by Central Bank (25-50 bp. in 2007) can be anticipated in reaction to accelerating inflation. As a result, rising market rates may negatively affect lending margins until rate adjustments will take place. As for the whole market, we expect banking assets to rise at 18% p.a. through 2009.

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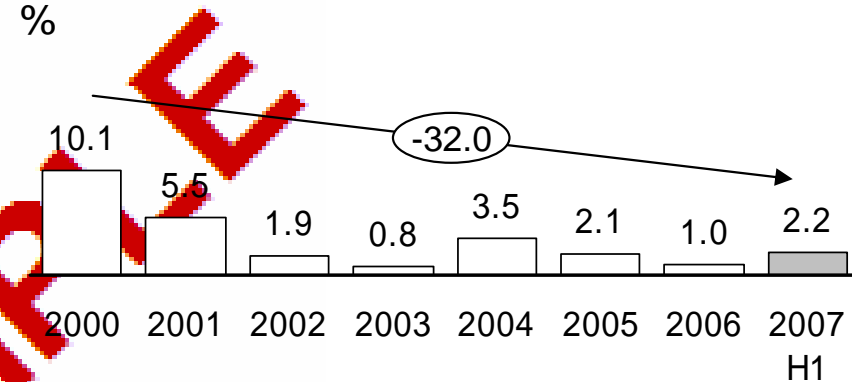
POLISH ECONOMY KEEPS GROWING. GDP PER CAPITA REACHED HIGHEST LEVEL IN RECENT HISTORY OF THE COUNTRY



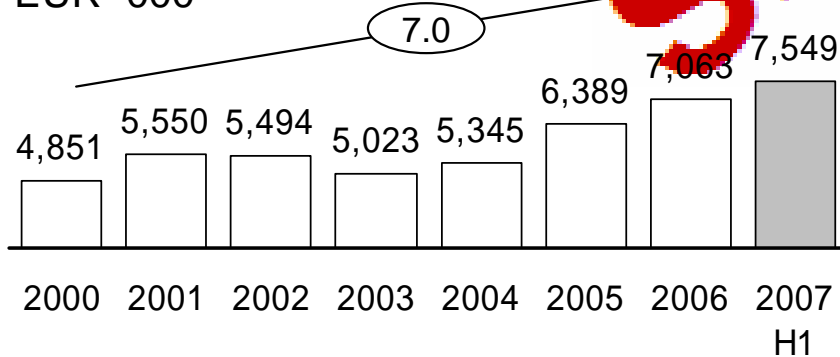
GDP real growth rate
%



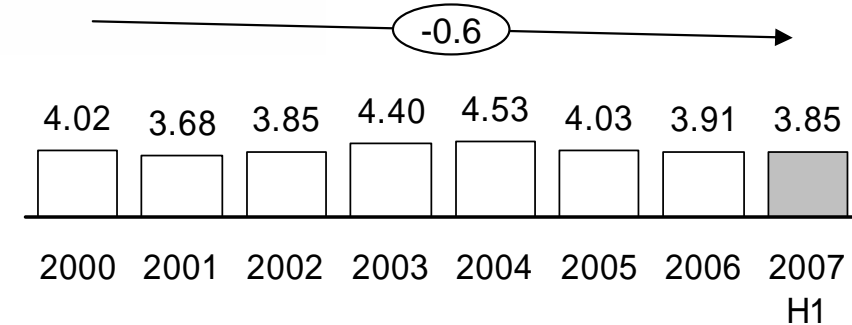
Average Inflation
%



GDP per capita
EUR `000



Average exchange rate
EUR/PLN



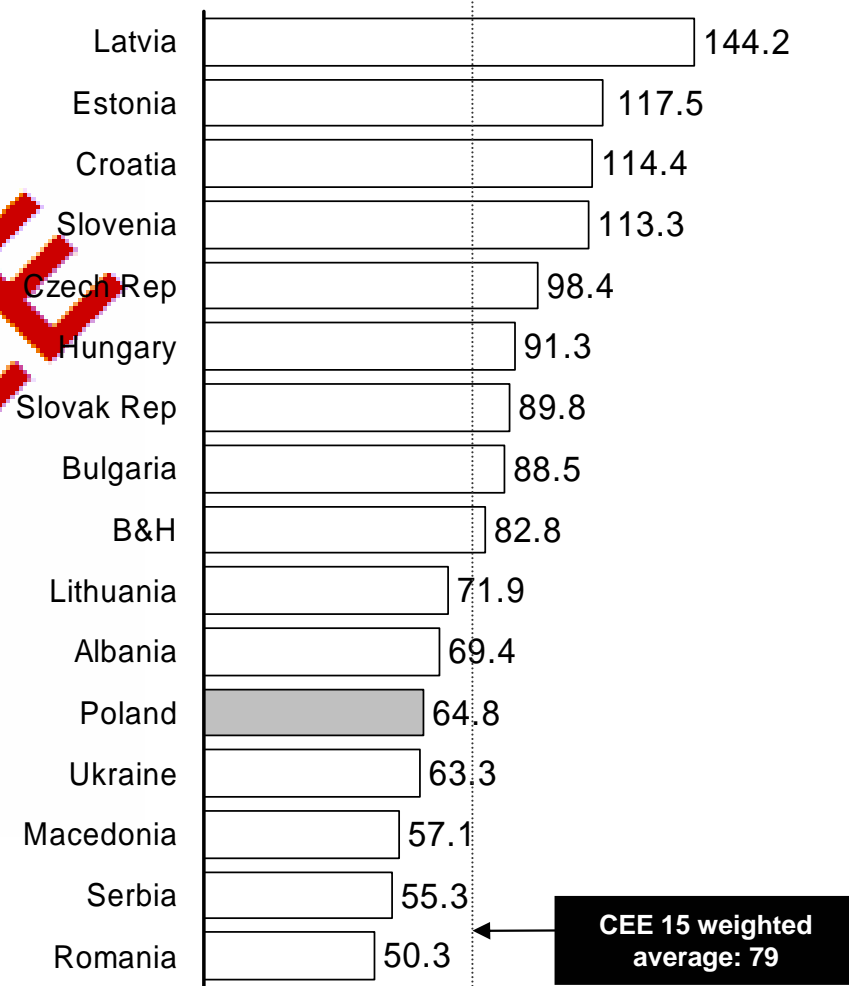
Banking Market in Poland 2007

BANKING PENETRATION IN POLAND IS STILL RELATIVELY LOW

Banking assets/capita, 2006
EUR `000



Banking assets/GDP, 2006
percent

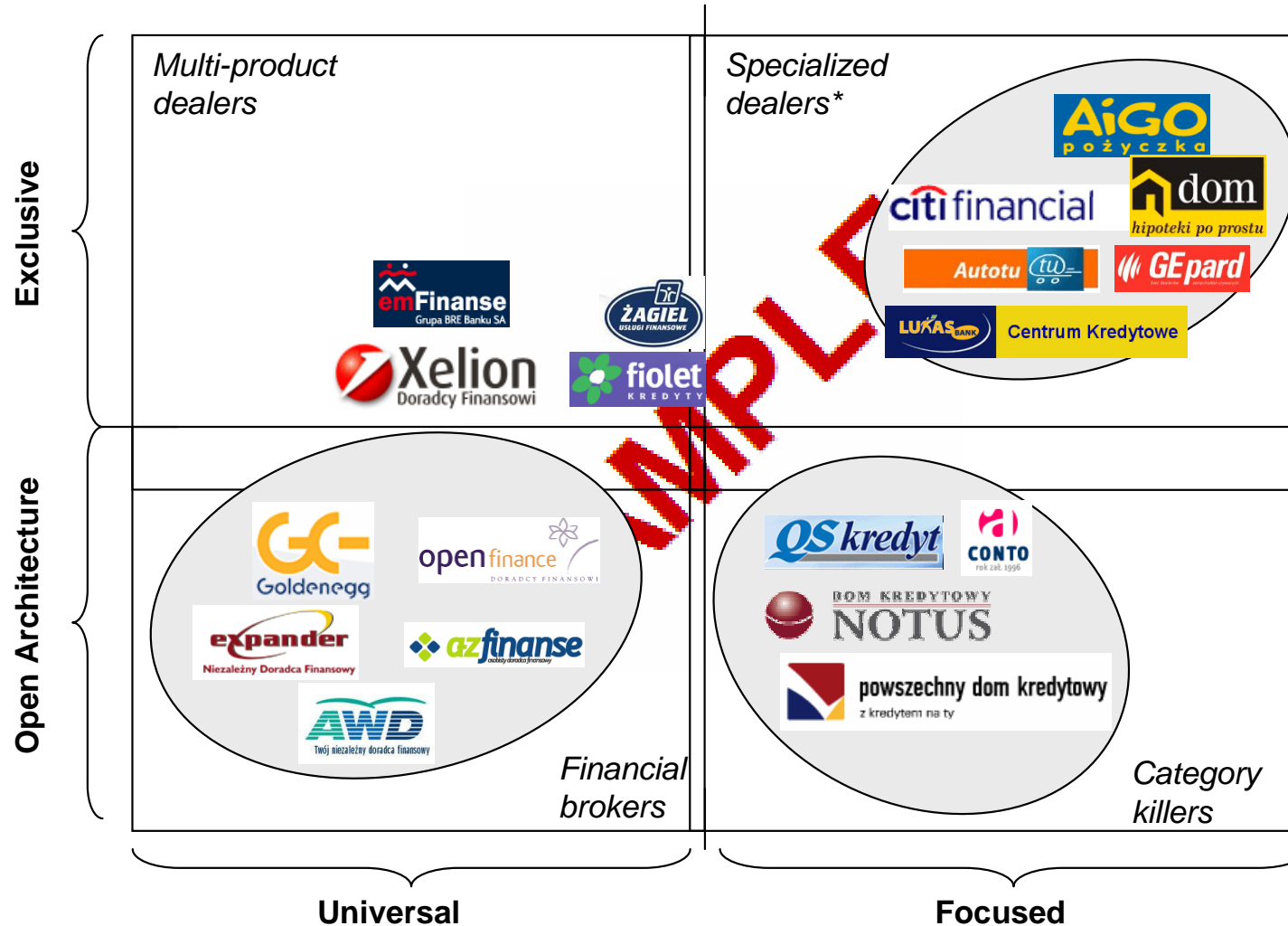


Banking Market in Poland 2007

VARIOUS ALTERNATIVE DISTRIBUTION MODELS OF FINANCIAL PRODUCTS EXIST

ILLUSTRATIVE
NON-EXHAUSTIVE

Financial intermediaries/distributors

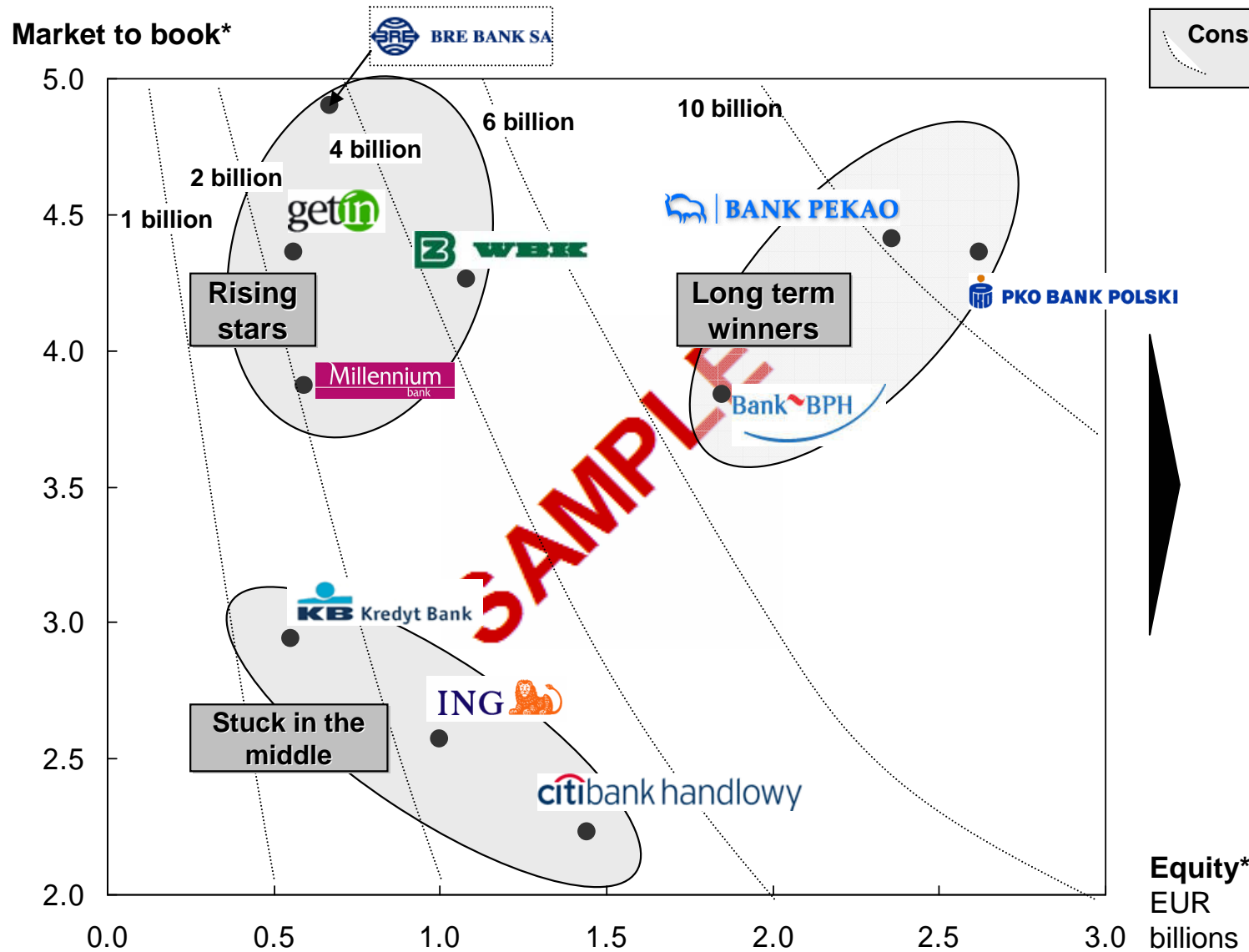


Banking Market in Poland 2007

* typically parts of retail banks
Source: Intelace Research

STRATEGIC CONTROL MAP – MAJOR LISTED BANKS IN POLAND, MARCH 2007

**CONSOLIDATED
ACCOUNTS**



- Three largest banks: Pekao, PKO and BPH are still clear market leaders
- BRE, Getin, BZWBK and Millennium multiples are above the average reflecting their high growth potential
- Citibank undervaluation ($P/BV < 2.5$) reflects “harvesting” policy (large dividend pay-outs) and limited growth expectations

Banking Market in Poland 2007

* Based on consolidated results for 2006, ratios as of Mar 12, 2007
Source: banks, press, Intelace Research

General Data

About the bank

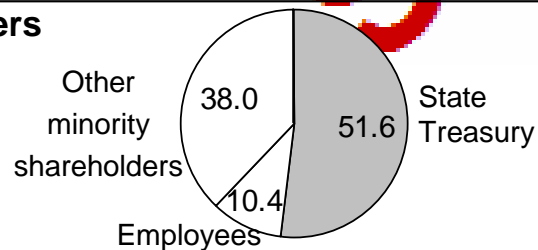
- PKO BP is the largest bank in Poland, traditionally specialized in serving retail customers through the largest distribution network in the country.
- It's previously almost monopolistic position on the retail market is slowly eroding.

Timeline

- 1919/1920 PKO set up as a postal savings bank. Bank quickly became the leader in retail services with ~ 3,5 million individual saving books holders
- 1950-1987 PKO as a State owned bank (since 1975 a part of the Central bank) collected retail deposits
- 1992-2000 Transformation and restructuring process including capital injections from the State
- 2002 Acquisition of #2 online bank Inteligo from BGB
- 2004 IPO of a minority stake on the Warsaw SE, acquisition of minority stake in Postal Bank
- 2005/2006 Implementation of a new centralized IT system
- 2006 bank launches marketing campaign to communicate its corporate banking competences with the goal to reinforce its position in corporate banking

Shareholders

percent



Concept Description

Clients

- Mass retail clients dominating; less demanding and less advanced than average; valuing personal service even if waiting a queue; reluctant to use cards and modern channels
- Bank has a large group of loyal but older and ageing customers keeping their money at the bank for years
- Corporate offer limited, currently being improved
- As of Dec. 2006, PKO BP had ~6 million retail accounts

Products

- Broad retail offering. Well developed lending products with a mix of cash, installment and mortgage loans. Competitive mortgage offering is driving strongly volumes growth
- Less advanced on the deposit side. Only few structured products in offer. Relatively limited choice of investment funds
- Bank has exclusive rights granted by Treasury for distribution of treasury bonds
- Dedicated packages for SME segment including a quick overdraft, less advanced offer of corporate products

Channels

- Distribution based mainly on physical network. Over 1230 branches and <2400 agencies create the largest banking infrastructure in the country. Smaller towns and remote areas are very well covered
- Network of >2000 own ATMs
- Internet access and call center available through main bank and standalone „Inteligo” internet bank
- Mortgage loans distributed by independent intermediaries

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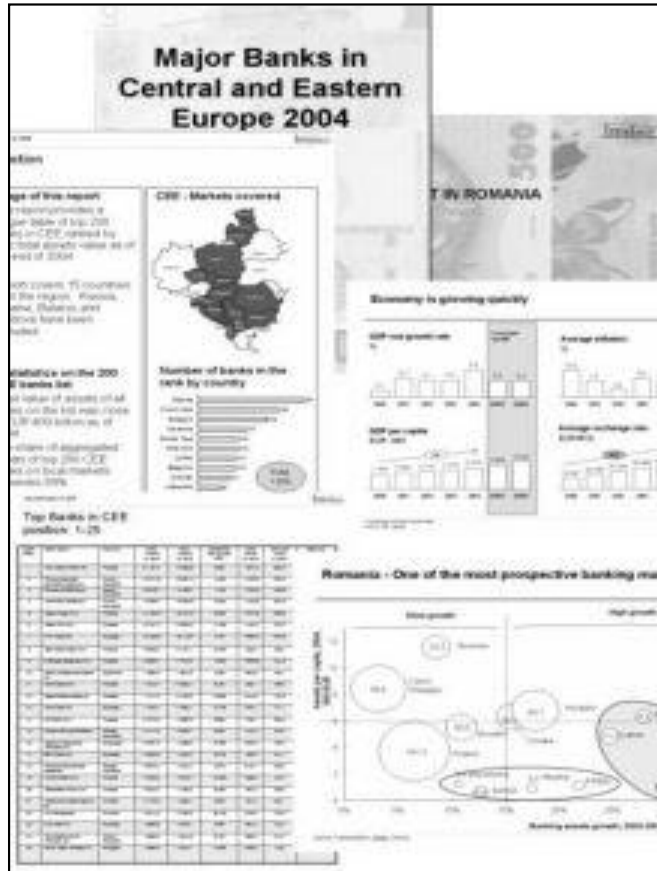
Through our customized research services we help our clients to better understand their consumers, competitors and overall market dynamics.

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