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Banks – 2019 Q2 Earnings Recap

Banks, Poland

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Polish banks had a very respectable second quarter of 2019 looking at data provided by the NBP, making up for weak first-quarter growth, curbed by seasonal start-of-year regulatory taxes and charges, with an 11% year-over-year rebound in aggregate net income. As a result, the total 2019 first-half bottom-line did not worsen relative to the year-ago earnings. The 2019 Q2 highlights include 7.2% Y/Y improvement in net interest income and 8.1% growth in total income. Aggregate NIM for the quarter fell by 5bp to 2.49%, but this is a temporary setback which should be remedied in the following quarters. On a less positive note, the quarterly provisioning level increased by a considerable 21% compared to Q2 2018.

The month of June was one of the best months this year for Polish banks, with the aggregate monthly income up 7.4% from May, driven by a 10.5% boost in total income. On the down side, banks significantly increased their aggregate risk reserves by 40.7% in June, due probably to one-time charge-offs to commercial loans.

Summing up, looking at their performance in the year to June, Banks seem well on the way to top last year's earnings in 2019, supported by expected NIM growth in the second half of the year thanks to reduced financing costs, normalized cost of risk, and curbed growth in recurring operating costs. The profits of

banks invested in the BLIK mobile payments system might also get an additional boost in H2 from positive fair-value adjustments after Mastercard joins as new co-owner.

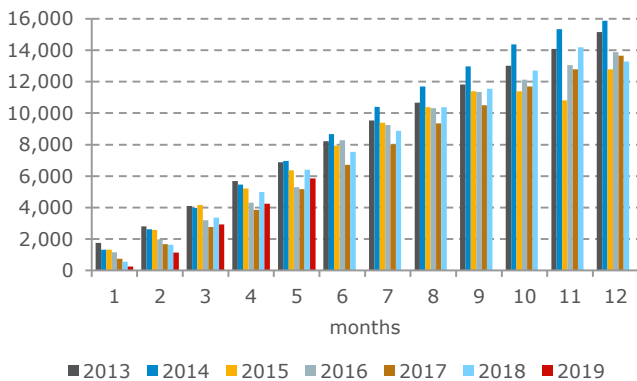
2019 Q2 Results

The 11.1% Y/Y rebound in Q2 aggregate net income was fueled mainly by trading income, showing a rebound of a whopping 99% or PLN 419m, albeit from a very low year-ago base. On the other hand, cost of risk for the quarter was 21% higher than in Q2 2018 after one-time charge-offs to non-performing corporate loans, and after banks fine-tuned their models, resulting in higher assessed retail loan impairment in the future.

Results for June

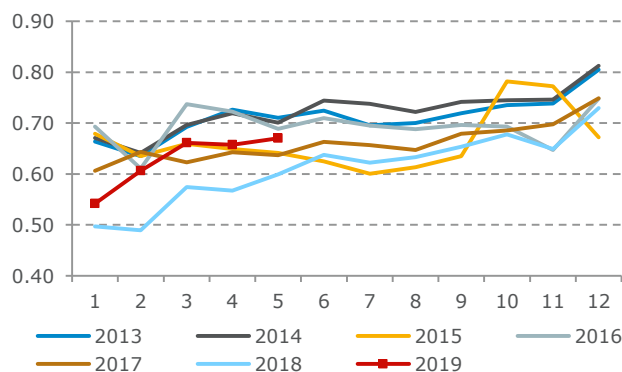
The average ROE in the Polish bank sector reached 10.2% in June, one of the highest levels in the last 12 months. Net interest income had nothing to do with the increased returns for the month, showing 2.1% contraction from May. The two drivers included trading income, up 40.7% M/M, and profits from other operating activity, rising 137.4%. Provisioning in June was raised by 41%, and consequently CoR grew as well at a monthly rate of 6bp.

Net Income Evolution (PLN m)



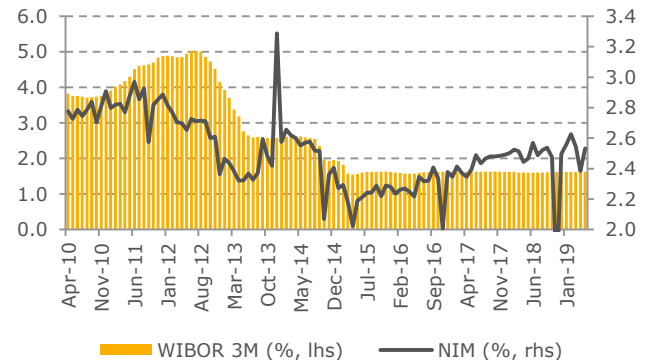
Source: NBP, Dom Maklerski mBanku

Cost of Risk (cumulative) (%)



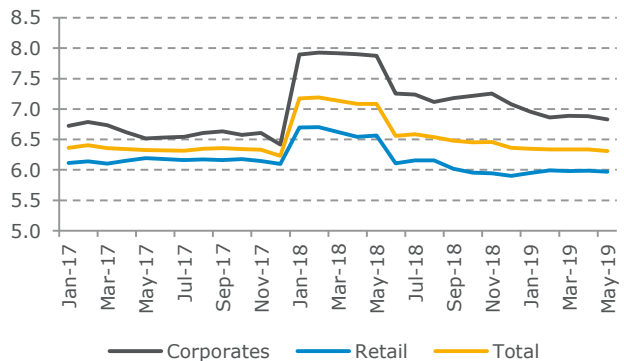
Source: NBP, Dom Maklerski mBanku

NIM vs. WIBOR 3M (%)



Source: NBP, Dom Maklerski mBanku

NPL Ratios (%)



Source: NBP, Dom Maklerski mBanku

Quarterly earnings of the Polish bank sector (aggregate standalone figures)

(PLN m)	2Q'18	1Q'19	2Q'19	YoY	QoQ	6M'18	6M'19	YoY
Interest income	15,359	16,362	16,472	7.2	0.7	30,365	32,834	8.1
Interest expenses	-4,019	-4,236	-4,372	8.8	3.2	-7,939	-8,608	8.4
Net interest income	11,340	12,126	12,100	6.7	-0.2	22,426	24,226	8.0
Fee income	3,177	3,217	3,335	5.0	3.7	6,471	6,552	1.3
Dividend income	0	0	0	n.m.	n.m.	0	0	n.m.
Trading income	424	971	843	98.8	-13.2	1,279	1,814	41.8
Other operating income	2,186	1,177	2,241	2.5	90.4	3,017	3,418	13.3
Noninterest income	5,787	5,365	6,419	10.9	19.6	10,767	11,784	9.4
Total income	17,127	17,491	18,519	8.1	5.9	33,193	36,010	8.5
Administrative expenses	8,459	9,939	8,399	-0.7	-15.5	17,577	18,338	4.3
D&A expenses	719	1,079	1,092	51.9	1.2	1,455	2,171	49.2
Other costs	293	-20	268	-8.5	n.m.	35	248	608.6
Total costs	9,471	10,998	9,759	3.0	-11.3	19,067	20,757	8.9
Operating income	7,656	6,493	8,760	14.4	34.9	14,126	15,253	8.0
Provisioning	2,309	2,249	2,790	20.8	24.1	4,163	5,039	21.0
Pre-tax income	5,347	4,244	5,970	11.7	40.7	9,963	10,214	2.5
Tax	1,168	1,316	1,330	13.9	1.1	2,420	2,646	9.3
Other	1	0	0	n.m.	n.m.	1	0	n.m.
Net income	4,178	2,928	4,640	11.1	58.5	7,542	7,568	0.3

Source: NBP, Dom Maklerski mBanku

Monthly earnings of the Polish bank sector (aggregate standalone figures)

(PLN m)	Jun'18	May'19	Jun'19	YoY	QoQ	6M'18	6M'19	YoY
Interest income	5,215	5,689	5,508	5.6	-3.2	30,365	32,834	8.1
Interest expenses	-1,328	-1,497	-1,406	5.9	-6.1	-7,939	-8,608	8.4
Net interest income	3,887	4,192	4,102	5.5	-2.1	22,426	24,226	8.0
Fee income	948	1,096	1,144	20.7	4.4	6,471	6,552	1.3
Other costs/income	1,160	648	1,315	13.4	102.9	4,296	5,232	21.8
Noninterest income	2,108	1,744	2,459	16.7	41.0	10,767	11,784	9.4
Total income	5,995	5,936	6,561	9.4	10.5	33,193	36,010	8.5
Administrative expenses	2,882	2,733	2,832	-1.7	3.6	17,577	18,338	4.3
D&A expenses	241	367	364	51.0	-0.8	1,455	2,171	49.2
Other costs	488	-35	30	-93.9	-185.7	35	248	608.6
Total costs	3,611	3,065	3,226	-10.7	5.3	19,067	20,757	8.9
Operating income	2,384	2,871	3,335	39.9	16.2	14,126	15,253	8.0
Provisioning	912	843	1,186	30.0	40.7	4,163	5,039	21.0
Pre-tax income	1,472	2,028	2,149	46.0	6.0	9,963	10,214	2.5
Tax	344	424	427	24.1	0.7	2,420	2,646	9.3
Other	0	0	0	n.m.	n.m.	1	0	-100.0
Net income	1,128	1,604	1,722	52.7	7.4	7,542	7,568	0.3

Source: NBP, Dom Maklerski mBanku

List of abbreviations and ratios contained in the report:

EV – net debt + market value (EV – economic value)
EBIT – Earnings Before Interest and Taxes
EBITDA – EBIT + Depreciation and Amortisation
PBA – Profit on Banking Activity
P/CE – price to earnings with amortisation
MC/S – market capitalisation to sales
EBIT/ EV – operating profit to economic value
P/E – (Price/Earnings) – price divided by annual net profit per share
ROE – (Return on Equity) – annual net profit divided by average equity
P/BV – (Price/Book Value) – price divided by book value per share
Net debt – credits + debt papers + interest bearing loans – cash and cash equivalents
EBITDA margin – EBITDA/Sales

OVERWEIGHT (OW) – a rating which indicates that we expect a stock to outperform the broad market
NEUTRAL (N) – a rating which indicates that we expect the stock to perform in line with the broad market
UNDERWEIGHT (UW) – a rating which indicates that we expect the stock to underperform the broad market

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Discounted Dividends (DDM) – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.

NAV – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

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