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Banks – April 2020 Earnings Recap

Banks, Poland

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Polish banks generated aggregate net income of PLN 896m in April 2020, representing an increase of 36% on the same period a year earlier and a rebound from a net loss of PLN 307m posted the month before. The aggregate bottom-line figure for the year through April 2020 amounted to PLN 2.3bn after falling 44% year over year.

The highlights of April financials included low cost of risk at 81bp, down from 198bp in March and declining below a long-term average of 85bp.

We were also surprised to see income from fees and commissions rise 3% during a full month of lockdown measures.

Low interest rates were the low point in April, reflected in a 9% fall versus March in aggregate net interest income which remained unchanged from the year-ago level.

It is worth noting huge decreases in interest expense (-28% Y/Y, -22% M/M), indicating massive reductions in financing costs.

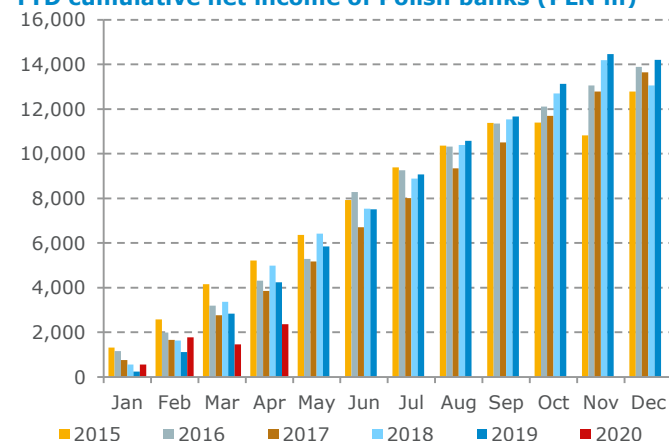
The monthly net interest margin tightened by 22bp to 2.44% compared to March.

The C/I ratio was 59% for the month, which means banks had not put major cost-cutting measures into effect yet in April.

Loan portfolios grew 5% in April versus the year-ago value, driven by a 5% increase in business loans, a 10% boost to mortgage loans, and a 2% rise in consumer loans.

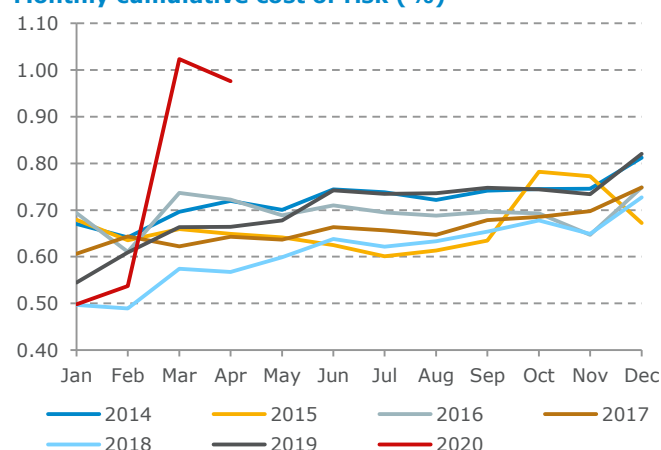
Summing up, April was a surprisingly good month for banks even considering the inevitable NIM contraction after two rate cuts earlier this year. With risk costs holding well within the usual norms at the height of a highly unusual period, and with growing fee income and loan portfolios, the April figures look fairly upbeat.

YTD cumulative net income of Polish banks (PLN m)



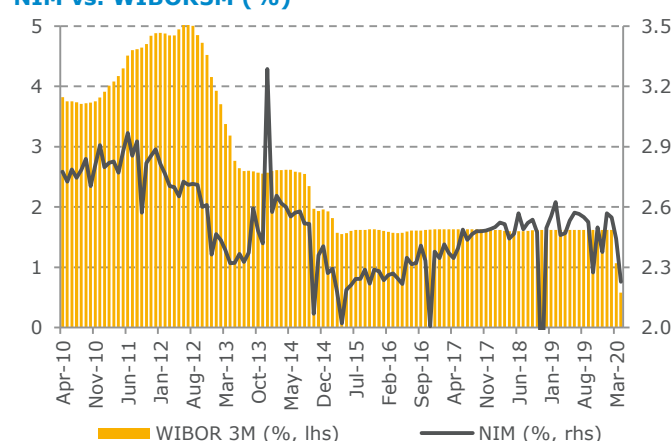
Source: NBP, mBank

Monthly cumulative cost of risk (%)



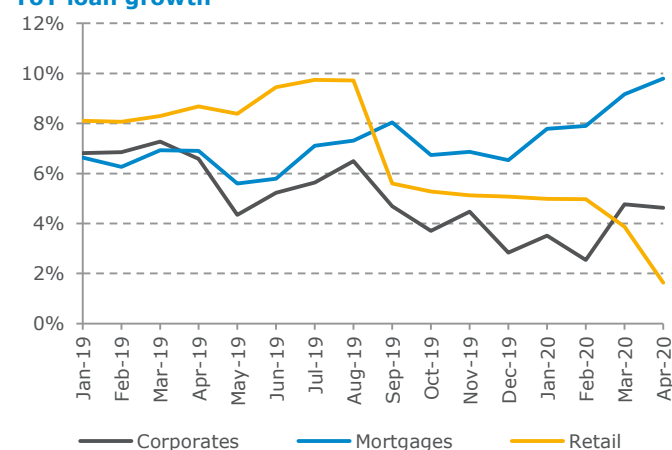
Source: NBP, mBank

NIM vs. WIBOR3M (%)



Source: NBP, mBank

YoY loan growth



Source: NBP, mBank

Overview of monthly earnings of Polish banks (aggregate standalone figures)

(PLN m)	Apr'19	Mar'20	Apr'20	Y/Y	M/M	4M'19	4M'20	Y/Y
Interest revenue	5,357	5,621	4,945	-7.7	-12.0	21,637	21,722	0.4
Interest expenses	-1,414	-1,306	-1,014	-28.3	-22.4	-5,705	-4,992	-12.5
Net interest income	3,943	4,315	3,931	-0.3	-8.9	15,932	16,730	5.0
Fee income	1,089	1,302	1,120	2.8	-14.0	4,312	4,715	9.3
Other costs/income	983	146	521	-47.0	256.8	3,269	1,509	-53.8
Noninterest income	2,072	1,448	1,641	-20.8	13.3	7,581	6,224	-17.9
Total income	6,015	5,763	5,572	-7.4	-3.3	23,513	22,954	-2.4
Administrative expenses	2,744	3,036	2,755	0.4	-9.3	12,773	12,811	0.3
D&A expenses	361	379	363	0.6	-4.2	1,440	1,478	2.6
Other costs	275	75	161	-41.5	114.7	253	225	-11.1
Total costs	3,380	3,490	3,279	-3.0	-6.0	14,466	14,514	0.3
Operating income	2,635	2,273	2,293	-13.0	0.9	9,047	8,440	-6.7
Provisioning	761	2,417	991	30.2	-59.0	3,010	4,687	55.7
Pre-tax income	1,874	-144	1,302	-30.5	n.m.	6,037	3,753	-37.8
Tax	470	162	407	-13.4	151.2	1,795	1,395	-22.3
Other	0	1	-1	n.m.	n.m.	0	0	n.m.
Net income	1,404	-307	896	-36.2	n.m.	4,242	2,358	-44.4

Source: NBP, mBank

Key Ratios

(%)	Apr'19	Oct'19	Nov'19	Dec'19	Jan'20	Feb'20	Mar'20	Apr'20
Net interest income (over avg. assets)	2.47	2.27	2.50	2.38	2.57	2.55	2.44	2.23
Cost of Risk	0.66	0.67	0.64	1.67	0.50	0.58	1.98	0.81
Costs/Income	56.19	50.4	55.5	61.7	74.8	57.5	60.6	58.8
Costs / Avg. Assets	2.12	1.65	1.93	1.87	2.70	1.95	1.98	1.86
ROE	8.28	8.20	7.68	-1.44	3.15	7.17	-1.69	5.01

Source: NBP, mBank

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

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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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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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