

BANKING MARKET IN POLAND 2006 - CEE BANKING SERIES



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EXECUTIVE SUMMARY – BANKING MARKET IN POLAND

- **Profitability is going up.** In recent years the condition of Polish banking system has improved significantly. Despite growing competition from non-banking institutions like: investment funds, insurance companies, credit unions and cash loans distributors or even well-performing stock exchange, in 2005 commercial banks were able to increase their assets by 8% in real terms. Also the net result of banks jumped in 2005 by 30% to 2,2 bn EUR, in large part thanks to a good cost control and improved loans quality
- **Competition is high.** Low concentration measures (for example: HH* Index of 710) indicate that there is no threat of a monopoly, and even the merger of Pekao with BPH would not change this situation considerably. In contrary during last 5 years most of top banks have been losing market share in favor of small/mid-size players, specialized in niches like: Eurobank, GE-money bank, Getin etc. This situation is likely to continue as smaller players are more flexible to changing client preferences and usually employ high performing sales force
- **Since 2004 market access is not protected anymore.** Banks from EU-area may freely open branches in Poland without complicated application process, just by notifying local banking supervision. One of first banks that has used this opportunity was Greek EFG Eurobank, planning to open network of 50 branches until end of 2006. Foreign banks present in Poland as standalone units may also convert to foreign bank branches, as BNP Paribas did in Jan. 2006
- **Regulatory framework is changing.** Two recent initiatives: anti-usury law and FX-denominated mortgage limitation are raising many questions among banks. Initiatives that were meant to better protect bank clients in fact hit smaller and more specialized players, instead of protecting customers. In case of interest rate cap, the newly implemented law, proved to be easy to avoid. Cash loans providers compensate the interest loss by introduction of additional insurance and increased service fees
- **The perspectives of Polish banking market are still very good.** Strong economy, improving situation of enterprises and growing wealth of individuals will contribute to the further growth of the banking market. In short term most of the volumes growth will come from retail banking. Products like mortgage, mortgage refinancing, unsecured lending and credit cards will grow at highest rates. Corporate lending is expected to take off first in 2007

* Herfindahl-Hirschman Index

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SAMPLE

POLAND – GENERAL OVERVIEW

Poland – Country Map



Poland – Key facts, 2005

Area: 312,685 sq km

Population: 38,2 million, of which:

- 82% over 15 years old
- 62% urban population

Number of households: ~14 million

Average life expectancy: 71Y male, 79Y female

Major cities (inhabitants in thousand): Warszawa (1690), Łódź (780), Kraków (760), Wrocław (640), Poznań (570)

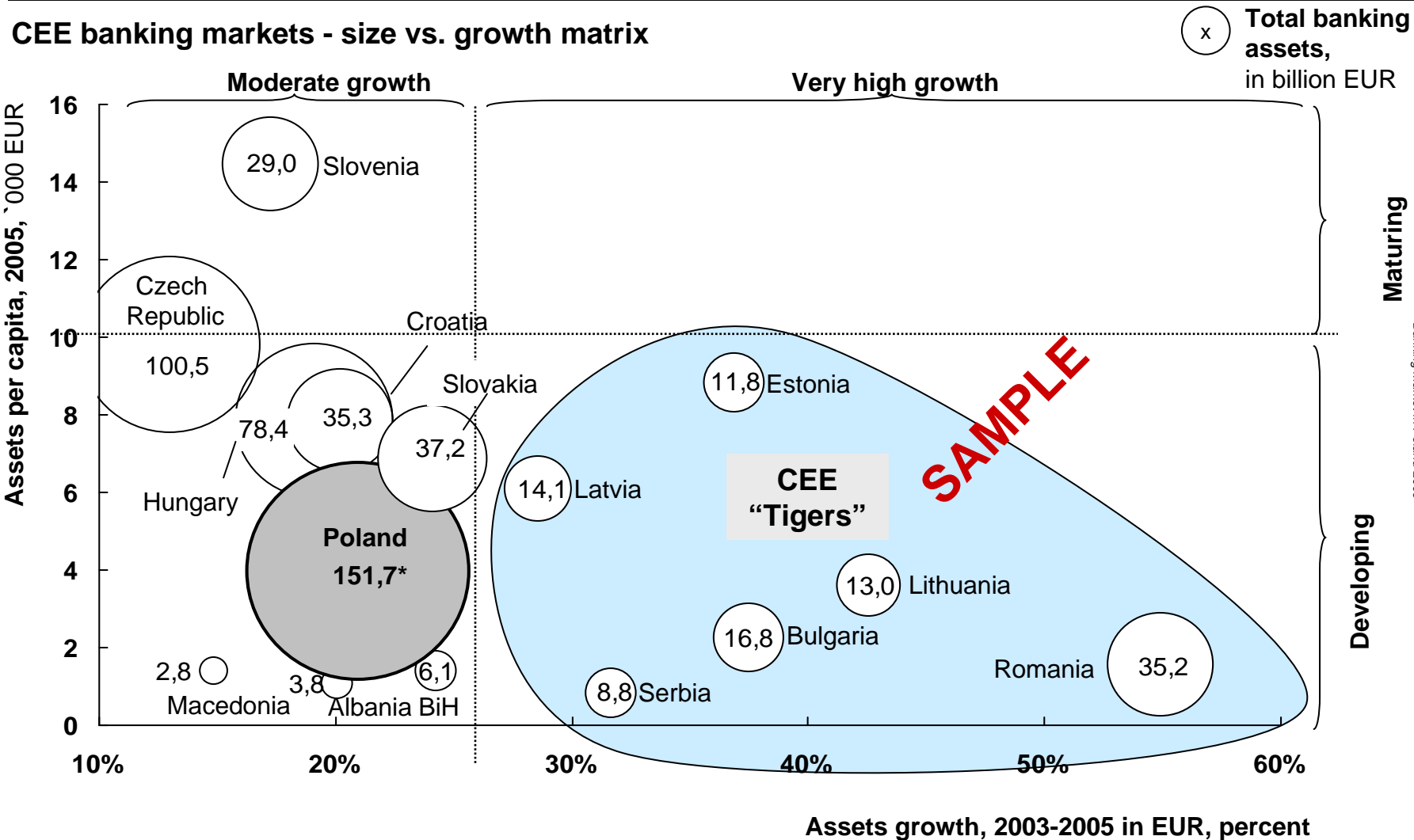
Political developments:

- The conservative Law and Justice Party (PiS), won parliamentary elections (34% of seats in the lower House) in September 2005 on a pledge to fight corruption and to stop the “economic liberalism”.
- Governing but having no majority in the Parliament PiS has signed a stabilization pact with two opposition groups – the left and populist Self-Defense and the right nationalist League of Polish Families. This agreement has temporarily prevented early elections but is not likely to bring long-lasting stability.

EU membership:

- Poland is an active member of the EU since 2004. It is negotiating with determination the access to EU regional/support funds that are badly needed for the reconstruction of country's weak infrastructure.
- At the same time the government is involved in few risky disputes with EU. There is an attempt to prevent Pekao and BPH bank merger (both owned by UniCredit), that is being perceived in Brussels as the offence of EU law on free movement of capital. Also the PZU insurance privatization issue has not been resolved yet. In both cases the government is claiming that foreign investors were breaching agreements, while the more likely reason for the resistance is the negative sentiment of the strong populist fraction against privatization and falling control of the State over the economy.








POLAND IS THE LARGEST BANKING MARKET IN CEE. IT HAS STILL A HIGH GROWTH POTENTIAL IN TERMS OF ASSETS PER CAPITA



* Commercial and cooperative banks
 Source: Central banks, IMF, Census, Intelace Analysis

COMMERCIAL BANKS PLAY KEY ROLE IN THE SYSTEM, HOWEVER THE IMPORTANCE OF COOPERATIVE SECTOR IS GROWING

Banking system in Poland, 2005

		Assets			
		Number	Value EUR bn	Growth 05/04,%	Description
Banks	National Bank of Poland 	1	39,0	32,5	Central Bank, usually does not perform operations with retail and commercial clients
	Commercial Banks 	55	143,2*	15,0	Serve majority of retail, corporate and municipal clients
	Branches & representatives of foreign banks  	10**	~1	n/a	So far playing a marginal role but likely to grow
	Cooperative Banks 	590	8,4*	20,4	Small local banks organized as cooperatives, operating in rural areas and typically serving agriculture and retail sector
	Cooperative Savings and Credit Unions 	1553**	1,4	33,2	Non-profit organizations providing basic retail banking services. Recently gaining on popularity among mass retail customers
Para-banking Institutions	Non banking cash loans providers 	1 large player (Provident) & many small (mostly grey economy)	0,4***	n/a	Non-banking unsecured cash loans distributors, extremely high margins, personal approach and collection

Banking Market in Poland 2006

SAMPLE

* End of year estimate based on Q3 2005 results

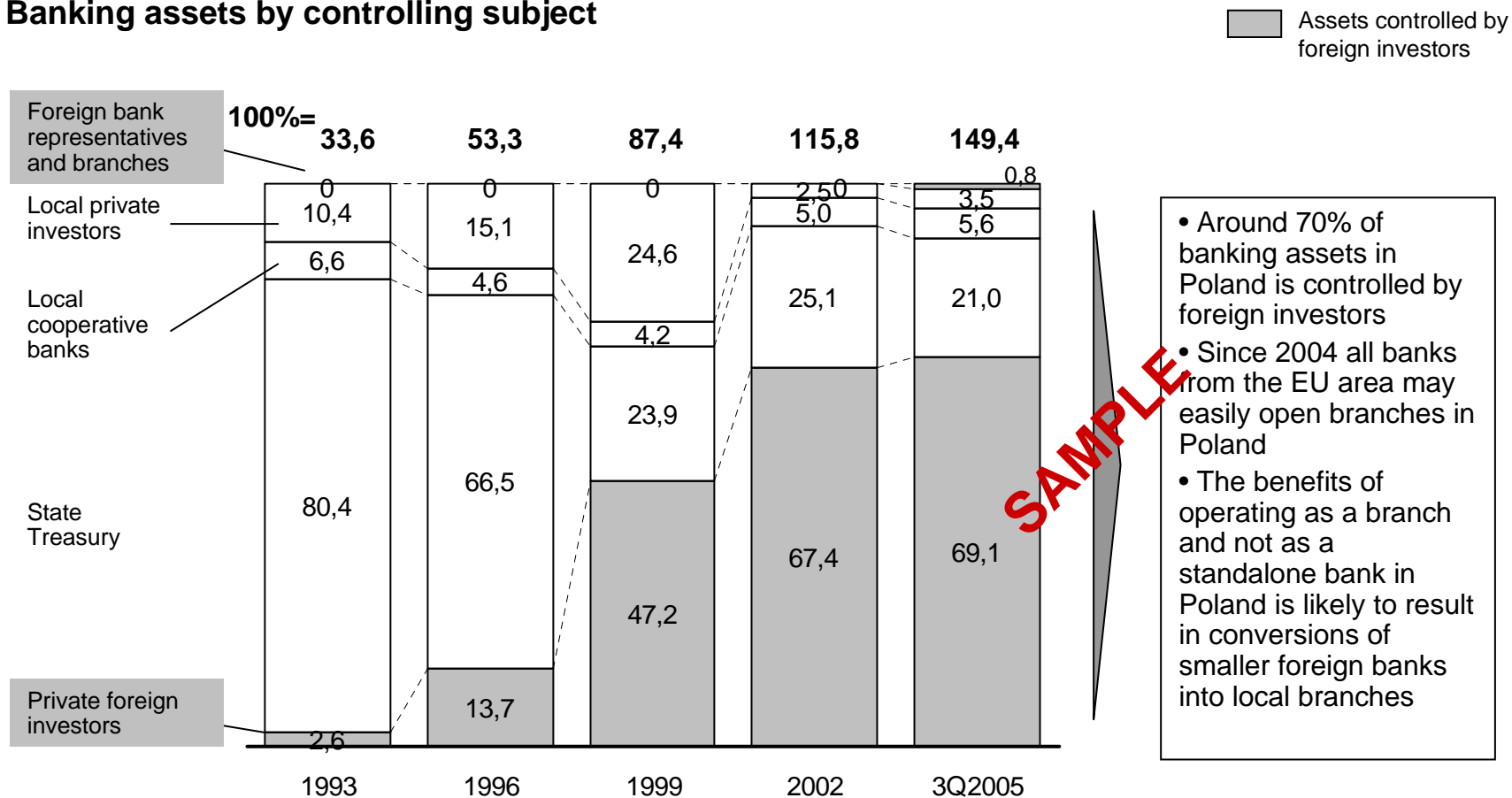
** Total number of branches

*** Loans extended by Provident in 2004











Source: NBP, SKOK, Intelace Analysis

FOREIGN INVESTORS CONTROL MAJORITY OF BANKING ASSETS IN POLAND

Banking assets by controlling subject



TOP FOREIGN INVESTORS IN POLISH BANKING SECTOR, 2005

Rank	Bank	Local subsidiary	Controlled assets EUR billion	Market share percent	Entry type
1	 UniCredit	Pekao, BPH*	30,5	21,3*	Privatization
2	 ING	ING BSK	10,9	7,6	Privatization, Greenfield
3	 Citibank	Citibank Handlowy	8,4	5,9	Privatization, Greenfield
4	 COMMERZBANK	BRE Bank	7,9	5,5	Privatization
5	 AIB	BZ WBK	7,3	4,2	Privatization
6	 Millennium bcp	Millennium	6,0	3,8	M&A
7	 KBC	Kredyt Bank	5,4	2,0	M&A
8	 Raiffeisen BANK	Raiffeisen bank	2,9	2,0	Greenfield
9	 Deutsche Bank	DB, DB PBC	2,8	1,6	Greenfield, M&A
10	 GE Money Bank	GE Money bank	2,4		M&A, Greenfield

Banking Market in Poland 2006

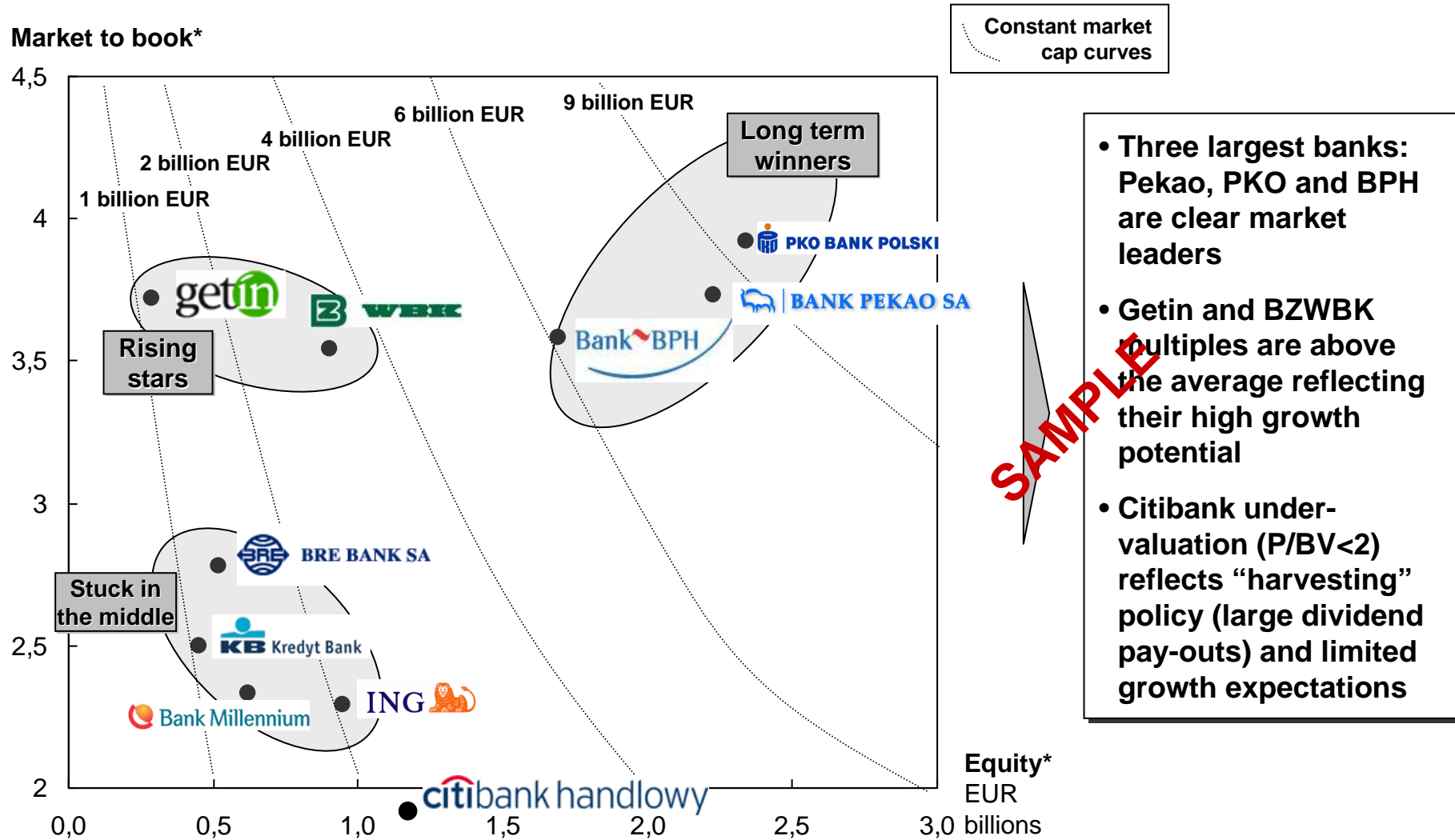
SAMPLE

* Merger of Pekao and BPH not cleared yet.

Source: Banks, Rzeczpospolita, Intelace Analysis

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STRATEGIC CONTROL MAP – TOP LISTED BANKS, FEBRUARY 2006



Banking Market in Poland 2006

* Based on consolidated results for 2005, ratios as of Feb 28, 2006
 Source: banks, press, Intelace Analysis

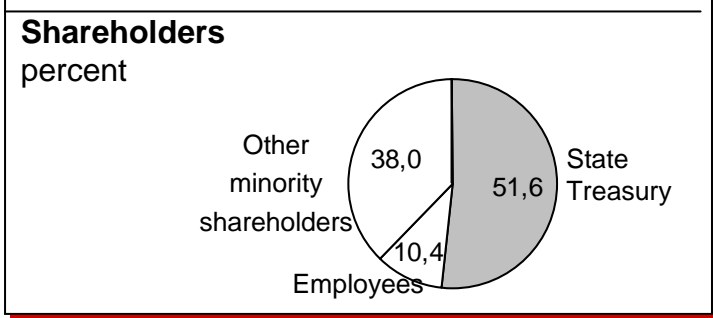
General Data

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



Concept Description

Clients

- Mass retail clients, dominating, less demanding and less advanced than average, valuing personal service even if waiting in a queue is the price, quite reluctant to use cards and modern channels
- Large group of loyal but older and ageing customers keeping their money at the bank for years
- Corporate clients served as well, but the offer less advanced than at competition

Products

- Broad retail offering. Well developed lending products with a mix of cash, installment and mortgage loans. Mortgage driving strongly volumes growth
- Less advanced on the deposit side. Lack of innovative structured / investment products. Limited offer of investment funds
- Exclusive rights granted by Treasury for distribution of treasury bonds
- Dedicated packages for SME segment, less advanced offer of corporate products

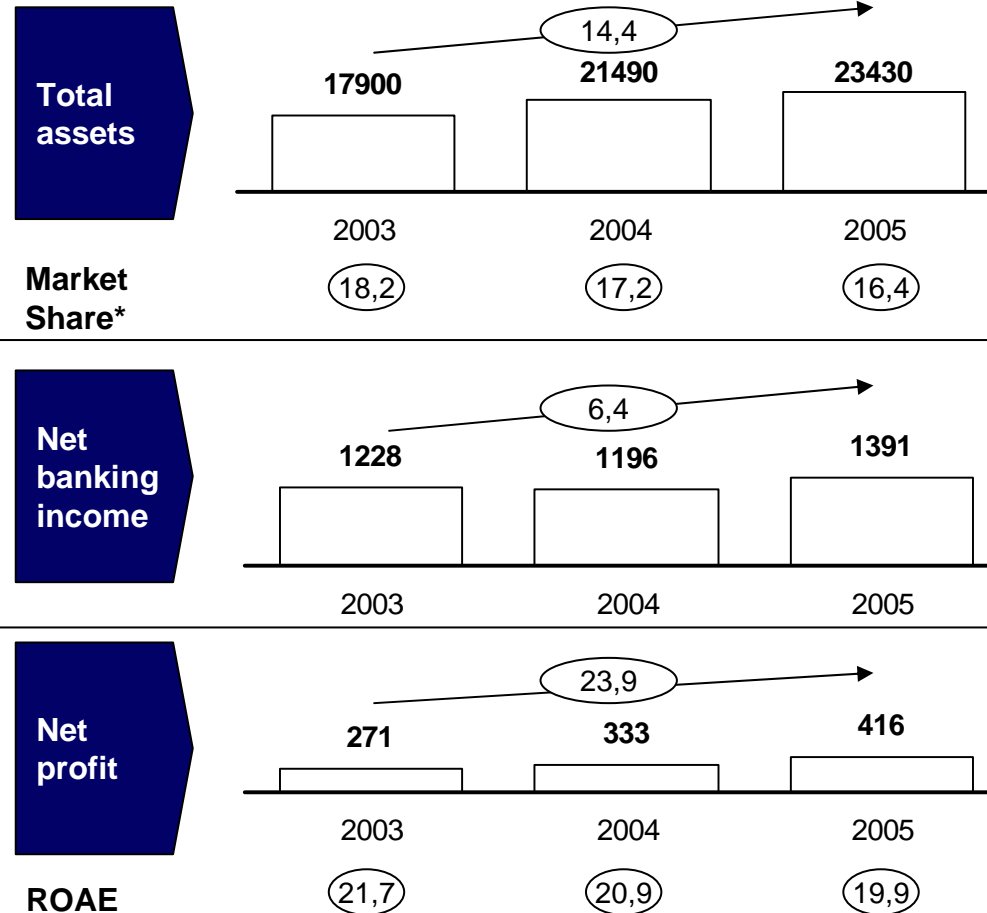
Channels

- Distribution based mainly on physical network. Over 1250 branches and 2500 agencies build the largest banking infrastructure in the country. Smaller towns and remote areas are well covered
- Internet access and call center available through subsidiary „Inteligo” - previously an independent internet bank
- Mortgage loans distributed by independent distributors and brokers

Banking Market in Poland 2006

Bank financials, unconsolidated figures

EUR million, percent



Recent Initiatives

- In March 2005 PKO BP has introduced quick cash loan for unspecified purpose (SSK). Product proved to be very successful. Sales reached 3,25 bn PLN until the end of 2005
- In October 2005 bank started to offer quick loan for SME clients (SLK). Sales reached 148 m PLN during first 3 months
- Recently bank has opened 90 mobile sales points in high traffic areas with the goal to sell SSK loans and to acquire new clients
- Newly adopted bank strategy for years 2006-08 is assuming expansion on new markets (CEE) and boosting domestic corporate business while maintaining retail position. Bank also wants to develop multi-channel distribution network

Banking Market in Poland 2006

* Share in term of assets

** Compound Annual Growth Rate

Source: Bank, NBP, Press, Intelace Analysis

NOTES ON METHODOLOGY

FX rates:

- As a general rule all “end of year” balances like: assets, deposits, loans and similar volumes have been converted from the local currency into Euro using **end of year** exchange rate
- All results achieved during a period of time like: profits, revenues, new sales etc. have been converted from the local currency into Euro using **average** exchange rate
- Exchange rates used in the report:

EUR / PLN	2000	2001	2002	2003	2004	2005
End of year	3,90	3,53	4,03	4,72	4,09	3,86
Average	4,02	3,68	3,85	4,40	4,58	4,03

Estimates and Forecasts:

- In some cases, recent or verified data was not available. Therefore necessary short-term estimations have been done to fill the gaps. Estimates are always indicated with the letter “E”
- When preparing forecasts/estimates we have built models using latest observed trends, available forecasts of main economic indicators, seasonal changes observed in the past and other specific factors considered important.

Multiple sources:

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