

# **BANKING MARKET IN POLAND 2006 - CEE BANKING SERIES**

**Update 06/2006**



**by Marcin Mazurek, Intelace Research  
September 2006**

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## EXECUTIVE SUMMARY – BANKING MARKET IN POLAND

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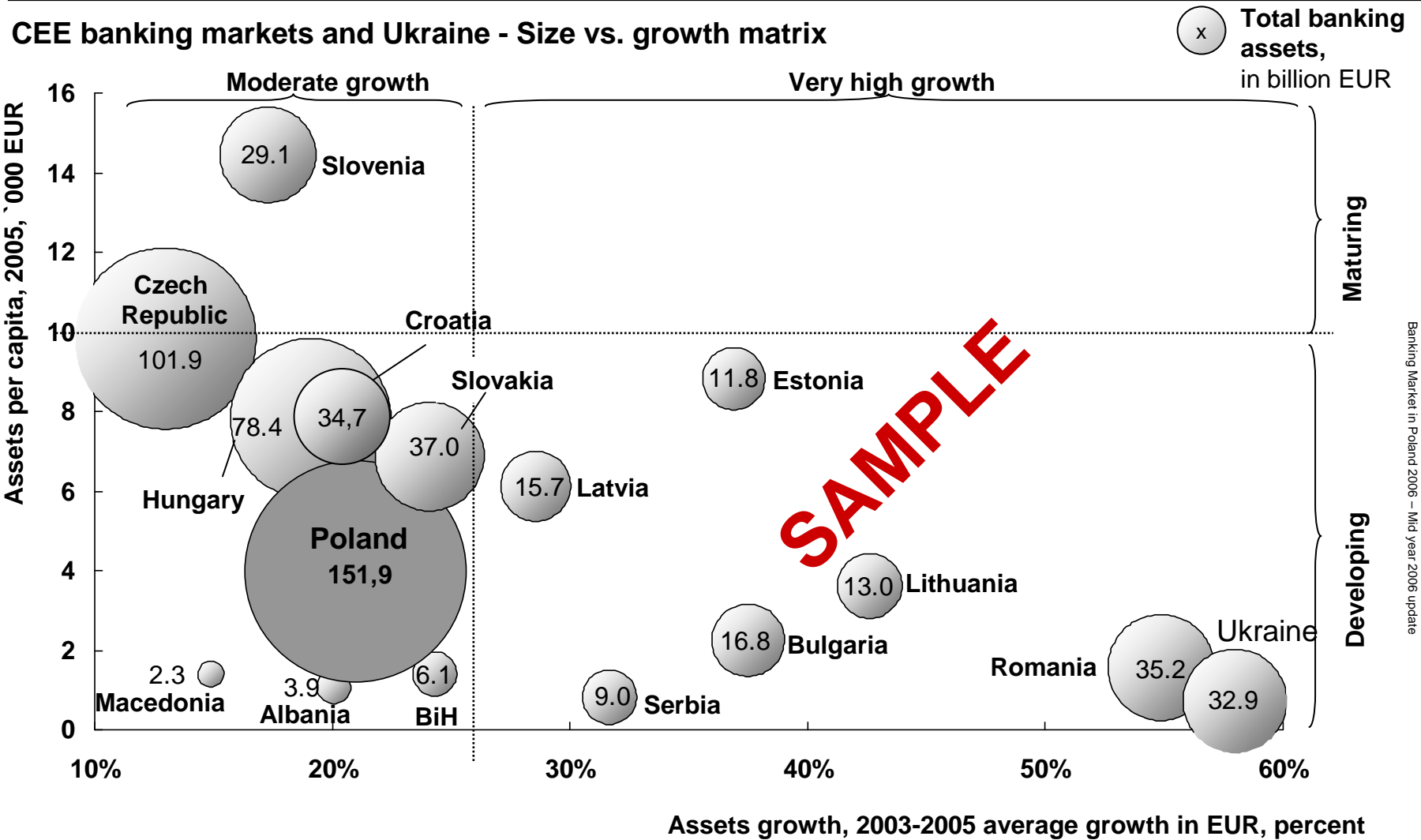
- **Profitability is going up.** In recent years the condition of Polish banking system has improved significantly. Despite growing competition from non-banking institutions like: investment funds, insurance companies, credit unions and cash loans distributors or even well-performing stock exchange, 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 the 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

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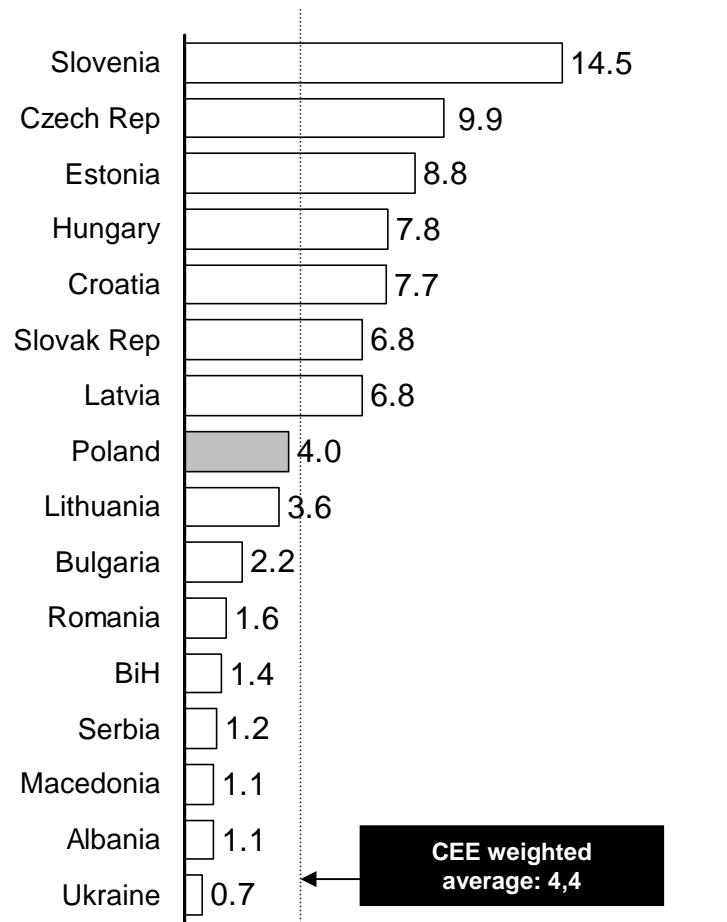
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# POLISH BANKING MARKET HAS STILL A BIG GROWTH POTENTIAL

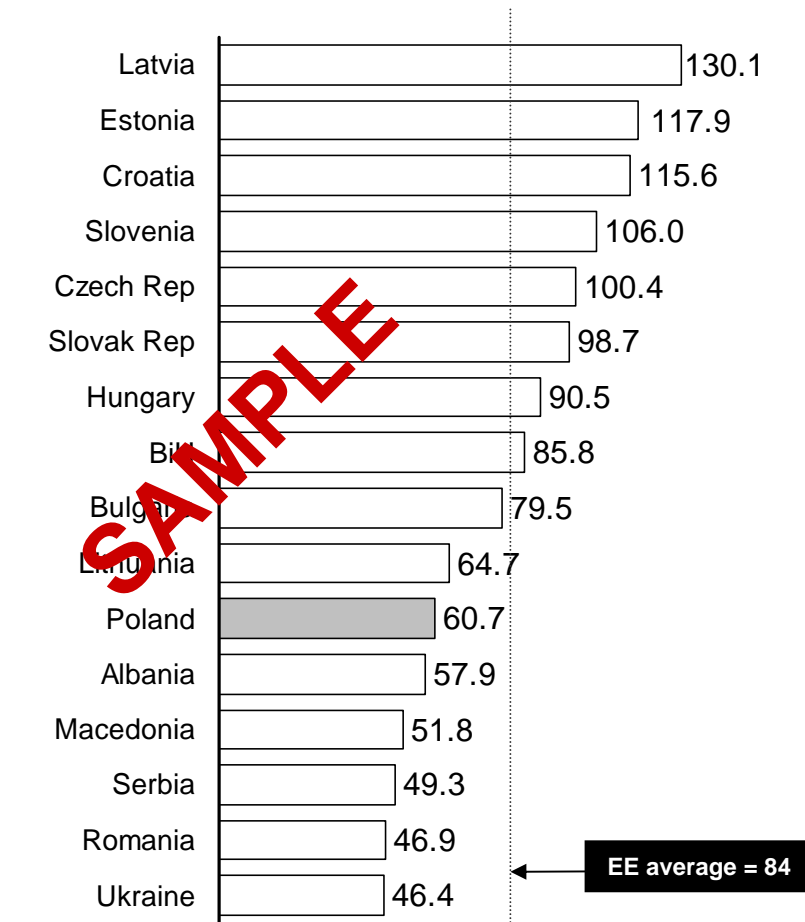


# IF COMPARED TO OTHER COUNTRIES, POLISH BANKING PENETRATION BENCHMARKS LAG BELOW CEE AVERAGES

**Banking assets/capita, 2005**  
EUR `000













**Banking assets/GDP, 2005**  
percent



Banking Market in Poland 2006 – Mid year 2006 update

## TOP FOREIGN INVESTORS IN POLISH BANKING SECTOR, 1H 2006

Rank	Bank	Local subsidiary	Controlled assets EUR billion	Market share percent	Entry type
1	 UniCredit	Pekao, BPH*, BPHBH	31.8	22.0*	Privatization
2	 ING	ING BSK, SBH	10.5	7.3	Privatization, Greenfield
3	 COMMERZBANK	BRE Bank, BREBH	8.9	6.2	Privatization
4	 citibank	Citibank Handlowy	8.4	4.9	Privatization, Greenfield
5	 AIB	BZ WBK	7.2	5.0	Privatization
6	 Millennium bcp	Millennium	5.7	4.0	M&A
7	 KBC	Kredyt Bank	5.2	3.6	M&A
8	 Raiffeisen BANK	Raiffeisen bank	3.1	2.2	Greenfield
9	 GE Money Bank	GE Money bank	2.4	1.7	M&A, Greenfield
10	 Deutsche Bank	DB, DB PBC	2.3	1.6	Greenfield, M&A

Banking Market in Poland 2006 – Mid year 2006 update

\* Sale of BPH bank expected in 2007

Source: Banks, Rzeczpospolita, Intelace Analysis

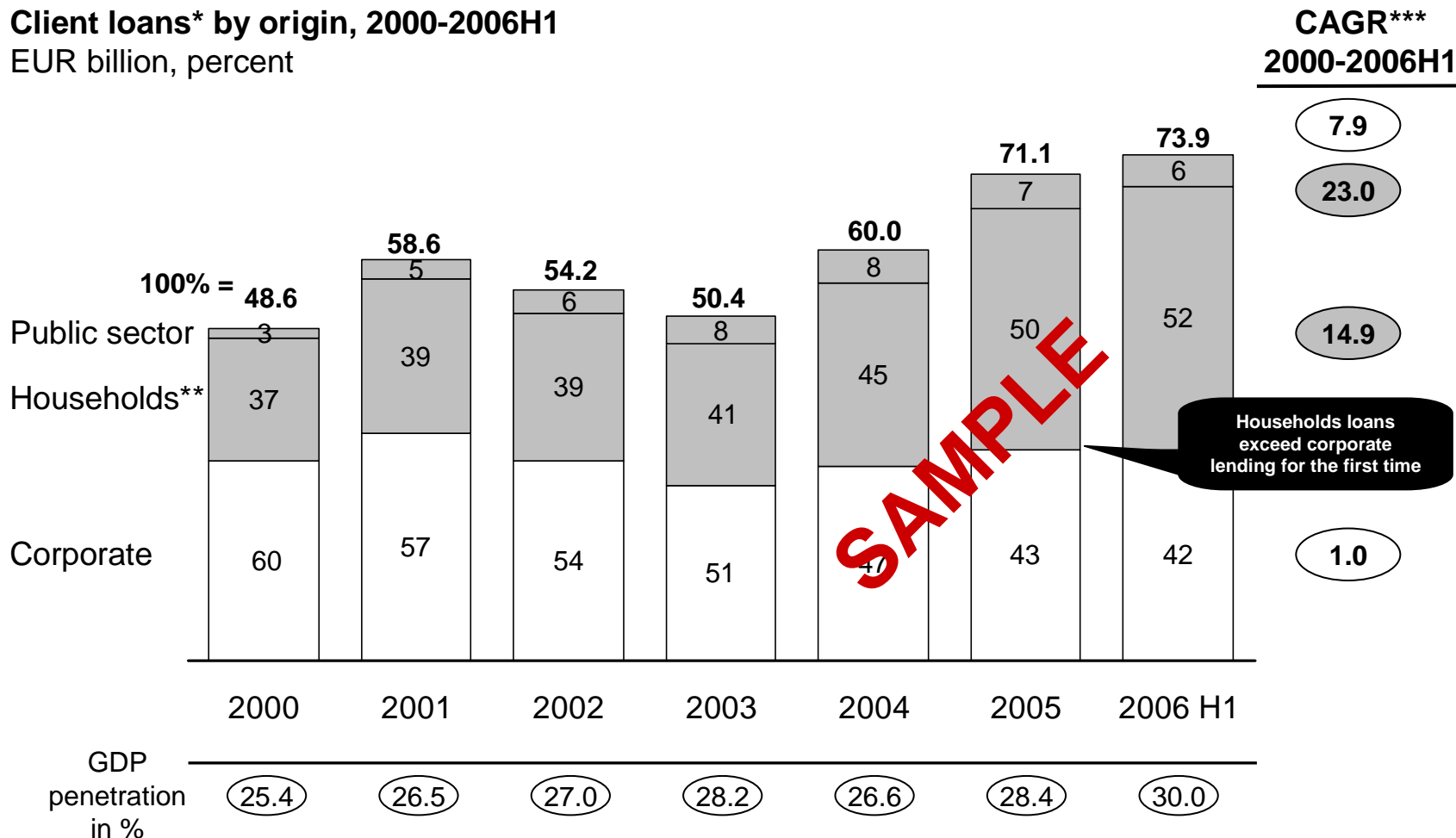
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# LOANS ARE ACCELERATING DRIVEN MAINLY BY RETAIL AND PUBLIC LENDING GROWTH

UPDATE JUN 2006

## Client loans\* by origin, 2000-2006H1

EUR billion, percent



Banking Market in Poland 2006 – Mid year 2006 update

\* Excluding monetary financial institutions, non-monetary financial institutions and non-commercial organizations

\*\* Including individual entrepreneurs and farmers

\*\*\* Compound Annual Growth Rate

Source: NBP

# RATE CAP LAW IS LEAST EFFICIENT WHERE IT WAS EXPECTED TO HAVE MOST IMPACT – UNSECURED LENDING RATES

**New rate cap compliant product**

PROVIDENT  
POLSKA

	Zloty
Home serviced version (52-week loan)	
Contractual loan value	1,176.00
Creditor insurance	120.00
Preparatory fee	56.00
Loan to customer	1,000.00
Fixed interest*	123.42
Home service fee**	408.58
<b>Total charge</b>	<b>768.00</b>
<b>Weekly rate</b>	<b>34.00</b>

\*The law allows a maximum of 4 times Lombard rate which is currently 5.50%  
 \*\*Home collection fee of 9.02 zloty per week

**“ANTI-USURY FOR RICH”**  
 “The only group of consumers benefiting from the new law are credit card holders...”  
 GK: March 7, 2006

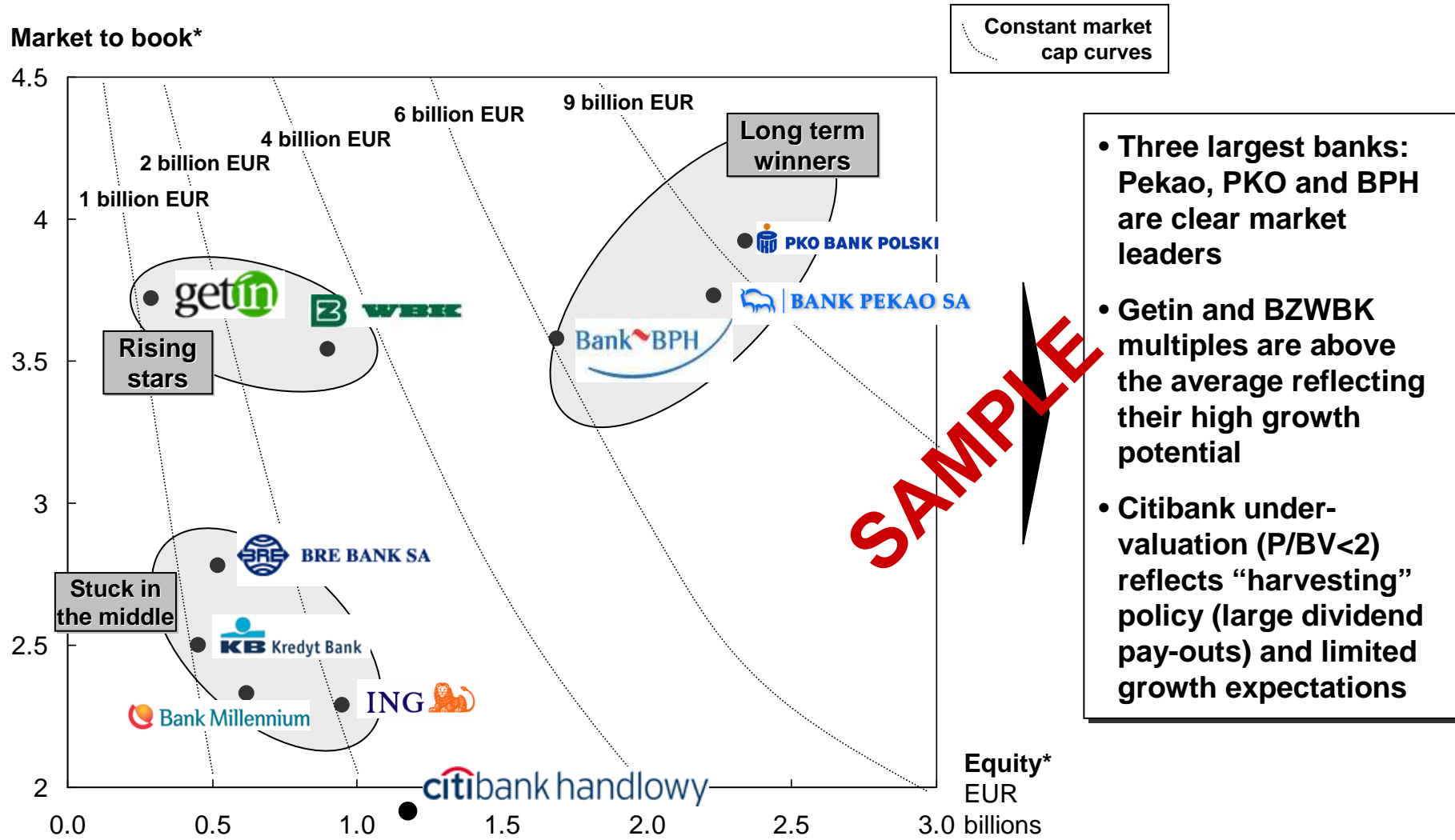
- The new rate-cap law is apparently easy to avoid
- The only visible effect of the law is drop of the credit card interest, which however does not improve situation of low-end customers that are unable to get a credit card

**SAMPLE**

**APR ~126%**

Banking Market in Poland 2006 – Mid year 2006 update

# STRATEGIC CONTROL MAP – TOP LISTED BANKS, FEBRUARY 2006



Banking Market in Poland 2006 – Mid year 2006 update

\* 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.

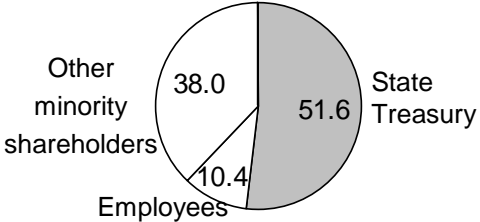
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**Timeline**

- 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

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**Shareholders**  
percent



Shareholder Type	Percentage
State Treasury	51.6%
Other minority shareholders	38.0%
Employees	10.4%

## 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

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**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

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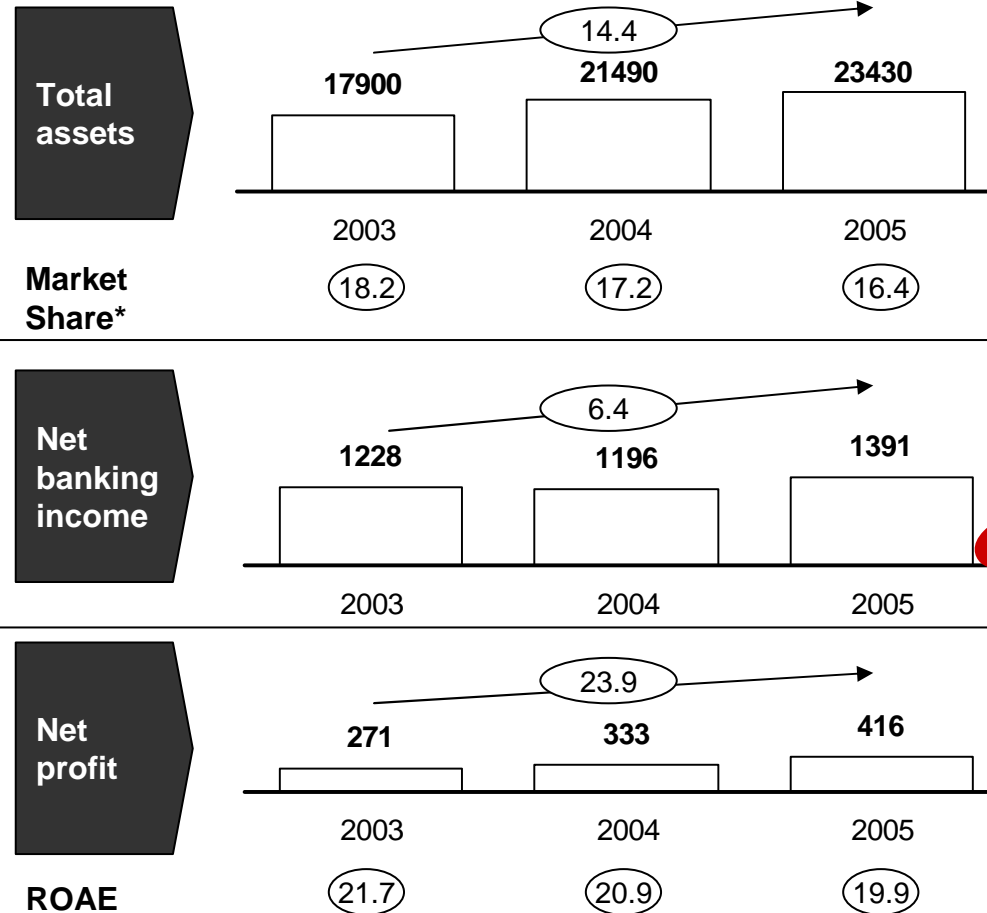
**Channels**

- 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 – Mid year 2006 update

## 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 (SKK). 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 assuming expansion on new markets (CEE) and boosting domestic corporate business while maintaining retail position. Bank wants to develop multi-channel distribution network

\* Share in term of assets

\*\* Compound Annual Growth Rate

Source: Bank, NBP, Press, Intelace Analysis

## NOTES ON METHODOLOGY

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### 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	2006 H1
End of year	3.90	3.53	4.63	4.72	4.09	3.86	4.08
Average	4.02	3.68	3.85	4.40	4.53	4.03	3.90

### 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”
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