

BANKING MARKET IN POLAND 2018-2020

CEE BANKING SERIES



by Inteliace Research
May 2018

DEMO

ZAMÓWIENIE / ORDER FORM



We order following report: / Zamawiamy następujący raport:

Banking Market in Poland 2018–2020, CEE banking series.

Szczegóły dotyczące przedmiotu zamówienia / Order Details:

Data publikacji / Publication date: 5/2018

Liczba stron/ Number of pages: 117

Język/Language: Angielski / English

Sposób dostarczenia/Delivery: Electronic (.pdf file)

Cena / Price:

2500 EUR (clients outside Poland)

or

9900 PLN + 23% VAT*

Client's Details / Dane Zamawiającego: (Dane na potrzeby wystawienia faktury)

Nazwa firmy / Company name	
Osoba zamawiająca / Name	
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Adres c.d. / Address 2	
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Our address:

Inteliace Research
Foksal 17 lok. 31
00-372 Warszawa, POLAND

Tel./Fax./ +48 22 4086620
Tel. /kom./ +48 502512178

email: info@inteliace.com
website: www.inteliace.com

NIP: 1230807095
REGON: 140235909

Bank: mBank,
Mickiewicza 10, 90-050 Łódź

Numer konta /Account
PL 94 1140 2004 0000 3102 3953 4011

BIC/SWIFT: BREXPLPWBK

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Executive summary

- **Economy.** Poland's economy accelerated in 2017 with Gross Domestic Product (GDP) advancing at 4.6 % annual rate. The growth was driven primarily by internal demand from private consumption and fixed investments expanding by 4.8% and 5.2% YoY respectively. A significant rebound could be seen in investment expenditures while exports remained strong. Labor market improved further with unemployment rate decreasing to 6.6% in March 2018 as opposed to 8.2% a year earlier. The consumer price index (CPI) rebounded violently from a negative territory in 2016/2017 to +1.4% YoY in March 2018. The consumer confidence continued to climb higher and its main indicator BWUK reached 5.4 points in March 2018, a level not seen in more than a decade.

- **Banking sector.** Banking volumes have continued to grow during 2017, however, they increased slower than in the past. Deposits of non-financial clients at banks reached PLN 1.14 trillion after a 4% YoY growth while client loans increased to PLN 1.15 trillion, recording a 3% YoY growth. The recent change in key volumes was balanced across all client segments, however, corporate lending advanced slightly faster than other variables. As a consequence of growing client volumes, total banking assets went also up and reached PLN 1.78 trillion as of December 2017.

Banks operating in Poland have seen a slight decrease in profitability during 2017. This could be surprising since their key revenue sources - the net interest and net F&Cs recorded a double digit YoY growth and operating costs went up by just 4% YoY. The actual reason behind lower profitability benchmarks was an abrupt fall in other revenues (mostly one-off) and a jump in risk costs by over 13% YoY. Ultimately, the profit after tax of commercial banks went down by 3.2% YoY to PLN 12.6 billion in 2017. The ROAA* and ROAE* benchmarks weakened by a fraction to 0.79% and 6.90% respectively, in 2017.

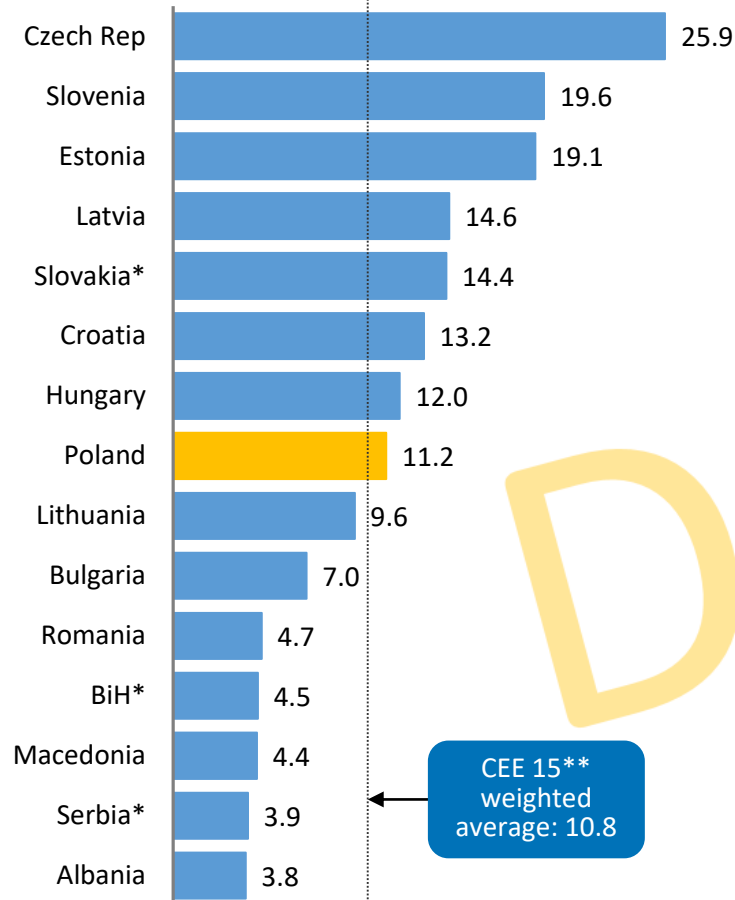
- **M&As and consolidation.** The consolidation trends observed in previous years continued also in 2017. Santander's subsidiary - BZ WBK secured the acquisition of retail and SME activities of Deutsche Bank Polska while BGŻ BNP Paribas was the winner in negotiations for the business of Austria's Raiffeisen bank leaving Poland. As a consequence of recently announced deals, the banking market will soon become pretty concentrated with 6 major banks managing assets in excess of PLN 100 billion each and holding a combined market share in excess of 55%.

- **Trends and competition.** Following the changes in customer lifestyles and service demand, banks are adopting new technologies and transforming their service models betting on multichannel access and remote channels. Mobile banking, innovative payments and extra services available via banking apps are at the forefront of business innovation. The reduction of physical branch networks and expansion of self-service is progressing fast. Since 2015, commercial banks closed over 2150 outlets or nearly 20% of their entire network. This trend is expected to persist, and it might even accelerate following upcoming mergers.

- **Outlook.** In our base-case scenario, we see Poland's economy decelerating in 2019 and 2020 towards ca. +3% growth YoY. The financial condition of households is expected to keep improving further and it is likely to support strong growth in key retail volumes including mortgage. Similarly, an accumulated investment demand within the corporate segment is likely to fuel stronger growth in corporate lending within next three years. We expect total banking assets to advance at ca. 6% through 2020. As far as banks' profitability is concerned, the banking industry is likely to see higher profits in 2018 in absolute terms thanks to growing underlying volumes and benefiting from stable margins. Nevertheless, profitability benchmarks of banks, e.g. ROE & ROA, might stagnate again due to high equity retention and mounting risk costs and loan provisions.

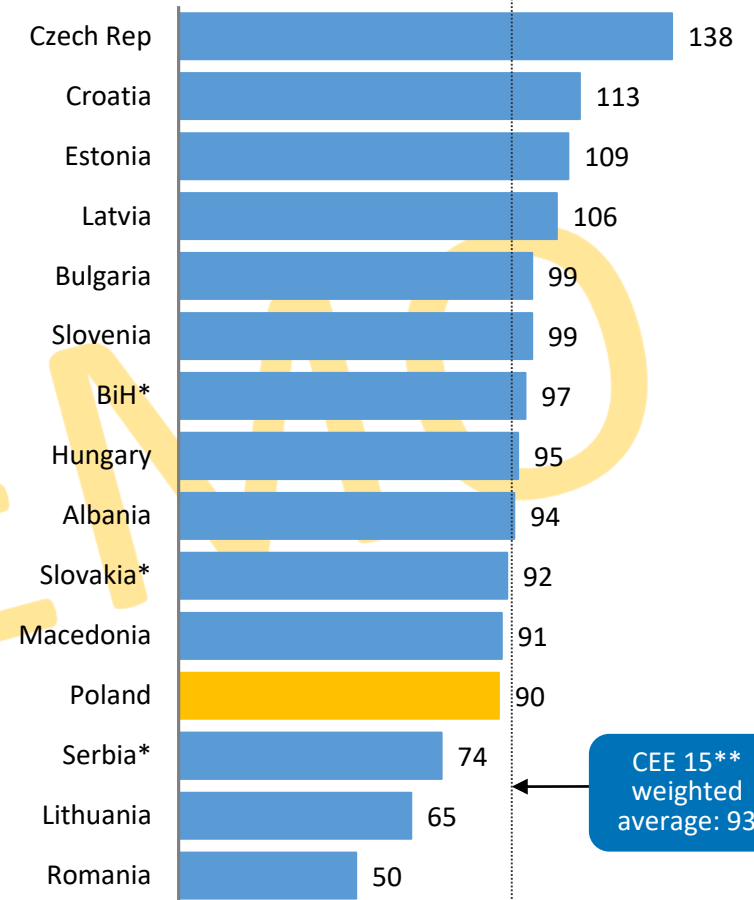
Banking asset penetration in Poland is still quite low

Banking assets/capita, 2017
EUR `000



Banking assets/GDP, 2017
percent

BASED ON PRELIMINARY
2017 DATA



* Assets as of Q3 2017

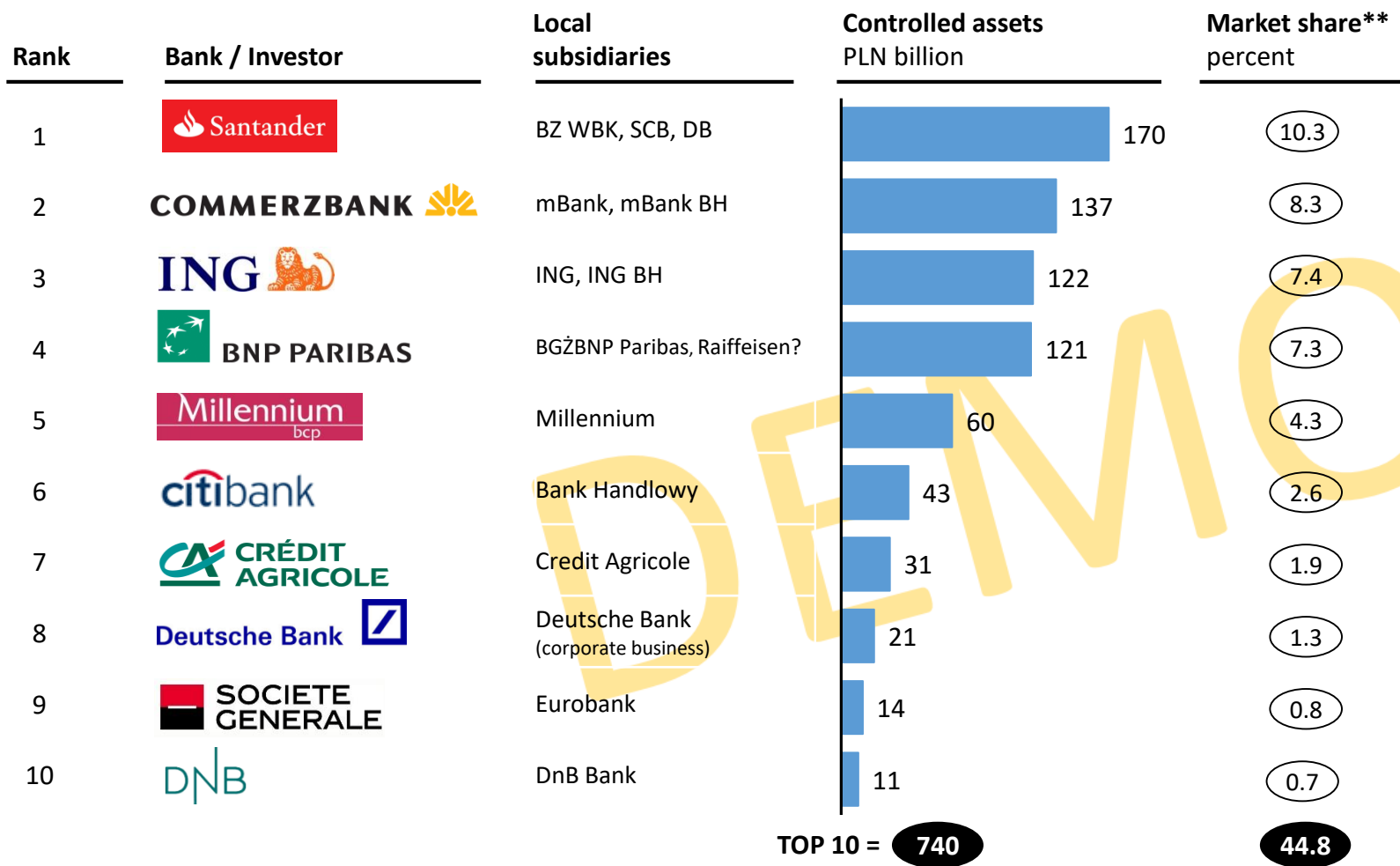
** Major 15 CEE countries. Russia, Ukraine and Belarus not included

Source: Central banks, Eurostat, Inteliace Research

After the exit of UniCredit, Santander became the largest foreign player in Poland's banking sector

Top 10 foreign investors in Poland's banking sector, 2017

PRO FORMA*
As of Dec. 2017



* Pro forma, including declared but not executed M&A transactions

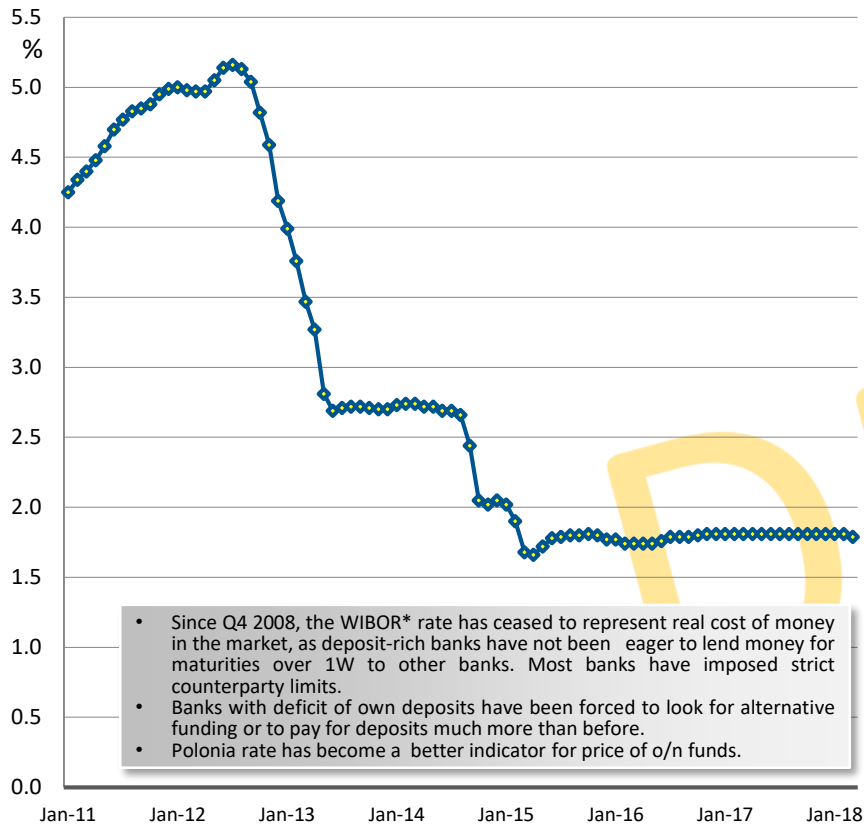
** Market share in commercial banks sector (domestic commercial banks & foreign banks branches), cooperative banks excluded

*** Not including foreign branches of respective groups operating directly in Poland

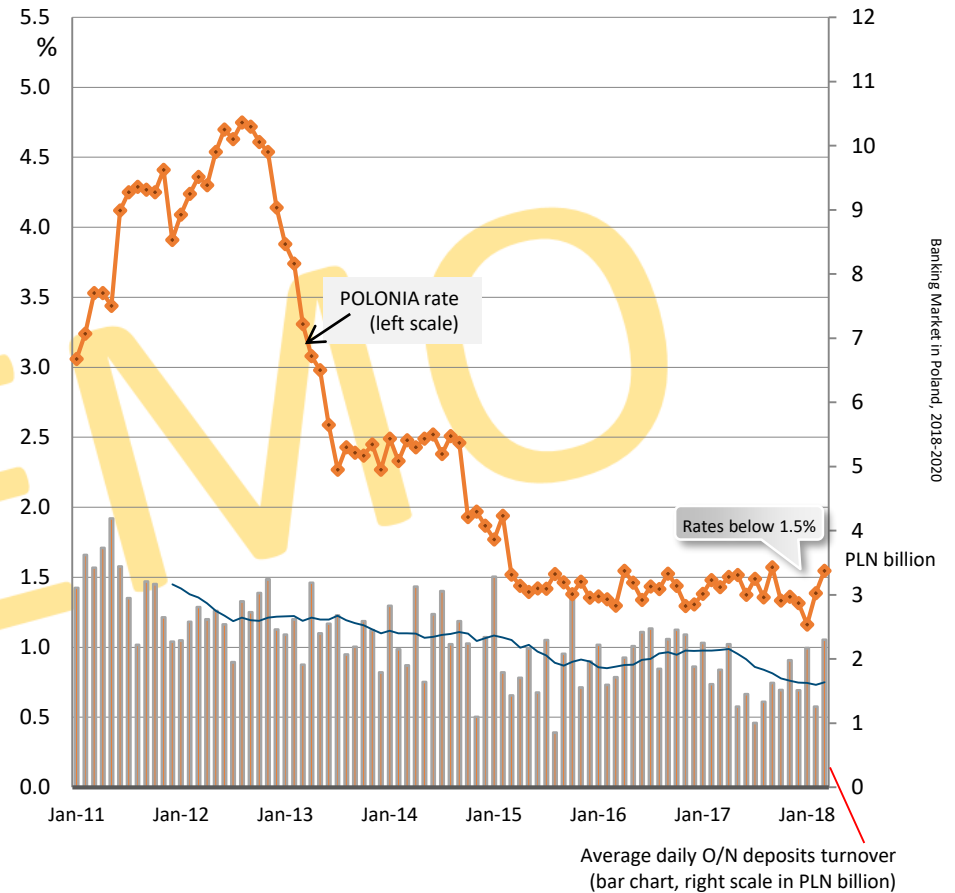
Source: Banks, NBP, Rzeczpospolita, Inteliace Research

Market interest rates have stabilized since 2015

Warsaw Interbank Offered Rate 6-months [WIBOR6M]
In percent



POLONIA O/N RATE**
In percent



* Warsaw Interbank Offered Rate – rate used frequently for loan indexing

** Polonia rate indicates the real cost of short term funds (O/N), derived from market transactions

Source: NBP, Inteliace Research

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	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
End of year	4.17	4.11	3.96	4.42	4.09	4.15	4.26	4.26	4.42	4.17
Average	3.52	4.33	3.99	4.12	4.19	4.20	4.19	4.18	4.36	4.26

Source: NBP

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 “F” 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:

- In some cases multiple sources of similar data exist. In this situation we always try to select the most appropriate one /in our view/. The source is indicated in the footer area of each slide. Nevertheless in specific cases, before interpreting the data it is recommended to get a good understanding on the methodology of data collection by contacting the authors.

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Our company specializes in value-added research services and tailored business intelligence solutions.

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

The lead researcher and founder of Inteliace Research is Marcin Mazurek.

Our contact details:

Inteliace Research

Foksal 17B / 31, 00-372 Warszawa, Poland

Tel. +48 22 408 66 20, Tel. +48 502 512 178

Fax. +48 22 349 21 40

mail: [info @ inteliace.com](mailto:info@inteliace.com)

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Since no leading market standard has been set yet, banks bet on partnerships and develop own solutions at the same time

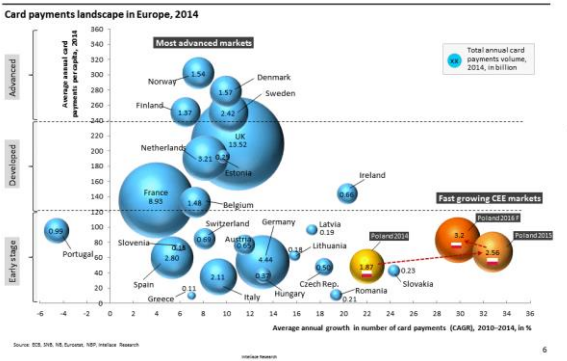
Key players in payment applications/wallets, 2016

Bank	Number of retail accounts (ROA) As of Q3 2016 in million	Key payment applications (mobile, wallets, etc.)					
		HCE	Proprietary HCE*	BLIK	Android Pay	MasterPass	Visa Checkout
Bank Pekao / Integro	5.8	✓	✓	✓	✗	✓**	○
Bank Pekao	3.5	✓	✗	✗	✗	✓***	○
mBank	3.2	✗	✗	✓	✗	✓**	○
BZ WBK	3.1	✓	✓	✓	✓	✓**	○
ING Bank Śląski	2.6	✗	✓	✓	✗	✓**	○

PKO Bank Polski is by far the largest card issuer in Poland



The volume of card payments in Poland is expected to exceed 3 billion in 2016



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