

## **Polish banking market consolidation in 2009–2013**

**Summary:** From the beginning of the 90's Polish banking sector has been undergoing radical changes, especially due to consolidation and concentration processes taking place in the sector. Foreign banks have been active participants in the process, taking over a large share of the Polish financial sector by privatization and takeover of Polish banks. The paper describes the consolidation processes taking place in the Polish banking sector in the last four years, the role of foreign banks in the processes, as well as the impact of mergers and takeovers on the sector's development. The main purpose of the article is to show last concentration processes in the Polish banking sector and their influence on the sector development.

**Keywords:** consolidation, banks, mergers and acquisitions

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### **Introduction**

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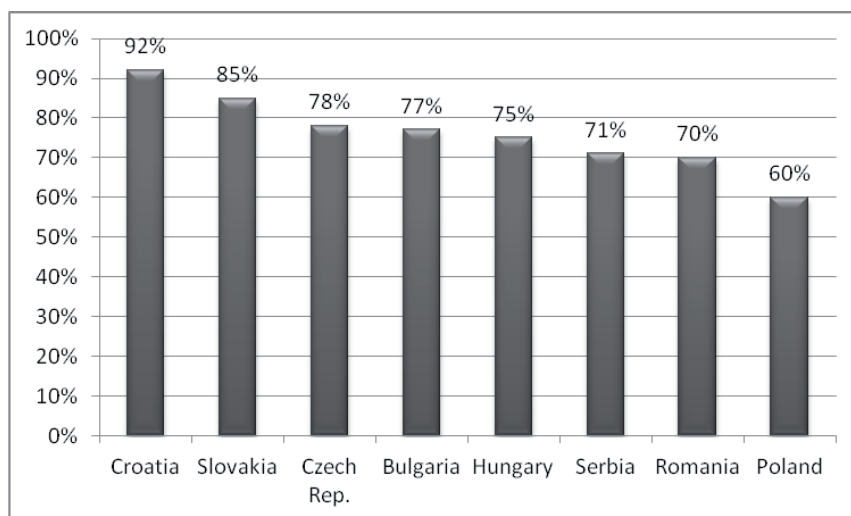
Banking sector in Poland is the biggest banking market in the region of Central and Eastern Europe. We can say that it is also a very specific one. Relatively it is a young market, because it started to operate in full after the year 1989, when the transformation process in Poland was in progress. Undoubtedly, as the source of the transformation some external factors are considered. These were situated out of the banking sector and included both impact of foreign banking models and Polish economic policy. Before the transformation took place most of the Polish banks had been state-owned. The restructuring of financial institutions was the result of transforming Poland into a market-oriented economy. One of the most important processes taking place in the 90's was privatization of the financial sector. The aims included in the Polish Privatization Strategy were:<sup>1</sup> increase in the banks' standards of operation, know-how transfer; rationalization of banks' ownership structure and management methods, increase in the efficiency of funds allocation and human resources; financial reinforcement of the banks. The privatization of banks was aimed at creation of a modern and commercial banking sector.

There are about 50 commercial banks currently operating in Poland and as a result of planned mergers and acquisitions on Polish market, this number will steadily decrease. Three main banks, PKO B.P., Pekao S.A. as well as BZ WBK hold approximately 40% of the market. However domination of the biggest ten banks in Poland is the lowest in the region. In Poland these banks control 60% of sector assets, when the average for eight Central Europe countries is 76% (see picture 1.). According to Deloitte analyst, there is space for consolidation in Poland, even if we consider influence of the last two significant transaction

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<sup>1</sup> Konsolidacja i prywatyzacja banków z kapitałem SP - wstępne tezy i założenia, Ministerstwo Finansów, Departament Systemu Bankowego i Instytucji Finansowych, Warszawa 2004.

on polish banking sector consolidation, meaning BZ WBK and Kredyt Bank merger and connection of Raiffeisen and Polbank<sup>2</sup>.



Picture 1. Banking sector concentration in Poland and other seven Central Europe countries: percentage of the biggest ten banks assets in specific country in total banking sector assets of the country (data from end of 2011).

Source: Centrum Rozwiązań dla Sektora Finansowego Deloitte, *The Banking Sector in Central Europe – Performance Overview*, p. 10.

## Theoretical aspects of banks consolidation process

The main reason that encourages banks to decide to start consolidation process is of course, a desire to benefit more, which can be achieved by expanding the range and scale of services. Bank consolidation process refers to the situation where one bank merges with or takes over another, which can enable expansion of the bank by eliminating competition at the same time.

The fact that the banks had to face a competition from foreign and local institutions, contributed to the banking sector breaking out of lethargy, which is a common trap for majority of monopolists. The unavoidable competition gave the banks a motivation to mobilise in order to accelerate the processes needed to adapt to the global financial market development trends. They could now follow the scheme of operation of their Western competitors (fortunately, as it was revealed later, it was not a complete imitation)<sup>3</sup>.

<sup>2</sup> Centrum Rozwiązań dla Sektora Finansowego Deloitte, *The Banking Sector...*, op. cit., s. 10.

<sup>3</sup> S. Flejterski, M. Pettersen – Sobczyk, *Sektor bankowy w Polsce w latach 1989–2013 – próba oceny z punktu widzenia interesariuszy*. Zeszyty Naukowe Uniwersytetu Szczecińskiego nr 760. *Finanse, rynki finansowe, ubezpieczenia* nr 59. Wydawnictwo Naukowe Uniwersytetu Szczecińskiego, Szczecin 2013, s. 104.

Integration of two or more economic subjects may be carried out in many different ways, such as<sup>4</sup>:

- concentration of activity – it is based on fusion of few subjects with emphasising the legal aspects of such a transaction,
- integration of activity – fusion of structures and enterprises' aims,
- coordination of enterprises' actions – a process, in which two or more economic subjects create and connect economic and marketing decisions in order to magnify their impact on the market.

Banks can also adopt various strategies as parts of consolidation processes<sup>5</sup>:

- banks' fusion (*fusion sensu stricto*) – can be adopted in case of banks of similar sizes. In such case the cooperation of the owners and managements of both parties is essential,
- friendly takeover – friendly takeover of the control of another bank, which usually takes place in case of banks of different sizes and potentials,
- hostile takeover – the investor addresses directly the owners of the institution being taken over, omitting the opinions of the bank's management during the realisation of the transaction.

The competition for the status on the financial market, for survival and development, is by all means an imperative and aim of every financial business. So it can be understood as a competition of financial institutions for acquisition of depositors and investors as well as debtors, borrowers and lessees. According to P. S. Nadler<sup>6</sup>, the whole financial community participates in a process of creating something which can be described as financial services dominated by competition, where each kind of institution becomes somewhat similar to its competitors. What is more, every bank and financial mediator competes with similar institutions but also with the institutions representing different financial branches.

A modern customer of a financial institution, a company as well as a private person, is not operating in a vacuum but in a dynamic financial and banking environment both local and global. The elements of this environment include various financial institutions but also financial tools. A modern customers, both institutional and private, come across or could come across increasingly diverse spectrum of alternative institutions and tools. A customers have to make their choice among appropriate – reliable and modern financial institutions as well as attractive and efficient financial tools. These can be used to acquire deficit bodies or amplify owned funds surplus bodies. The enhancement of the choice among financial institutions and tools is caused by the fact that financial mediators seem to play considerably less important role, unlike so called parabanks and non-banking institutions.

Modern customers, who are interested in acquiring and multiplying their funds, are not dependent on a particular bank (because of the competition among banks) or on a bank itself (there is a wide variety of parabanks and non-banking institutions). A company (small, medium and most of all a big one) interested in acquiring funds is not dependent

<sup>4</sup> Stępień K., *Konsolidacje a efektywność banków w Polsce*. Wydawnictwo CeDeWu, Warszawa 2004, s. 79.

<sup>5</sup> *Ibidem*, s. 82.

<sup>6</sup> Nadler P.S., *Banki komercyjne w gospodarce*, Biblioteka Menedżera i Bankowca, Warszawa 1993 [za:] S. Flejterski, M. Pettersen – Sobczyk, *Sektor bankowy...*, op. cit., s. 105.

only on a bank loan, it now has a variety of other options to choose from (this includes the so called non-traditional ways of funds multiplying, this means not only through traditional, term bank deposits).

In the analyzed context it is impossible to overestimate the aspect of the form of ownership of financial enterprises. The ownership status of these is a fundamental feature for them, for the economy and for the customers. The ownership structure in the financial sector seems to be one of the major aspects determining the pace and the chances for the development of Polish economy, which aspires to become one of the economies of so called 'primary world'. It is also worth mentioning that the ownership status has a crucial effect on competitiveness, effectiveness and safety of financial institutions. It also has impact on the way they are perceived by the customers – companies and households. And banks, as their definition indicates, should be reliable and responsible.

The banking laws approved in 1989 fundamentally changed the way of banking in Poland. The Banking Act transformed banks from the public administration units into commercial enterprises operating on a competitive market. Banks received rights to perform banking activities such as: running accounts, collecting deposits, granting loans and guarantees or issuing own-dept banking securities. The Banking Act gave them possibility to be organized in the following legal forms: state bank, bank incorporated as a joint-stock company, cooperative bank, state-cooperative bank, branch of a foreign bank.<sup>7</sup>

The arrival of foreign financial institutions in Poland and other South-East European countries was a result of general considerations (the process of globalisation in world's economy has long been accompanied by international capital float and so called 'bank migrations') as well as specific considerations<sup>8</sup>. These are connected to the political transformation, started at the end of the 80s. The changes in that time included for example opening of the local markets to foreign capital, as well as to foreign institutions. It is worth mentioning that the level of difficulty for foreign companies to enter the Polish market was changing during the analyzed time.

On the other hand, the considerations of the foreign banks expansion in Poland could also be divided into these coming from within the foreign institutions together with their countries of origin, and these coming from Poland as the host country. Of course, in each individual case of a particular enterprises entering the Polish market, a combination of the considerations from both categories has to be respected.

The main reason for the foreign expansion of a company is a long-term maximisation of profit (the size and the rate of profit). The another aspect is aiming at survival and development or at the increase in the company value. Regardless of the point of view it is the money that is the most important. It has to be stressed that, at least in case of majority of the banks, the fact is that the foreign banks have considered entering the Polish market as a long-term undertaking and not as a short-term solution. The main factors influencing such a point of view are high costs of such an expansion. On the other hand, it cannot be

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<sup>7</sup> S. Kozak, *Consolidation of the banking sector in Poland in 1989-2013 in comparison with the structural changes of the banking sector in the USA and the EU*. NBP Working Paper No. 166, Economic Institute, Warszawa 2013.

<sup>8</sup> S. Flejterski, M. Pettersen-Sobczyk, *Sektor bankowy...*, op. cit., s. 106.

denied that in difficult conditions resulting from a fierce competition and lack of financial success, an institution might be forced to withdraw from the Polish market.

It is worth saying that among the foreign banks' reasons are: a quite narrow local market, strong competition among banks, especially during the downturn, and a desire to become the bank which would provide banking services to family companies from the country of the bank's origin. Among the reasons on the Polish side especially important are<sup>9</sup>: the size and potential attractiveness of the Polish financial-banking market, which has been acknowledged by many Western bankers.

An important favourable circumstance of the expansion of the foreign institutions in Poland was also the level of the Polish banks development at that time. Although their progress was astonishing, the institutions in Poland often had to face many obstacles, which lowered their competitive positions in comparison with bigger, more experienced and more effective foreign institutions.

In the modern state of the development of the world economy, including world finance and relating to the globalisation processes, the question of the relationship between Polish and foreign values has to be treated with caution. Especially that there was and is a huge variety of opinions according the choice of the national status of banks in Poland. One can come across an opinion that nowadays, mainly due to globalisation and electronic money, the aspect of national affiliation of institutions has no real meaning whatsoever and therefore the problem of the foreign capital participation in the financial sector also is of minor importance. What is important is that an investor should be effective and should be able to assure the success of the overtaken institution.

The fact that the aspect of the ownership of the financial institutions is omitted would be justified if there was any kind of parity between the participation of the foreign capital in Polish banking and Polish capital in foreign financial sectors. As it is well known, such a situation will certainly not be achieved soon.

Banking sector consolidation concerns the financial and organizational banks restructuring to strengthen their strategic potential and stability. As the result of consolidation, the bigger and more competitive entities emerge, which can face increasing competition on national and international markets and can offer more benefits for clients<sup>10</sup>. The main consolidation process goals are: effectiveness increase and cost reduction. Achievement of these goals allows competition improvement, investments increase and strengthening of market position<sup>11</sup>. Consolidation can be understood as mergers, acquisitions and strategic alliances. Merger occurs when two or more companies jointed together to create new company as the result of agreement, which is a successor of jointed companies. Acquisition, on the other hand, means transfer of control over economic activity of company from one group of investors on another. That can happen by purchase of shares, public company privatization or joint venture. The acquired company doesn't lose legal personality, but is only controlled by other owners<sup>12</sup>.

<sup>9</sup> *Ibidem*, s. 108.

<sup>10</sup> E. Gostomski, *Konsolidacja systemu bankowego* [dostęp: 11.07.2013]: ekonom.ug.edu.pl/web/download.php?OpenFile=106.

<sup>11</sup> M. Micek, *Teoretyczne podstawy konsolidacji w sektorze bankowym*, „Bank i Kredyt”, Sierpień 2001, s. 43.

<sup>12</sup> D. Sikora, A. Kulczycki, *Efektywność oddziału banku detalicznego*, CeDeWu, Warszawa 2008, s. 29.

Banking sector consolidation causes can be divided into internal and external. Consolidation of Polish banking sector is inevitable process, what is caused mainly by following internal factors<sup>13</sup>:

- low level of equity to meet needs of Polish economy funding and foreign banks competition;
- lack of banks institutions with a nationwide sufficiently developed network;
- excessive amount of banking institution for market needs;
- inadequate size of bank units to needs of necessary expensive funding on banking technology development, which is necessary for competition position maintenance in medium period;
- lack of "critical mass" relevant to the sector, which is necessary for the realization of economies of scale.

To external banks consolidation causes in Poland include: economy transformation and equity concentration processes in economy, and increasing international competition<sup>14</sup>.

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### The share of foreign capital in Polish banks

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Share of foreign capital in Polish banks amounts to about 65%. This capital comes mostly from: Italy, Germany, The Netherlands, USA, Spain, France and Portugal. Both in scientific and popular-science literature, supporters and opponents of this level of foreign capital are very vocal. Selected opinions of W.L. Jaworski, W. Baka as well as J.K. Solarz will be quoted. W.L. Jaworski in his work draws attention to following risks arising from the use of high level of foreign capital in Polish banking system<sup>15</sup>:

- Banks' Policy will undoubtedly be shaped according to owners' interests, with headquarters in home countries of those banks, therefore the aim of this Policy might be to support import from the home country by avoiding giving loans for undertakings leading to start of competitive production;
- The aims of banks' Policy will be to achieve high profit, therefore giving those loans that lead to highest gains (consumption credits);
- Banks that are pillars of foreign banks can transfer profits earned in Poland to Home countries, and in case of downturn freely move significant part of the funds collected in Poland and thus emptying Polish;
- There is no doubt that banks with foreign capital work closely with their centers in their home countries, and therefore can refinance without restriction in the centers, freeing themselves from the NBP and its instruments of monetary policy.

<sup>13</sup> L. Lachowski, *Fuzje, przejęcia i alianse strategiczne w polskim sektorze bankowym*, „Bank”, nr 1, 1998 [dostęp: 12.03.2014]: [http://www.slawomirlachowski.pl/artykuly/FUZJE,\\_PRZEJECIA\\_I\\_ALIANSE\\_STRATEGICZNE\\_W\\_POLSKIM\\_SEKTORZE\\_E\\_BANKOWYM.\\_\\_BANK\\_01.1998.pdf](http://www.slawomirlachowski.pl/artykuly/FUZJE,_PRZEJECIA_I_ALIANSE_STRATEGICZNE_W_POLSKIM_SEKTORZE_E_BANKOWYM.__BANK_01.1998.pdf).

<sup>14</sup> *Ibidem*, [dostęp: 12.03.2014].

<sup>15</sup> B. Kosiński, *Kapitał zagraniczny w polskim sektorze bankowym*, [w:] *Bankowość w Unii Europejskiej – szanse i zagrożenia*, SGH, Warszawa 2009, s. 285-300.

W. Baka emphasizes, however, that you can and should use the experience of EU countries in the area of taking over the capital of domestic banks by foreign entities. These countries apply policies from the perspective of national interests in this area<sup>16</sup>. As J. K. Solarz writes, supporters of allowing of free access for foreign capital expressed in the view that by allowing the market to foreign investors, substantial sums to stabilize the banking sector and increase service offerings have been acquired, and this led to the start of actual competition on the Polish banking market. On the other hand, critics of the policy express concern that foreign Banks operating in Poland can express unwillingness to support the government's economic policies by lending funds to preferred sectors of the economy. What's more, they may refrain from lending to these areas which could lead to the start of production competitive in terms to those of their home countries. The activities of these banks may cause an outflow of resources accumulated in Poland. It is also not ruled out that the creation of such a situation in which global banks operating in Poland will carry our country into the effects of crises occurring in other regions of the world. Finally, in the case of economic collapse, foreign capital can be withdrawn quickly from Poland<sup>17</sup>.

Decision centers about the future of the domestic banking sector have already moved outside of our country and their economic structure is formed as a result of foreign decisions on mergers and acquisitions of banks. This situation requires decisive action against, among others, by implementing an active policy in the field of banking supervision. This policy should prevent excessive and premature opening of local markets for banks with global reach. It is necessary to constantly expand the branch network of local banks, encouraging households to invest in them and use the cash from the settlement through them.

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### Consolidation changes on the polish banking market in 2009-2013

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In 2009 Santander Consumer Bank S.A. – a subsidiary of Spanish Santander Group<sup>18</sup> announced the acquisition of AIG Bank Polska S.A. – one of the biggest consumer finance type banks on polish banking market at that time. Sale of AIG Bank Polska S.A. have been caused by American International Group (AIG) sale of assets. After Polish Financial Supervision Authority authorization of the acquisition, transaction was finalized in 2011. In April 2011 Santander Group announced that it possess over 90% shares of BZ WBK S.A. On 4<sup>th</sup> January 2013 Bank Zachodni WBK jointed with Kredyt Bank. As the result, the third biggest bank in Poland in terms of assets, credit and deposit portfolio has been formed<sup>19</sup>.

In May 2009 Fortis Bank jointed to BNP Paribas Group as BNP Paribas Fortis. It provides banking and financial services for individual and corporate clients. In May 2011 the name of bank was changed to Paribas Bank Polska<sup>20</sup>.

<sup>16</sup> *Ibidem*, s. 285–300.

<sup>17</sup> *Ibidem*, s. 285–300.

<sup>18</sup> <https://www.santanderconsumer.pl/grupo-santander>, [dostęp: 18.03.2014].

<sup>19</sup> <http://www.bzwbk.pl/informacje-o-banku/historia/historia.html>, [dostęp: 18.03.2014].

<sup>20</sup> <http://www.bnpparibas.pl/o-banku/grupa-bnp-paribas.htm>, [dostęp: 18.03.2014].



In November 2010 the decision about sale of Allianz Bank Polska S.A. to Polish capital group Getin Holding, which includes Getin Noble Bank S.A., was undertaken. Allianz Bank Polska S.A. was unsuccessful banking project of German Allianz Group. On 1<sup>st</sup> June 2012 the join of Allianz Bank Polska S.A. (later called Get Bank S.A.) and Getin Noble Bank S.A. was finalized. As the result of that merger, new entity called Getin Noble Bank S.A. has been created<sup>21</sup>.

In February 2011 Austrian Raiffeisen Bank International AG agreed with Greek EFG Euro-bank Ergasias to the terms of acquisition of majority of its banking activity in Poland, which operates in form of credit institution branch called Polbank EFG. The branch was transformed into joint-stock company (spółka akcyjna), what has allowed to start the integration process with Raiffeisen Bank Polska S.A. – subsidiary of Raiffeisen Bank International AG<sup>22</sup>.

The amount of mortgage banks in Poland decreased in October 2011 from three to two as the result of joint of ING Bank Hipoteczny S.A. and ING Bank Śląski S.A.

The decision of board of executives of Deutsche Bank AG with headquarters in Frankfurt from the fall of September 2012 detailing the conjunction of two banks: Deutsche Bank PBC S.A. and Deutsche Bank Polska S.A. conducting business activities on the territory of Poland opened next level of consolidation process of Polish banking sector<sup>23</sup>.

Bank DnB NORD Polska S.A. announced that it dropped out retail customer services and focused on corporate banking. On 2nd October 2012 it was announced that Getin Noble Bank S.A. would take retail activity of Bank DnB NORD Polska S.A. in Poland. In 2013 there was the closure of agreement by which Getin Noble Bank acquired 37 banking institutions and approximately 28 thousand new clients from segment of communities and housing associations, SMEs and individual clients. Moreover that was next strategic step in development of Getin Noble Bank as fully universal bank<sup>24</sup>.

Moreover since 25<sup>th</sup> November 2013 mBank replaced MultiBank and BRE Bank, expanding its range of products and services for SMEs and corporations as well as Private Banking clients<sup>25</sup>.

Two acquisitions will be finalized in 2014: Nordea Bank Polska by PKO Bank Polski<sup>26</sup> as well as Bank Gospodarki Żywnościowej by BNP Paribas Group<sup>27</sup>. Consolidation of Polish banking market will continue – in 2014 in addition to finalizing already started acquisitions, a few other ones are talked about, ie the merging of BZ WBK with Santander Consumer Bank, or PBP with FM Bank<sup>28</sup>, as well as a buyout of Alior Bank by PKO B.P. or Pekao S.A.

<sup>21</sup> <http://thebanksquare.com/2012/10/15/konsolidacji-polskiego-sektora-bankowego-ciag-dalszy/>, [dostęp: 18.03.2014].

<sup>22</sup> *Ibidem*, [dostęp: 18.03.2014].

<sup>23</sup> *Ibidem*, [dostęp: 18.03.2014].

<sup>24</sup> <http://www.bankier.pl/wiadomosc/Getin-Noble-Bank-przejal-zorganizowana-czesc-Banku-DnB-NORD-Polska-2843268.html>, [dostęp: 18.03.2014].

<sup>25</sup> <http://www.mbank.pl/aktualnosci/post,3276,mbank-zastapi-multibank-i-bre-bank.html>, [dostęp: 18.03.2014].

<sup>26</sup> <http://www.pkobp.pl/aktualnosci/ogolnokrajowe/pko-bank-polski-ze-zgoda-knf-na-przejecie-nordea-bank-polska/>, [dostęp: 18.03.2014].

<sup>27</sup> <http://www.bankier.pl/wiadomosc/Grupa-BNP-Paribas-przejmuje-Bank-BGZ-3007044.html>, [dostęp: 18.03.2014].

<sup>28</sup> <http://www.polskieradio.pl/42/259/Artykul/1062472,Gdy-banki-w-Polsce-coraz-silniejsze-klienci-coraz-slabsi>, [dostęp: 18.03.2014].



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## Conclusion

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In recent years we have seen a number of significant transactions that changed the balance of power on the Polish banking market. We can look at fusions of BZ WBK and Kredyt Bank, Raiffeisen Bank with Polbank or planned merger of PKO BP with Nordea Bank or BNP Paribas with BGZ to understand how important changes have occurred in recent years.

Analyzing last changes on Polish banking market as well as main trend to consolidate this market in Central Europe, it is to be predicted, that during coming years the number of domestic commercial banks in Poland will fall, at the same time increasing the Polish banking market concentration. It is important to control the share of foreign capital in Polish banking system, and to endeavor the transactions which decrease the share and increase the quality and security of financial services market. It should be mentioned that nowadays we are also witnesses of very important cooperation of banks and telecommunication companies (for example cooperations of mBank and Orange or Alior Bank and T-mobile), what is not the subject of the article but is an important factor influencing the development of Polish banking system and its relations with other parts of Polish service sector.

## Konsolidacja polskiego rynku bankowego w latach 2009–2013

### Streszczenie

Od początku lat dziewięćdziesiątych polski sektor bankowy przechodził gwałtowne zmiany, głównie z powodu procesów konsolidacyjnych i koncentracji owego sektora. Banki zagraniczne brały czynny udział w tym procesie, przejmując dużą część udziałów w polskim sektorze finansowym poprzez proces prywatyzacji. Artykuł opisuje procesy konsolidacyjne, które miały miejsce w polskim sektorze bankowym, rolę zagranicznych banków w owych procesach oraz wpływ fuzji i przejęć na rozwój sektora bankowego w Polsce. Celem artykułu jest ukazanie ostatnich procesów konsolidacyjnych w polskim sektorze bankowym i jego wpływu na rozwój owego sektora.

**Słowa kluczowe:** konsolidacja, banki, fuzje i przejęcia

