Banking sector in Poland and position of Bank Millennium Group

During most part of 2014, banks in Poland were operating in a moderately favourable macroeconomic environment, however towards the end of the year several events and negative regulatory developments were accumulated with an adverse impact on the Polish banking sector. These events include:

- Strong decrease of interchange fees, in force in Poland since 1 July 2014
- Reduction of interest rates in October 2014 – reference rate down by 50 bp. and unexpectedly sharper cut of lombard credit rate by 100 bp.
- Announcement of major increase of mandatory BFG changes (in force since 2015)
- Announcement by KNF of Recommendation U, which introduced new rules and some restrictions on sales of insurance products by banks (in force from 1 April 2015)

At the same time the process of growing concentration of the banking sector in Poland continues (merger of Nordea Bank with PKO BP, Santander Consumer Bank with BZ WBK, or takeover of Rabobank Polska by BGŻ and its subsequent acquisition by BNP Paribas). Despite that the degree of concentration of banks in Poland is not high, especially compared with many European countries: top 10 banks accounted for 66.8% of total assets at end of Q3 2014.

In the course of 2014 deposits of the banking sector grew 8.4% per annum (NBP data). It is worth noting that this high growth of deposits came despite the cutting of interest rates down to a record low level (2% reference rate). Total loans of banks operating in Poland grew 6.9%, with marked acceleration of corporate sector funding, the annual growth rate of which rose in the course of 2014 from 2.2% at the outset of the year to 9.2% at the year's end.

Equity of Polish banks increased some 9% during the year, with average Solvency Ratio remaining at the very strong level of 14.9% in September 2014 (KNF data according to the new CRR/CRDIV standard). The strong capital position of Polish banks was confirmed by results of the Asset Quality Review (AQR) as well as Stress Tests carried out last year by KNF together with the European Central Bank and European Banking Authority and published on 26 October 2014. According to the Bank's in-house calculations, the average weighted (with total exposure to risk) CET1 ratio for 15 Polish banks covered by the tests reached 12.3% in the adverse scenario and was much higher than the average in other European countries covered by the ECB/EBA test (it remained at approx. 9% in the largest economies).

Liquidity of Polish banks is also kept at a very safe level, with the Loans to Deposits ratio in the entire sector standing at 103% at the end of 2014.

According to own and other banks' data at end of September 2014 Bank Millennium was No. 7 among commercial banks in Poland by total loans and deposits, with an average market share of approx. 5%. Bank Millennium Group, comprising the Bank itself and a leasing company, mutual fund management company as well as a brokerage house, has a relatively strong foothold in retail loans and credit cards (approx. 6% market share). Other strong segments of the Bank include leasing (5th place on the market with 7% share in sales) as well as factoring (almost 10% share in total turnover of the sector). In deposits, Millennium keeps and average share of 5.1% of the market. Distribution of the Group's products and services is done through 423 branches as well as electronic channels, including cash machines, the internet, phone and mobile applications.

In 2014 Bank Millennium Group was consolidating its position in sales of cash loans and factoring, while the market share in mortgage loans and corporate deposits fell. The market position in retail deposits remained at a relatively stable level (5.2%).

In 2015 the Bank is expecting further growth of deposits in the banking sector, though probably at a slower pace than last year. A factor hindering growth of retail deposits may be growing consumption as well as the record-low interest rates in Poland. Also corporate deposits may demonstrate a slight slowdown because companies may be consuming part of their surplus liquidity by investing in fixed assets.

As regards banking sector loans, the Bank expects them to pick up pace. In the sector of households consumer finance should keep growing at a solid pace, supported by low interest rates and recovering consumption demand in the economy. Meanwhile residential loans should keep growing at a rate close to that of last year. The "Flat for the Young" programme, low interest rates as well as possible improvement of climate on the building construction sector may give this loan category a helping hand. The Bank expects corporate loans in the entire banking sector to at least keep last year's strong growth rate of more than 9% per year. The factor supporting corporate lending will be the recovery of capital expenditure, both private as well as public, also enjoying stronger EU funding support under the new perspective.

Moreover the Polish banking sector makes extensive use of new technologies in result of strong digitisation of the Polish public. This leads to already pronounced and still rapidly growing role of remote customer communication and service channels (online banking, mobile, e-payments).

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