

Financial Report

August 2017

BANKING BUSINESS

**Will Polish
banks close more
branches**

PAYMENTS MARKET

**Non-cash
transactions to
rise in Poland**

FINANCIAL SUPERVISORY

**Diakonow,
new deputy head
of KNF**



Indices and financial results

EUR/PLN

4.26

EUR/USD

1.18

USD/PLN

3.61



JUL 2016

JUL 2017



JUL 2016

JUL 2017



JUL 2016

JUL 2017

Bonds

Yields on 5-year government

2.73%

0.05 ↑
p.point
since June
2017



JUL 2016

JUL 2017

Yields on 10-year government bonds

3.37%

0.04 ↑
p.point
since June
2017



JUL 2016

JUL 2017

Stock indices

WIG 20

2374 pts.

3.2% ↑
since June
2017



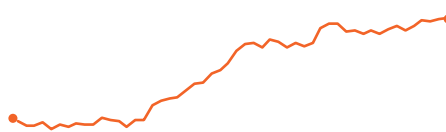
JUL 2016

JUL 2017

WIG

62595 pts.

2.6% ↑
since June
2017



JUL 2016

JUL 2017

Money market

Main reference rate

1.5%

unchanged
since June
2017



JUL 2016

JUL 2017

3-month WIBOR

1.73%

unchanged
p.point
since June
2017



JUL 2016

JUL 2017

Banks and insurers

Banks' profits

PLN 2.8 bn

-19.7% ↓
since 2016 Q2



Q2 2016

Q2 2017

Insurers' profits

PLN 1.2 bn

67.3% ↑
since 2016 Q1



Q1 2016

Q1 2017

July in finance

- **04.07 2017** **Private health insurance on the rise.** In Q1, over 2 million Poles have private health insurance, an increase of 30 per cent year on year. The gross contribution was PLN 169.1 million, 25 per cent more, according to the Polish Insurance Chamber. The number of individual insurance policies rose by 59 per cent, but they still account for just a quarter of the market; the rest is group insurance bought by employers. Private health insurance will continue to gain significance in Poland, boosted by long queues to see NFZ doctors and rising prosperity.
- **05.07 2017** **GetBack to debut on stock exchange for PLN 740 million.** The share price in the IPO was set at PLN 18.5, which means a total offer of PLN 740 million. GetBack, a debt management company, was sold by Leszek Czarnecki to private equity funds in 2016 for PLN 825 million. The debut covered 20 million existing shares and an addition 20 million new ones, which together constitute 40 per cent of its share capital.
- **06.07 2017** **RBI suspends Raiffeisen's IPO.** As we predicted in May, Raiffeisen Polbank's Austrian owner was incapable of carrying out the Polish company's initial public offering at the WSE. There was not enough interest among investors. The propose price for the bank's shares was around 60 per cent of their book value, whereas RBI could accept no more than a 10 per cent loss on them.
- **10.07 2017** **Pekao will not buy Alior or Raiffeisen.** Pekao's deputy CEO Michał Krupiński announced that „the management board does not expect any significant acquisitions in the foreseeable future”. This restricts the room for manoeuvre of Raiffeisen, which on Thursday suspended the sale of 15 per cent of its shares at the WSE because investors valued them too low. The KNF says that it will continue to demand the bank's stock exchange debut. The Austrians will therefore have to agree to a lower valuation of some of its shares in the next IPO. If the bank improves its results in the future, they will sell it in its entirety, with a premium for controlling it. Banks
- **10.07 2017** **Abris wins against KNF at Arbitration Institute.** The Institute in Stockholm rules that the Polish KNF broke the law by forcing investment fund Abris to sell its stake in FM Bank PBP at the start of April 2015. The fund demands PLN 2 billion from the state in compensation and has sent a letter on the matter to Mateusz Morawiecki. The sides had until July 28 to agree on compensation amicably. The dispute will be a financial problem for the government, but it could also damage PO and Warsaw mayor Hanna Gronkiewicz-Waltz politically; Andrzej Jakubiak, head of the KNF in 2011-2016, was previously her deputy.

QUOTE OF THE MONTH

„The president's new initiative on foreign currency housing loans should replace the draft legislation on the assistance to owners of Franc-denominated loans that the Sejm is already working on.”



Marek Chrzanowski
head of KNF

- **13.07 2017** **Cabinet to tighten rules on Forex market.** MinFin has tabled draft changes to the law on supervision of the financial market, which aim to increase the security of people using online platforms to invest in foreign currency and derivatives. It proposes to increase the required security deposit from 1 to 4 per cent, forcing investors to put more of their own money, which may discourage them from risky trades. Moreover, the KNF will gain additional powers to fight dishonest companies and their websites will be blocked. The proposed changes will hit forex platforms; yesterday XTB's share price fell by 10.5 per cent.
- **20.07 2017** **Investors immune to political risk for now.** „Investors not only will not abandon Poland, they are coming in big numbers” said deputy PM Mateusz Morawiecki in parliament when asked by journalists about the impact of the Supreme Court law on FDI. In his view, economic data, not the political situation, has a decisive impact on the mood among investors. He also disagreed with EurCom vice-president Frans Timmermans' words that investors will not come to a country where judiciary independence has been undermined. The stability of the złoty and bond yields suggest that investors remain unfazed by the political situation in Poland for now.
- **27.07 2017** **Reform of OFE will be delayed.** Deputy PM Mateusz Morawiecki told PAP that the reform of open pension funds (OFE) may enter into force in July 2018, rather than January. The reform would move 75 per cent of funds managed by OFE into new funds that invest in Polish shares. The remaining 25 per cent would go to the Demographic Reserve Fund managed by the Polish Development Fund, which will support public-private partnerships. Employee capital plans, which will aim to increase workers' retirement savings, will initially apply to big and medium-sized companies. The reform of OFE will help reduce the budget deficit and lower uncertainty on the WSE.

○ **27.07 2017** **Share price falls on Play's first day on stock exchange.** At the end of the session, Play's shares lost 1.39 per cent, with huge turnover of around PLN 869 million, whereas Orange's shares gained 3.52 per cent yesterday. Play's debut will make all the Polish telecoms' valuations more realistic. In the long term, it is unlikely that the valuation of Play, which only offers mobile services, will be almost PLN 2 billion higher than Orange, which also has a landline network and can sell more services as packages. That means that, looking ahead, Play's share price will fall or Orange's value will increase.

○ **27.07 2017** **mBank has PLN 1 billion for takeovers.** The bank earned PLN 269.7 million in Q2, 31 per cent less than a year ago. This results from a high base; in Q2 2016, the bank recorded a profit of PLN 251.7 million from selling Visa Europe's shares. mBank, like Millennium earlier, increased mortgage sales significantly (by 32 per cent over the course of a year); corporate loan sales rose by 10 per cent over the same period. ROE fell to 7.5 per cent, but the management board wants to raise it to 10 per cent within three years. This could involve takeovers; mBank is setting aside PLN 1 billion for them.

○ **28.07 2017** **BZ WBK earning more from loans.** In Q2, the bank earned PLN 651.1 million, a 10 per cent decline year on year. This results from the high base; a year ago BZ WBK sold its stake in Visa Europe. Interest income rose by 12 per cent year on year and income from commissions by 3 per cent. The bank also increased the interest margin to 3.82 per cent, one of the highest on the market, and sold off NPL portfolios. In 2017, it hopes to earn more than last year (excluding the Visa transaction), in part due to accelerating corporate loan sales.

○ **31.07 2017** **Leasing market will develop.** According to estimates by the Polish Leasing Association (ZBL), the value of this market will rise from PLN 58.1 billion to 66 billion in 2017. In H1, leasing companies finalised investments worth PLN 31.8 billion, an increase of 11.6 per cent year on year. This was made possible by accelerating economic growth and the related increase in investment in Q2. ZBL forecasts that, in coming months, the sector's development will be based on leasing cars, machines and appliances. PKO BP, which became the biggest player on the market after taking over Raiffeisen, will benefit especially.

○ **31.07 2017** **Changes to courts threaten Poland's rating.** In its report, cited by PAP, Moody's warned that the changes to the judiciary threaten its independence and that the higher risk of corruption that this entails could have a negative impact on investment in Poland. According to the agency's analysts, the laws prepared by Andrzej Duda will not differ significantly from the ones that he vetoed. Moody's fears that further clashes between the Polish government and Brussels will slow down Poland's integration with the EU.

People in economics

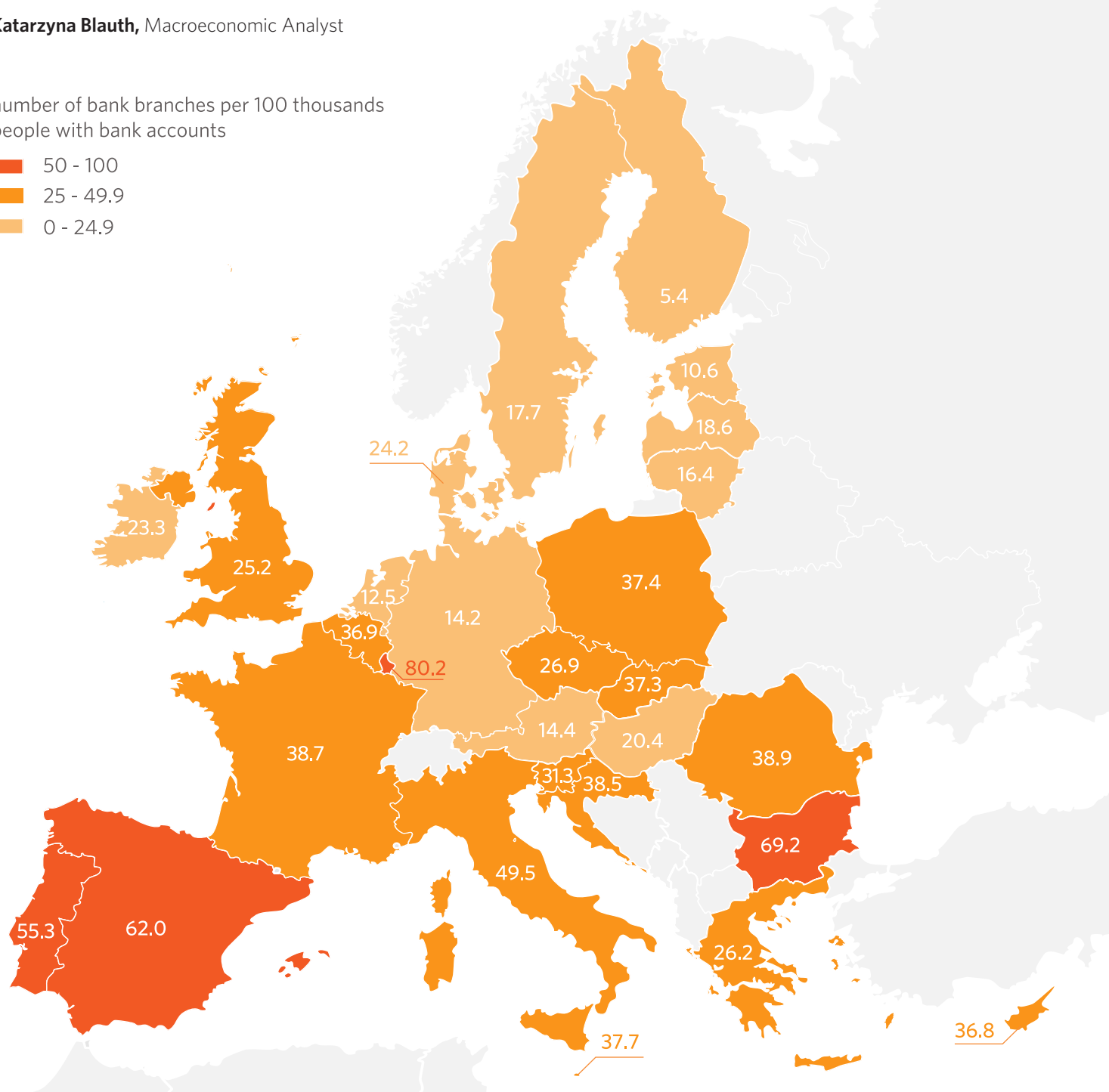
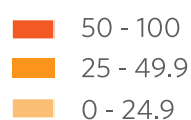
- **Piotr Kwiatkowski** is to become CEO of Credit Agricole Bank Polska. **Bartłomiej Posnow** will join the management board to. Current CEO **Romuald Szeliga** is to move to the supervisory board.
- **Piotr Stępnia**k became chairman of the supervisory board of Skarbiec Holding. **Andrzej Sołdek**, **Raimondo Eggink** and **Michała Sapota** joined it too.
- **Sylwester Grzebinoga** became deputy CEO of Alior Bank.
- **Tomasz Kubiak**, **Michał Piotr Lehmann**, **Marek Lusztyn**, **Tomasz Styczyński** and **Marek Tomczuk** became deputy CEOs of Pekao S.A. **Marian Ważyński** and **Grzegorz Paweł Piwowar** resigned as deputy CEOs.
- **Jakub Kocjan** became deputy CEO and **Jacek Janiuk** a management board member of Skarbiec TFI.
- **Radosław Moks** joined the management board of Magellan (financial intermediary).
- **Krzysztof Stupnicki** became deputy CEO of MCI Capital (equity fund). **Wojciech Marcińczyk** resigned from the post.
- **Piotr Antkiewicz** became CEO of Korporacja Ubezpieczeń Kredytów Eksportowych.
- **Luigi Lovaglio** left the supervisory board of Pekao Bank Hipoteczny.
- **Małgorzata Kleniewska-Wodtke** became CEO of Fitch Polska (credit rating agency).
- **Beata Mońka** and **Krzysztof A. Rozen** were appointed to the supervisory board of Raiffeisen Bank Polska.
- **Mieczysław Wójciak** was appointed to the supervisory board of Graviton Capital (brokerage house).
- **Alexis Lacroix** was appointed CEO of EuroBank.
- **Grzegorz Zawada** was appointed deputy CEO of Noble Securities.

Will Polish banks close more branches

The development of internet and mobile banking allows banks to limit the number of branches serving customers.

Katarzyna Blauth, Macroeconomic Analyst

number of bank branches per 100 thousands people with bank accounts



Source: own calculations based on ECB and Eurostat data

Slower pace of closing down branches. The financial crisis led to the consolidation of the European banking sector. Banks focused on reducing costs, so they closed down branches and laid off staff. Since 2008, EU banks have closed more than 33,000 branches (a fall of 15 per cent). In the Polish banking sector, the number of branches fell by 945, a 6.5 per cent drop. Over the past five years, the fastest rate of closure* was recorded in Latvia (13.8 per cent) and Estonia (11.1 per cent) and in countries affected by the debt crisis, Cyprus and Greece. Poland (1.3 per cent), along with the Czech Republic, France and Malta, is among the countries with the lowest decline. The number of branches increased in Luxembourg and Slovakia.

Faster job cuts. Polish banks have cut jobs faster than they have closed branches. The situation in Ireland, Great Britain, France, Luxembourg and Slovakia is similar. Banks in peripheral economies, Greece, Spain and Portugal, have the fastest pace of job cuts. In the Polish banking sector in 2011-2016, the average annual rate of employment reduction was 1.5 per cent, compared to an EU average of 2 per cent. This may be due to the greater number of mergers and acquisitions that lead to layoffs. It could also result from European banks' faster adjustment to new regulations, which influence the increase in back office employment.

Moderate density of branches. In terms of the number of branches per 100,000 customers with a bank account, Poland, with 37.4, is tenth in the EU. With its favourable tax regulations, Luxembourg is the leader; it has over 80 branches per 100,000 people. Banks in Bulgaria (69.2), Spain (62.0) and Portugal (55.3) also have extensive networks. The smallest number of branches can be found in countries where almost all inhabitants have a bank account; Finland (5.4), Estonia (10.6) and the Netherlands (12.5).

Online banking unpopular. PI's research suggests that there is a correlation between the percentage of people using online banking and the number of branches per 100,000 people. According to the Eurostat data, 39 per cent of Poles used online banking services in 2016. It is most widespread in Finland (86 per cent), the Netherlands (85 per cent), Sweden (83 per cent) and Estonia (79 per cent). These countries also have the lowest indicators for bank branches. This results from a higher concentration of banking sectors in these countries; in the Netherlands and Estonia, over 84 per cent of assets are controlled by the five largest banks.

Moderate cost effectiveness. According to ECB data for 2016, the average cost to income indicator (C/I indicator) of Polish banks was 57.6 per cent a year. The most efficient banks were in Malta (40.5 per cent), Bulgaria (42.6 per cent) and Estonia (44.5 per cent), with the least efficient in Germany (74 per cent) and Italy (73.5 per cent). The highest share of labour costs in relation to total costs is found in Estonia (58.2 per cent). In Poland, this indicator is 46.4 per cent, one of the lowest in the EU. The moderate cost-effectiveness of the Polish banking sector results from additional charges on banks; the banking tax and payments to the Bank Guarantee Fund.

WHAT'S NEXT

The challenge for the Polish banking sector, which is seen as one of the most innovative in Europe, is to promote online and mobile banking. This will entail fewer branches, increasing banks' competitiveness. Some existing branches should be transformed into modern technology units providing personalised services, such as investment advice.

* Growth rate calculated on the basis of the CAGR - cumulative annual growth rate for 2011-2016, based on ECB data.

President wants to increase support for CHF borrowers

A new sub-fund will be created to support conversion of FX mortgages. Banks will be required to inject it with PLN 3.2 bln.

Piotr Sobolewski, Financial Sector Analyst

The president's draft is aimed at amending the law on support for mortgage borrowers in difficult financial situation passed by PO in October 2015. The goal is to increase aid for FX mortgage holders, due to very low popularity of the current fund operated by BGK (merely 2.3 per cent of funds were allocated). Additionally, the draft introduces new support mechanisms.

At the president's request, a preliminary draft was prepared by the MinFin's department of financial markets development and consulted with a financial stability committee. Two months ago the draft reached PresChan, which has introduced its changes after consulting them with the committee. Paweł Mucha, the chancellery's deputy head, will represent the president during Sejm's proceedings on the bill.

BGK to form two sub-funds. The borrowers support fund (FWK) will be split into two parts, a support fund and a restructuring fund. The first, just as the current FWK, will be aimed at general support for borrowers in difficult financial situation. The latter will target voluntary conversion of FX denominated mortgages and will be funded with additional payments from lenders. For the entire sector the payment should reach PLN 3.2 bln.

Banks to provide additional funding. Banks will contribute into the restructuring fund 0.5 per cent of their FX mortgage portfolio that totalled PLN 150 bln in May. The support fund will receive a maximum of 1 per cent of the NPL part of their portfolio with payment delays exceeding 90 days.

More borrowers eligible. The support fund will be available to persons meeting at least one of the following conditions: monthly payment exceeds 50 per cent of their income (previously 60 per cent), at least one person in the household is unemployed, a monthly income of the borrower is below PLN 922 (previously PLN 461). PresChan also proposed for aid to be available to people who rent other real estate, which was forbidden before.

Loan from the fund. An FX borrower who would sell the indebted real estate and lack funds to repay the entire loan, could receive an interest-free loan from the support fund.

Aid amounts to rise. The amendment raised the maximum aid cap to PLN 2,000 a month from PLN 1,500 previously. Period of the aid will be extended to three years from the current year and a half. The borrower would commence repayment of the aid a month after receiving the last installment or the loan's payout. The support will be returned in 144 equal, interest-free, installments. If the first 100 installments are repaid on time, the remaining 44 will be forgiven.

BGK to provide funding to the banks. The restructuring fund will cover lenders' costs related to changes in contractual conditions for the borrowers, including FX conversion. Banks' reimbursement will be capped by their contribution to the fund in a previous quarter. If the contribution is not fully used, the remaining amount will be divided between other banks proportionally to their contributions. The mechanism is to encourage conversion by lenders.

The new regulations will hit lenders, which will have to contribute around PLN 3.2 bln to the restructuring fund in 2018. Banks with most sizeable FX loan portfolios will be hit the most: PKO BP (23.3 per cent of all such loans in Q1), mBank (13.9 per cent), Millennium Bank (13.6 per cent), and BZ WBK (10.1 per cent). The costs will be lowered through voluntary conversion. The value of all the FX mortgages would decline, discouraging politicians from seeking mandatory conversion.

The draft is supported by the Financial Stability Committee (KSF), including KNF chairman Marek Chrzanowski. MPs will deal with the proposal in September, at the earliest, and most provisions will be enacted in January. PiS will support the proposal, lacking the alternatives. The draft also has support of the deputy PM Mateusz Morawiecki, PiS's economic guru. Other drafts dealing with FX mortgages face intense criticism and possibly this could be the only proposal to be approved.

Non-cash transactions to rise in Poland

Expansion of the terminal network will increase the number of non-cash transactions. Its costs will be borne mainly by MasterCard and Visa.

Piotr Sobolewski, Financial Sector Analyst

Polska Bezgotówkowa, waiting for registration. The main goal of the Polska Bezgotówkowa foundation established in June is the expansion of the payment terminal network by 600,000 units (currently there are 500,000). The foundation is not yet a legal entity and is waiting for registration. The Foundation's council will consist of the representatives of Rada Wystawców Kart Bankowych ZBP, Komitet Agentów Rozliczeniowych ZBP, MasterCard, Visa and MinDev. Mieczysław Groszek, deputy head of ZBP, will head the foundation, with Paweł Widawski as his deputy. One more person will join the board.

Pilot stage in October, start in January. The foundation is considering two ways of expanding the terminal network at the pilot stage. In the first solution, each of the settlement agents will receive 500 terminals, which they will be able to distribute freely. The alternative is to choose according to geographical criteria, such as eastern and western walls. In each area, a defined number of sale points would receive subsidy. The foundation would prefer the second option. After the pilot stage, most likely in January 2018, the terminal network expansion project will be launched, which will cover all settlement agents, without geographical criteria.

Payment organisations will pay the most. The fund, with a target value of PLN 600 million will be financed by banks (PLN 0.01 from each domestic debit card transaction), payment organisations (PLN 0.015), and settlement agents (1 per cent). According to the foundation's calculations, MasterCard and Visa would pay the most - 49 per cent of the amount (PLN 297 million); 33 per cent of the costs would be borne by banks, and settlement agents will be burdened with only 18 per cent. The fee would be spread over three years (PLN 200 million per year) and the institutions would probably transfer the payment to the foundation quarterly.

PLN 1,000 subsidy per seller. According to the foundation's assumptions, the subsidy for each terminal would be PLN 1,000 - the average cost of the device amounts to PLN 600, and another PLN 400 is the reimbursement of transaction costs. Exemption from transaction fees would be up to PLN 100,000 of quarterly turnover and, according to the foundation's estimates, most terminal customers will not reach this threshold. There will also be a minimum requirement - the subsidy would benefit those entities, which performed at least three transactions in half a year. Each seller will be entitled up to three payment terminals.

Contract's extension on market conditions. After a year, the sellers will have to sign a new contract with the agents on commercial terms. According to the foundation, only this stage will be a true test of the programme's effectiveness. It will show how many entities have become convinced to use the terminals when the use was no longer covered by reimbursement. The foundation is considering cooperation with the National Clearing House (KIR), so that the program could also cover public institutions - transaction fees are lower, which would reduce the cost of a single subsidy.

WHAT'S NEXT

The Polska Bezgotówkowa programme will increase the number of non-cash transactions in the economy, which will translate into higher transaction incomes of payment organisations, banks and settlement agents. This will compensate for the costs of the programme. All interested institutions will benefit from MinDev's declaration - if the programme is launched, the government will abandon plans to reduce the interchange fee to zero, at which the banks themselves would lose several hundred thousand złotys per year.

* Division I - life insurance, division II - property insurance and others.

Diakonow, new deputy head of KNF

The new deputy head of the Polish Financial Supervision Authority (KNF) is Adam Glapiński's long-time associate. He co-authored PiS's economic programme in 2001 and 2005.

Piotr Sobolewski, Financial Sector Analyst

Associated with Glapiński, he advised Balcerowicz. Andrzej Diakonow is from Klembów near Wołomin. He graduated from the secondary technical school of economics and then studied social economy at the Main School of Planning and Statistics (SGPiS). At the time, he met Adam Glapiński and Jerzy Zdrzałka, connected later with Porozumienie Centrum (PC). After graduation, he worked as a university assistant lecturer, thanks to which he won a DAAD scholarship in Frankfurt. He taught economics at the Polish Academy of Sciences. In 1989, he became an adviser to Leszek Balcerowicz, but disagreed with his policy, so they quickly went their separate ways.

He headed the ministry of construction. In 1991, as a PC member, he was appointed secretary of state at the Ministry of Spatial Planning and Construction in the government of Jan Krzysztof Bielecki; Adam Glapiński was then a minister. Later, when Jan Olszewski became prime minister, Diakonow replaced Glapiński. He lasted in this position for several months - when PC's co-founder Lech Kaczyński became head of the Supreme Audit Office (NIK), he offered Diakonow an advisory position.

Ciech, a barrier in political career. In 1998 he became member of Ciech's management board. In 2001, the management wanted to increase the company's share capital, so that Cresco company could become its majority shareholder. The transaction was blocked by MinTrea. The prosecutor's office investigated the case on acting to the company's detriment, also against Diakonow, who had to renounce his immunity. He was then a PiS MP and co-author of the party's economic programme. He was not sentenced, but the turmoil in Ciech hindered his political career.

From local government to NBP. Diakonow returned to his hometown of Klembów, where he became the local authority's deputy. He left politics; however, when Ludwik Dorn ran in the 2011 parliamentary election, he joined his support committee. Both had known each other for years, Dorn was among the investigators in the Ciech's case and found that the former deputy minister of construction had been innocent. In 2015, Diakonow entered the political council of Ruch Narodowy. In 2016, NBP's new governor Adam Glapiński appointed Diakonow as the head of the internal audit department at the central bank.



Andrzej Diakonow

DATE OF BIRTH

January 14, 1950 in Klembów

EDUCATION

- graduate of social economy, Main School of Planning and Statistics
- DAAD scholarship, Johann Wolfgang Goethe University in Frankfurt

PUBLIC ACTIVITY

- Secretary of State, then acting Minister, Ministry of Spatial Management and Construction (1991-1992)
- Adviser to the chairman of the Supreme Audit Office (1993-1998)
- Member of the Management Board, Ciech (1998-2001)
- MP, PiS (2001-2005)
- Deputy local government official of Klembów (2007-2015)
- head of Internal Audit Department, the National Bank of Poland (2016-2017)

Diakonow, the weakest deputy head of the KNF. On Wednesday, Prime Minister Beata Szydło signed Diakonow's promotion as KNF's deputy head. Diakonow will fill the vacancy after Filip Światała who had been dismissed in June. His responsibilities will, however, not include supervision over banks and SKOK credit unions, but over audit and internal control, as well as administration, IT and customer protection. Banks will continue to be supervised by KNF's head Marek Chrzanowski, who, according to PI's sources, is a good choice, because Diakonow lacks the satisfactory qualifications. Diakonow will hold the weakest position in the KNF's management.

WHAT'S NEXT

Andrzej Diakonow, as a trusted nominee of Adam Glapiński will strengthen his influence at KNF, facilitating the NBP's head in forcing the transfer of supervision over the KNF to the central bank. The idea, however, is not supported by Deputy Prime Minister Mateusz Morawiecki, without whom such a merger appears unlikely. At the KNF, Diakonow will supervise the implementation of pro-consumer legislation (such as MiFID II) and cyber security of the financial system. He will be also responsible for KNF's day-to-day work.

What government prepares for Forex market

If the regulations planned by the Ministry of Finance come into force, they will limit the competitiveness of domestic brokers.

Katarzyna Blauth, Macroeconomic Analyst

On July 10, MinFin directed for consultation the draft amendments to the law on trading in financial instruments, which assumes a tighter regulation of the Forex market, namely - online trading platforms in the OTC market. The ministry's goal is to increase the protection of individual players in this market. MinFin is referring to the planned UK's solutions, designed to protect inexperienced investors. The announcement of the new regulations has caused an over 35 per cent drop in the stock price of X-Trade Brokers, one of the largest brokerage houses operating on the Forex market.

Lower leverage in domestic platforms. Changes to the regulations assume an increase in the minimum margin for transaction platform clients from 1 to 4 per cent. As a result, retail investors focused on speculative activities will not be able to take such risk as they could before. At present, for every złoty of own contribution, they can increase their position by 100 times (leverage 1:100 **), when the legislation comes into force – it will only be 25 times. This should lead to a reduction in the risk of online trading in derivatives. However, there are many foreign entities operating in the Forex market that are not subject to national regulations and will continue to offer customers higher leverage.

Greater competitiveness of foreign companies. Increasing retail deposits will make access to Polish transactional platforms more expensive, which will reduce the number of individual investors. Some of them will transfer to the platforms of foreign companies operating in Poland on the basis of the MiFID passport. It allows brokerage houses to provide services on the EU markets without being regulated by the markets in which they operate - only the laws of the country in which they are registered apply. As a result, Polish brokerage houses will be less competitive and may experience problems in maintaining liquidity.

Consolidation in the brokerage market. The decrease in the competitiveness of Polish companies will result in the situation, where banks, within their brokerage houses, will resign from offering clients access to the OTC market's online transaction platforms. This decision has so far been taken by only DM PKO BP, which blocked access to trading platforms in the Forex market last year. In addition, the new regulations will make it harder for companies to meet the regulatory capital requirements. As a result, the Polish Financial Supervision Authority (KNF) will be more frequently revoking permits for investment firms to conduct brokerage activities, as it did in April in the case of the HFT Brokers brokerage house.

Requirements for telecommunications companies. The new legislation imposes maintaining a list of public warnings by the KNF. Telecoms will be required to block the websites of platforms not licensed by the KNF, which will be included in this list. In the opinion of the Chamber of Brokerage Houses (IDM), such action is contrary to the EU regulations. The chamber points out that, according to EurCom's opinion, telecommunication companies will not be allowed to block the websites of foreign investment firms operating in Poland under MiFID passports.

WHAT'S NEXT

MinFin will continue to regulate the OTC market, especially online currency and commodity trading, which is characterised with higher-risk. The new regulations will limit the competitiveness of Polish brokerage houses operating on the Forex market and strengthen the position of foreign platforms. This will cause more banks to quit providing retail customers access to the Forex market. Foreign brokerage houses registered in Poland will also be leaving the country, transferring their operations to less regulated and thus more profitable foreign markets. The implementation to Polish law of the EU MiFID II Directive, scheduled for the beginning of 2018, will further increase the supervision of the KNF over the OTC market.

New managers at Pekao

Michał Krupiński is assembling a team to carry out his plans. Four new management board members have over a decade of experience in the banking industry.

Piotr Sobolewski, Financial Sector Analyst

Marek Lusztyń (born 1977) – Lusztyń worked for 17 years at Unicredit, Pekao's former owner. Since 2013 was responsible for risk management of the group's trading portfolio. He started his career in 1996 in Bank Handlowy's treasury and FX department. For the next eight years he worked for Bank Pekao, initially being responsible for market risk and then moving up to a position of a risk management director. On the new management board Lusztyń will be responsible for risk management. He requires the Polish Financial Supervision Authority's approval to fill the position, but given his extensive experience it should be a formality.

Tomasz Kubiak (born 1977) – a manager with 16-year experience at Bank Pekao with seven years as a director of a department for capital allocation, and liabilities and assets management. Kubiak played an important role in successful management of the bank's bond portfolio in 2015, which set Pekao apart from other lenders. His career started as a manager in the lender's financial policy department, with his duties including preparation of monthly analyses of Pekao's interest and trading income. He moved onto risk management. He will be responsible for financial division, one of the bank's key areas.

Michał Piotr Lehmann (born 1973) – Michał Krupiński's trusted associate, led the privatisation and corporate oversight department at MinTrea during Krupiński's tenure as a deputy minister responsible for energy sector restructuring. In January 2016 Krupiński became PZU's chief executive and made Lehmann the group's director for corporate affairs. Lehmann was one of the managers responsible for PZU's strategy and oversaw the insurer's cooperation with Alior Bank. According to speculation, this time around Krupiński also was pushing for his nomination. Lehmann will be responsible for support divisions, cost discipline, and logistics.

Tomasz Styczyński (born 1977) – manager at Citi Handlowy, where he was a director responsible for corporate banking and a director responsible for relations with department's largest corporate clients. Between 2006 and 2012 he was a director of the bank's corporate centre in Kraków. Appointed by PTE OFE to Global Trace Center supervisory board in June 2016. According to our information, Styczyński's candidacy was also pushed through by Krupiński. Both are friends dating back to Kraków, where they come from. At Pekao Styczyński will be responsible for small and medium enterprises.

Marek Tomczuk (born 1979) – a Raiffeisen Polbank manager with 17-year experience in banking. Until the end of August he will continue as a head of Raiffeisen's retail network, a position he has held since 2014. He will lead Pekao's retail banking operation starting from September. Tomczuk began his career at Citi Handlowy, selling corporate products and heading a sales team for seven years. He was active during Kredyt Bank's merger with BZ WBK and followed Kredyt Bank's chief executive Maciej Bardon to Raiffeisen. His candidacy was also supported by Krupiński.

Banking union to be tightened

Its future shape will mainly be determined by Paris and Berlin.

Katarzyna Blauth, Macroeconomic Analyst

Banks' debts to remain high. The banking union was created to ensure the sector's stability. Banks with extensive portfolios of non-performing loans are especially at risk. In Cyprus and Greece over 40 per cent of all the loans are not being repaid, but the highest value of NPLs is in Italy (EUR 276 bln). High NPL ratios persist in Croatia and Ireland. Standardisation of bail-out regulations would benefit all the European Union's economies by reducing risk of contagion by future banking crises.

Open backdoor for state aid. The BRRD directive passed in 2014 has limited scope of costs to taxpayers caused by bail-outs of failing lenders. Decisions taken in June, to preemptively increase capital of Italy's Monte dei Paschi and forced restructuring of the Spanish Banco Popular were aimed at minimising state aid. However, the European Commission and the Italian government's decision to allow for Intesa Sanpaolo to takeover Veneto Banca and Banca Popolare di Vicenza with state support of EUR 17 bln raised controversies. Providing such aid against the taxpayer neutrality rule was possible thanks to loopholes in the BRRD directive, which could also be exploited in future.

Upcoming third pillar of the banking union. The Europe-wide deposit guarantee scheme will become the third pillar of the banking union after unified supervision and forced restructuring, completing the industry's integration. Currently, every country has its own guarantee system to safeguard deposits up to 100,000 which are to be replaced with a single EU-wide fund in future. According to EurCom's plans, the system will be introduced in stages until 2024. The first stage will be introduced during the term of the current EurCom head Jean-Claude Juncker, most likely in 2019, starting with a partial transfer of risk from a national to an European level.

Politics to dictate integration scope. Following Emmanuel Macron's election victory it is certain France and Germany will hand-in-hand set the future path of the banking union's integration. Its final shape will be a compromise in negotiations between supporters of deep integration (Macron) and sceptics of the common guarantee scheme (Angela Merkel). Germany, just as Benelux countries, opposes further financing of state aid for lenders in the EU's periphery - Spain, Italy, or Greece. Detailed negotiations on the third pillar's final shape, set to determine the entire union's final structure, will begin after the September 24 general election in Germany.

Rising support for euro strengthens the banking union. Despite diverging positions on the banking agreement, vast majority of EU member states support the eurozone's economic union. According to a Eurobarometer survey, it is backed by 59 per cent of Europeans, an increase of 4 percentage points compared to a year earlier. Luxembourg, Netherlands, and Germany are among countries with the highest support for euro integration. Poland, the Czech Republic, Great Britain, Sweden, Denmark, and Bulgaria are states with over half of citizens opposing the single currency. Declining support for the euro in Italy is another risk.

WHAT'S NEXT

The latest media speculation on the banking union's collapse are unreliable and one should expect a tighter relationship. To avoid upcoming financial crises further financial integration is necessary as well as tighter oversight of lenders, especially in the EU's periphery. The level of integration will be determined by the European deposit-guarantee scheme and a result of German-French negotiations on the issue. It is possible that in response to Brexit more countries outside of the euro-zone will join the agreement, for example Denmark.

Events and indices in August

		LATEST VALUE	MARKET CONSENSUS	PI FORECAST
August 22	Citi Handlowy will publish a financial report for Q2 - net profit	PLN 42.7 mln		
August 23	Polish Statistical Office will publish business survey results in August			
August 24	PZU will publish a financial report for Q2 - net profit	PLN 940 mln		
	Polish Statistical Office will publish consumer survey results in August			
August 28	PKO BP will publish a financial report for Q2 - net profit	PLN 525 mln		
	KNF meeting will take place			
August 31	Getin Noble Bank will publish a financial report for Q2 - net profit	(PLN 96.5 mln)		
	BGŻ BNP Paribas will publish a financial report for Q2 - net profit	PLN 39.6 mln		
	Polish Statistical Office will publish a GDP in Q2	4	3,9	

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