NBP Narodowy Bank Polski

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Abstract

Consolidation of the Polish banking sector was greatly associated with development and expansion of the banking sectors of EU countries and followed some consolidation patterns used by US banks. Deregulation of 1989 contributed to creation of a large group of small private banks and paved the way to privatization of the state-owned banks comprising majority of the market. In the 1990s consolidation resulted mostly from takeovers of insolvent newly created banks and had a limited impact on the banking sector.

At the turn of the 1990s and the 2000s, after completion of privatization, large banks controlled by the same foreign investors merged within their capital groups and harmonized operations in one entity, frequently after changing names for parent bank names. This process impacted market concentration the most.

Poland`s entrance to EU resulted in cross-border consolidation relied on taking over subsidiaries by branches of their parent banks in Poland. Developments of the EU banking sector significantly contributed to mergers and acquisitions of Polish banks. Takeovers of parent banks resulted in immediate mergers of their subsidiaries, and the post-crisis recovery process resulted in a forced sale-out their subsidiaries, creating opportunities for consolidation and market expansion of some Polish medium-sized banks.

Introduction

In years 2009-2013 several bank mergers and acquisitions occurred in Poland, what significantly impacted the performance and structure of the entire banking sector. Some of them could be considered as a method of improving market position and moving a bank to a group of nationwide banks. Others introduced newly formed banks to the group of large and systemically important banks in Poland. In the opinion of experts the Polish banking sector is capable for further mergers and acquisitions. The potential acquisition targets may include Bank Gospodarki Żywnościowej (BGŻ), Bank Millennium, and Bank Pocztowy.

At the same time, the banking supervisory institutions conduct an ongoing debate on the issue of development of the optimal model of the banking sector. Supervisors and the public sector try to figure out the proper scale and scope of banks, which could eliminate the risk of insolvency and necessity to grant the public aid funds for the rescue in case of distress. Reports on the work of the committees of Liikanen (EC, 2012), Vickers (Edmonds, 2013) and Volcker (U.S. Treasury, 2011), apart from rising the problem of separation of retail from investment banking activities, point to a significant risk coming from the operation of the global systemically important banks. The risk arising from the excessive growth of bank assets created by consolidation, high concentration of the banking sector and the limited ability to control large entities defined as "too-big-too-fail" or "too-important-too-fail" banks are present, at different levels, in the banking sector of every country (Gambacorta and van Rixtel, 2013; Chow and Surti, 2011; Haldane, 2012).

Consolidation of the Polish banks is one of the most important methods for gaining a larger share of the market, as well as restructuring some of them. It is carried out on the ongoing basis, with varying intensity over time. The enacting the two fundamental laws in 1989, it means the Banking Act and the Act on Narodowy Bank Polski,[1] could be considered as the outbreak of this process. Launched in this way deregulation paved the way to de-monopolization of the banking sector,

[1] Respectively, OJ of 1989, no. 4, issue 21 and OJ of 1989, no. 4, issue 22.

privatization of the state-owned banks and the gradual consolidation. Additionally the structural developments were impacted by the actual macroeconomic and regulatory conditions.

The literature usually analyzes the banking consolidation in the developed economies of the European Union and North America. It presents both, the process of structural changes of the sector and motivations of banks to perform mergers. An important part of the research examines the impact of mergers and acquisitions on the profitability and stability of the banking sector. The banking consolidation in Poland is not a common subject in the research of analysts. First works focus on the changes taking place in the banking sector in the 1990s, especially during the period of completion of privatization of the major state-owned banks separated from NBP in 1989. These studies analyze the developments and expected changes in the structure of the sector and benefits and risks stemming from this process (Monkiewicz, 1995; Wilczynski, 1995; Bonin and Leven, 1996; Lachowski, 1997 and 1998). Havrylchyk (2004), who studied bank mergers in Poland of 1997-2001 shows that foreign investors perceive positive transactions when the merger improves efficiency of the new entity or is a part of the restructuring program. Pawłowska (2005) and Pawłowska and Kozak (2008) indicate that the level of the Polish banking sector concentration does not adversely affects its, respectively, efficiency and competitiveness.

This study fills a gap that exists in the research on the consolidation of the Polish banking sector, especially in the period after the outbreak of the global financial crisis. Its added value is the joint analysis of the developments taking place between the beginning of banking reforms in 1989 and the first half of 2013. Such period of analysis allows finding out some regularities which periodically appear in consecutive economic cycles.

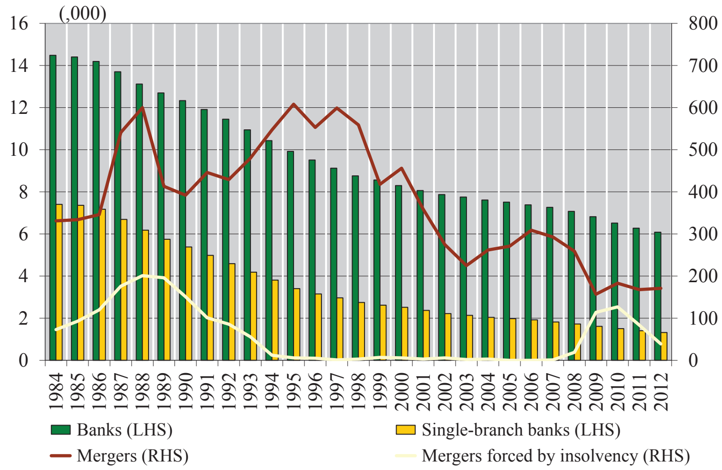
The goal of this paper is to present the course of consolidation in the Polish banking sector and the state of its concentration with the comparison to the developments taking place in the European Union and the United States. Additionally it aims at identification of the main factors, which banks and financial supervisory authorities take into consideration in their decisions referring to takeovers or mergers of banks. Information and financial data used in the analysis are derived from studies and reports prepared by Narodowy Bank Polski, the General Inspectorate of Banking Supervision, the Polish Financial Supervision Authority (KNF), as well as the websites of commercial banks. This study may be considered as a base for further analysis of the factors influencing the consolidation process and the impact of the banking sector structure on its performance, soundness, and volume of credit granted to the economy.

The remaining content of the study is structured as follows. The first chapter presents brief overview of previous studies on the banks` consolidation in the EU and the United States, the second the restructuring consolidation of banks in Poland in 1989-1997 and the third shows the role played by foreign banks in the course of de-monopolization and privatization of the state-owned banks. The fourth chapter analyzes the strongest phase of consolidation carried out in 1998-2002, and the fifth the banking consolidation since the Polish entry into the EU through the period of the outbreak of the global financial crisis until the beginning of 2013. The entire analysis is summarized in the conclusions.

1. Consolidation of banks in the United States and the European Union - the causes, benefits and risks

The literature generally examines the processes and consequences of the banking sector consolidation in the countries of North America and the European Union. The first period of frequent mergers and acquisitions in the US banking sector fell for the second half of the 1980s. This process was partially a result of the enacting the Depository Institutions Deregulation and Monetary Control Act of 1980 abolishing the upper limits on interest rates on deposits in banks[2], and permitting saving institutions (Savings and Loan Associations, S&Ls) to engage in financing the real estate market.[3] Regulatory changes and the collapse of the real estate market led to the insolvency of many banks and savings institutions, for which the acquisition by a better functioning entity was the most effective way of restructuring (see Figure 1). Additionally, in order to overcome the deteriorating banking performance a large group of banks employed mergers for improving their market position and capital conditions. The consolidation process gained the highest point in 1988, when about 200 mergers of the restructuring nature and 600 mergers unforced by financial situation were carried out.

Figure 1. Number of banks and mergers in the US banking sector in 1984-2012



Source: own calculations based on data from the Federal Deposit Insurance Corporation (FDIC).

[2] The limitation introduced in 1933 with the regulation issued by the Federal Reserve Board referred to as Regulation Q.

[3] More on the consolidation of the US banking sector, inter alia, in Dymski (1999) and Kozak (2005).

The permission to take over banks and to open branches located in other states than the headquarter of the bank, introduced by the Law of the Riegel-Neal Interstate Banking and Branching Act of 1994, was one of the main causes of the mergers and acquisitions wave in the second half of the 1990s. In the initial stage this process covered mainly smaller, often single-branch banks located in different states or administrative areas[4] (so-called out-of-market consolidation). At that time, the annual number of bank mergers exceeded even 600 (see Figure 1). At the end of the 1990s the number of mergers significantly decreased, but the average value of the transaction increased. The networks of the merging banks partially overlapped (so-called in-market consolidation)[5] providing opportunities to gain synergy. Between 1994 and 1998, the average value of the assets of acquired and acquiring banks increased from 0.25 and 8.23 billion USD to, respectively, 1.22 and 16.72 billion USD. In the final stage of this consolidation process some banks conducted operations through the networks consisting several thousands of branches.[6] At that time motivations for running consolidation included the need to reduce operating costs, exploit economies of scale and improve banks` market position (Rhoades, 2000; Pilloff, 2004).

The consolidation of the US banking sector in the early 2000s was significantly influenced by the adoption of the law of the Gramm-Leach-Bliley (GLB) Financial Modernization Act of 1999. It authorized the so-called financial holding companies composed of institutions operating in various sectors of financial services (the cross-sectorial consolidation). Such type of consolidation was initiated in the late 1980s and was largely forced by customers` expectation to obtain all financial services in a single institution. The cross-sectorial consolidation was conducted to diversify income sources of financial holding companies and achieve economies of scope i.e. using the same labor forces and technical resources to offer

[4] Prior to the enactment of the Act the Riegel-Neal Act in many states banks were banned from opening any branch outside of the boundaries of a state, a county, or even a city.
[5] Out-of-market consolidation takes place in case of a merger of banks with non- or slightly overlapping distribution networks. In-market consolidation occurs when merging banks have significantly overlapping networks, see: Pilloff (2004).
[6] In 2003, banks with the largest branch networks included: Bank of America (5830 branches), JP Morgan Chase (2429), U.S. Bancorp (2305), Wells Fargo (3017), Wachovia (2667); see: Spieker (2004).

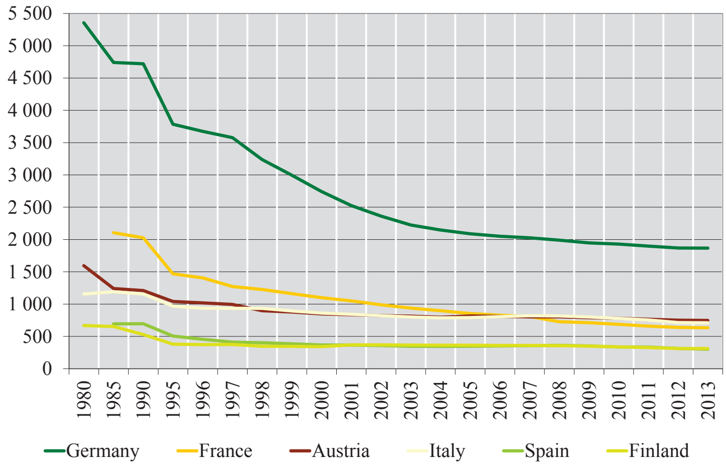
related or similar financial services. As a result, groups consisting retail banks, insurance companies, investment banks and firms and other financial institutions were formed (Amel et al., 2004).

Consolidation of banks in EU countries was carried out somewhat later than in the United States. That was partly due to some differences in the way of the banking sector operation in Europe and the United States. Supervisory authorities in the EU did not prohibit banks from having branches or opening them outside of the city, or region of domicile of the bank.[7] Additionally, banks were allowed to serve individuals, farmers and small businesses (retail banking) as well as large enterprises and the governmental institutions (corporate and investment banking). The banking consolidation developed in the early 1990s and was impacted by two factors, namely the need to restructure the banks in countries covered by the financial crisis in the first half of the 1990s[8] and implementation of the Second Banking Directive in 1993.[9] The Directive provided the legal basis for the creation of the single European banking system, in which each credit institution has the right to pursue banking activities across the EU.[10]

The Directive also allowed banks to sell insurance policies, what made the base for the cross-border, as well as cross-sectorial consolidation. The relaxation of banking regulations increased the number of mergers and acquisitions in most of EU countries in the second half of the 1990s. At the same time it reduced the number of banks and raised the level of concentration of national banking sectors (see Figure 2 and 3).

Figure 2. Number of banks in some EU countries in 1980- 2013

[7] Certain limitations refer to cooperative banks, but they are due to low level of equity, what is characteristic to this group of banks, and there are only of the administrative nature.
[8] Acquisitions with the purpose to restructure banks were used during the banking crisis in the Nordic countries; Szczepańska, Sotomska-Krzysztofik (2007).
[9] Second Council Directive 89/646/EEC of 15 December 1989 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of credit institutions and amending Directive 77/780/EE (OJ No L 386, 30. 12.1989, p. 1).
[10] Agreement between the European Union and the European Free Trade Association forming from 1 January 1994, the European Economic Area (EEA) extended the area of the single banking system to countries of the European Free Trade Association (EFTA), namely Iceland, Liechtenstein and Norway; see: Agreement on the European Economic Area of 17 March 1993 (OJ L 1, 3.1.1994, p. 572).



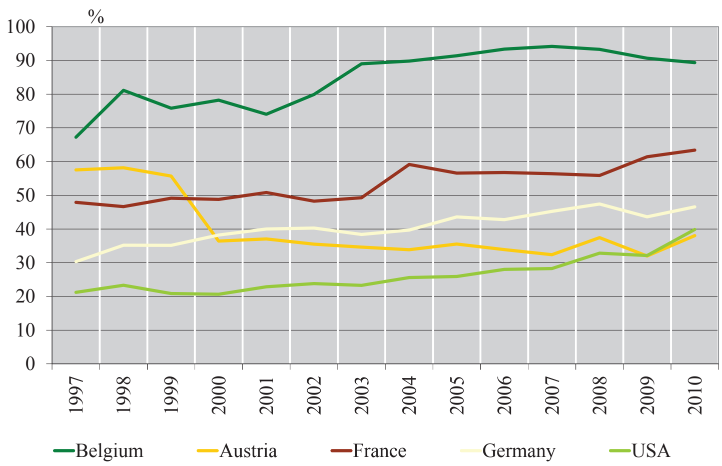
Source: own calculations based on data from the ECB.

International expansion of Western European banks was not limited to the EU. Large EU banks located their investments in the Central and Eastern European countries, which were almost entirely dominated by large state-owned banks. The analysis of the consolidation process allows distinguishing three stages of the expansion of the EU banks (Bayoumi, 2011):

- first stage: turn of the 1980s and 1990s – implementation of the strategy to follow large corporate customers who invest in the emerging market countries,
- second stage: the second half of the 1990s – participation in the privatization of the banking sectors in the Central and Eastern European countries, which eased licensing requirements for attracting foreign investors. The main area of expansion was the retail banking, as the corporate banking in these countries was underdeveloped and limited to banks established to finance activities of multinational corporations investing in these countries,
- third stage: the period of 2003-2008 – participation in the privatization of remaining part of state-owned banks in the new EU Member States and the development of subsidiary banks through the use of technological dominance and cheaper financing of the growing real estate market. Additionally the EU parent-banks took advantage of the reduction of credit risk and foreign exchange risk coming from the integration of these countries with the EU, and some of them with the euro area.

Establishment of the euro area became another impulse for the consolidation of the banking sector in the EU. Facilitating the free movement of capital between stakeholders located in different countries of the monetary union, the lack of the foreign exchange risk, settlements in a single currency, and the upward trend in the real estate market contributed to the continuation of the consolidation that had begun in the 1990s. More important motivations for such actions included: the need for reduction operating costs, exploiting economies of scale and scope, diversification of revenue sources. During this period Western European banks were heavily involved in the privatization of the remaining non-privatized banks, and engaged in the processes of consolidation in the banking sectors in CEE countries (Bayoumi, 2011). The consolidation of this period resulted in the increase of the banking sector concentration in most EU countries. A similar phenomenon occurred in the United States (see Figure 3).

Figure 3. Share of 5 largest banks in terms of assets in the banking sectors of the USA and some EU countries in 1997-2010



Source: own calculations based on data from the World Bank.

The outbreak of the global financial crisis started the next stage of banks` acquisition activities, both in the USA and the EU. In the United States in 2009-2010, the number of mergers resulting from bank failures almost equaled the number of mergers unforced by a deteriorating financial situation (see Figure 1). Restructuring mergers were often carried out in the EU. They were one of main reasons of the decrease in the number of operating banks, especially in countries severely hurt by the financial crisis. The crisis situation and the need for the government support[11] in takeovers of large failing banks became the basis for serious discussions about the organization of the banking supervision, models of conducting banking activities and structure of the banking sector.

The literature indicates that consolidation could provide significant benefits for the banking sector, as well as become a source of risk for the banks and the economy of the country. It is impossible to clearly state that the consolidation and the resulting high concentration of the banking sector, in a bigger or smaller level, exposes banks to the instability during crisis situations. Highly concentrated banking sectors of Canada (CR_5: 73%) and Australia (86%) did not suffer major losses during the financial crisis, while banks experienced significant losses in Switzerland (83%) and the Netherlands (87%) (OECD, 2010). Such ambiguity leads economists to the formulation of two opposing hypotheses defined as: concentration-stability and concentration-fragility (Beck et al., 2006).

The first one assumes that the high concentration of the banking sector is the equivalent of monopolization and enables the largest banks getting so called monopoly rent, proportionally to the values of their market share. In such sector, banks charge higher interest rates on loans and offers lower interest rates on deposits, gain higher profits and increase the level of profitability and solvency (Keeley, 1990; More and Nagy, 2004). Strong competition arising, among others, from a low concentration of the banking sector contributes to the increase in interest expenses on deposits and/or the reduction in interest income from loans. It lowers banks` profitability and undermines their stability and solvency (Craig and Dinger, 2013). On the other hand, in more concentrated sectors, such effects are reversed and lead to a higher profitability and a lower level of non-performing loans (Chang et al., 2008).

[11] In the period between October 2008 and mid-July 2009, the European Commission authorized the start of assistance programs drawn up by the 18 EU countries for a total amount of 2.9 billion euros in the form of government guarantees, and 313 billion euros in the form of grants. As of 7 August 2009, the value of accepted programs equaled to 12.6% of GDP of the European Union (EC, 2009).

Large-scale of operation allows banks to achieve economies of scale, thus reduce operating costs and improve profitability and solvency levels. In case of large banks, a significant geographical area of operations and a wide range of services allow to diversify sources of revenues. However, the merger which significantly raises the size of the new bank and the concentration of the sector can be only beneficial in a situation when they bring any added value and are sources of a synergy. The value could be associated with the possibility of using modern and efficient technologies (Tadesse, 2006), assistance in the restructuring operations and improvement in efficiency and economies of scale (Havrylchyk, 2004).

Often large banks for preserving dominant and profitable positions in the sector are trying to carefully monitor their borrowers in order not to incur further financial losses and maintain current positions and the safety of the operation (charter value hypothesis) (Jimenez et al., 2007; Fungacova and Weil, 2009). Banking supervision can easily monitor a smaller number of banks. Large banks being aware of benefits coming from continuation of operations and earning future revenues engage in less risky investments for business continuity (Beck et al., 2006).

Concentration-fragility hypothesis in a different way assesses the behavior of the bank management and the conduct of banking business. It recognizes that in a highly concentrated sector, a small group of banks do not have strong incentives to properly monitor their borrowers, what in a long run exposes them to serious financial losses. These banks also engage in risky investments, assuming that in case of default, with high probability, the government will support them to sustain banking operations (Boyd et al., 2009). Large banks automate lending procedures and are not willing to finance more opaque SMEs what contributes to the weakening of the country economic growth. On the other hand, more diversified banking sectors, in terms of size and geographical location, are more conducive to the development of the economy because they effectively provide credit to the SME sector.

Studies of large banking sectors indicate the importance of regional banks, due to their better contact with entrepreneurs (Chong et al., 2013; Tadesse, 2006). Such mechanisms took place in Poland in 1996-2006, when the structure of the loan portfolio of smaller banks with majority private equity was focused on lending to SMEs (Degryse et al., 2012). Also Cetorelli and Gamber (2001) indicate on the negative impact of the banking sector concentration on the economic development of the country (credit availability), although such relationship varies for different economic branches.

The latest decisions and opinions formulated by the banking regulators and results of the research on the model of the banking activities indicate the need for imposing a limit on the value of banks' assets or reduction of the concentration of the banking sectors. Vallascas and Keasey (2012) argue that in addition to the Basel III requirements, the banking sector is more secure when the limit is imposed on the size of banks. The value of the limit depends on the scale of the banking sector and the economy of a particular country, i.e. the higher limit for the larger economy. The negative effects to consumers and to the state of public finances which stem from a high concentration of the British banking sector are also indicated in the report of the Vickers commission. It highlights the existence of risk of the increase of the banking sector concentration in case of the necessity to acquire a failing bank.[12] For similar reasons, the Dodd-Frank Act requires a transfer of banks with assets of more than 50 billion USD under the special supervision of the Federal Reserve.

[12] High degree of the UK banking sector concentration has been further raised after the takeover of failing bank HBOS by Lloyds.

2. Restructuring consolidation in the period of deregulation of the banking sector in Poland in 1989-1997

Before the deregulation of 1989 the Polish banking system acted as a part of the centrally planned economy. The government administratively determined interest rates. The size and priorities of the banks' lending activities were recorded in the annual credit and cash plan. NBP was the major part of the banking system and combined the functions of a commercial bank and a central bank. Fulfilling these goals it served businesses and individuals together with maintaining the account of the State Treasury and refinanced banks' lending activities (Wyczański and Gołajewska, 1996, p. 11).

During this period, apart from the branches of NBP, banking operations were conducted by the following banks:

- Bank Handlowy w Warszawie SA,[13]
- Bank Polska Kasa Opieki SA,[14]
- Bank Gospodarki Żywnościowej,[15]
- Powszechna Kasa Oszczędności,[16]

[13] It operated as a bank incorporated as a joint-stock company. The bank was founded in 1870 by a group of businessmen and landowners for provision financial services to industrial and commercial enterprises and railways. Since its establishment, continuously running operations; see: http://www.citibank.pl/poland/homepage/polish/391.htm [in Polish].

[14] It operated as a bank incorporated as a joint-stock company. The bank was founded by the State Treasury in 1929 to support overseas operations. The first shareholders include: Pocztowa Kasa Oszczędności, Bank Gospodarstwa Krajowego and Państwowy Bank Rolny; see: http://www.pekao.com.pl/o_banku/historia [in Polish].

[15] It operated as a state-cooperative bank. The bank was created in 1975 throughout the merger of Centralny Związek Spółdzielni Oszczędnościowo-Pożyczkowych and Państwowy Bank Rolny. It financed activities of farmers and small businesses, and was a central organizational and financial support for cooperative banks. 46% of BGŻ shares were held by 1663 cooperative banks affiliated by BGŻ, and 54% held by the State Treasury. In 1994 BGŻ changed the status into a bank incorporated as joint-stock company, and in 2002 changed the profile into a universal bank; see: http://www.bgz.pl/o_banku/historia.html#tabs=11 [in Polish].

[16] It operated as a state bank. The bank was established in 1919 under the brand name Pocztowa Kasa Oszczędności. In 1948, it changed its name to Powszechna Kasa Oszczędności. In 1975 incorporated into the structure of Narodowy Bank Polski, and again separated from NBP 1987. On 12 April 2000 it changed its legal status of a state bank to a bank incorporated as joint-stock company under the brand name Powszechna Kasa Oszczędności Bank Polski. Since 10 November 2004 it is listed on the Warsaw Stock Exchange; see: http://www.pkobp.pl/grupa-pko-banku-polskiego/pko-bank-polski/historia/rys-historyczny [in Polish].

- Bank Gospodarstwa Krajowego,[17]
- Bank Rozwoju Eksportu SA,[18]
- Łódzki Bank Rozwoju SA,[19]
- cooperative banks - obligatorily affiliated by Bank Gospodarki Żywnościowej (BGŻ).

The banking laws approved in 1989 fundamentally changed the way of banking operations. The Banking Act transformed banks from institutions of the character of public administration units into commercial enterprises operating on a competitive market. Banks received exclusive rights to perform so called banking activities such as: running accounts, collecting deposits, granting loans and guarantees, or issuing own-debt banking securities. They could be organized in the following legal forms:

- state bank,
- bank incorporated as a joint-stock company,
- cooperative bank,
- state-cooperative bank,[20]
- branch of a foreign bank.

[17] It operated as a state bank. It was created in 1924 by the merger of three public banks: Polski Bank Krajowy, Państwowy Bank Odbudowy and Zakład Kredytowy Miast Małopolskich. It was focused on the financing activities of the state and municipal institutions, and industrial enterprises being under the control of the State Treasury. In 1948 it suspended its operations and resumed them in 1989, conducting some limited activities, principally as an agent of the Treasury bonds. Since 1 December 2002, it took over the functions of financing of the housing construction from Bank Rozwoju Budownictwa Mieszkaniowego (Bud-Bank), and additionally serving the State Treasury; see: http://www.bgk.com.pl/historia-banku [in Polish].

[18] It operated a bank incorporated as a joint-stock company. The bank was founded in 1986 and main shareholders were: the Ministry of Foreign Trade, the Ministry of Finance and Narodowy Bank Polski. Its activities focused on the collection of zloty and foreign currency funds to finance investments in the state-controlled economy. In 1991 it was fully privatized and shares were listed on the Warsaw Stock Exchange, see: http://raportroczny.brebank.pl/download/raport/krotka-historia-bre-banku.pdf [in Polish].

[19] It operated as a bank incorporated as a joint-stock company. It was established in 1988, and started operations in 1989. It was the first bank founded with a mixed private-public capital (NBP, 2007, p. 9).

[20] This legal form referred only to Bank Gospodarki Żywnościowej, and existed until 30 June 1992 r. On 1 July 1992 BGŻ changed its status to a bank incorporated as a joint-stock company [in Polish].

The Banking Act defined the procedures and requirements necessary for establishment and the start-up of a bank. State banks could be created or converted based on the Council of Ministers regulation, after consultation with the President of NBP. For establishment of a joint-stock company, a cooperative bank and a state-cooperative bank the approvals of the President of NBP were required, issued in a consultation with the Minister of Finance. A branch of a foreign bank could be created on the basis of the approval of the Minister of Finance in agreement with the President of NBP. The introduction of transparent licensing procedures made easier for domestic and foreign investors to make decisions about creation, as well as acquisition and merger banks.

The Act on Narodowy Bank Polski changed this institution from the entity subordinated to the government to the central bank. It endowed NBP with the powers necessary for the formulation and enforcement of the monetary policy. The main momentary policy tools were: refinancing, rediscount and lombard interest rates, the administrative limit on credit refinancing, the required reserves ratio and the open market operations. NBP performed functions of the central bank and supplied commercial banks with funds in domestic and foreign currencies. The Act also authorized NBP to supervise the banking sector. For this purpose, in May 1989 NBP established a special internal unit - the Department of Banking Supervision, which in 1990 was transformed into the General Inspectorate of Banking Supervision.

Supervisory activities performed by NBP were focused on three main areas:

- business licensing,
- creation of banking regulations,
- monitoring and control of the banks` financial situation.

Responsibility for the stability of the banking sector forced NBP to engage in the restructuring process of the newly created banking system. In the first half of the 1990s, one of the restructuring methods was an acquisition of a distressed bank by a bank in much better financial situation, followed by incorporation of the restructured entity into its own structure (NBP, 2007, p. 8).

The first important step in conducting the process of transformation and consolidation of the Polish banking sector was its de-monopolization and creation of several large commercial banks. For implementation of this task, 400 branches located in major towns across the country were separated from NBP`s facilities and designated to establish nine new state banks. They start operations on February 1, 1989 (NBP, 2001, p 2). This group consisted of the following banks:

- Bank Depozytowo-Kredytowy (headquartered in Lublin),
- Bank Gdański (Gdańsk),
- Bank Przemysłowo-Handlowy (Kraków),
- Bank Śląski (Katowice),
- Bank Zachodni (Wrocław),
- Pomorski Bank Kredytowy (Szczecin),
- Powszechny Bank Gospodarczy (Łódź),
- Powszechny Bank Kredytowy (Warszawa),
- Wielkopolski Bank Kredytowy (Poznań).

Headquarters of these banks were located in the economically most important cities. They were to play the role of the regional financial centers for the economic development stimulation. The newly established banks implemented universal banking model by offering deposits, lending and settlement services not only to businesses, but also to individuals. Such scheme was one of the most important objectives of the banking sector deregulation. It was assumed that the subsequent stages of the banking sector development should be privatization with the use of domestic and foreign private capital, and then partial consolidation aimed to improve domestic banks` competitive position against foreign banks intending to enter the Polish banking market (NBP, 2001, p. 2). To accomplish this task in 1991 nine newly established banks changed their legal status of a state bank to a bank incorporated as a joint-stock company with the 100% participation of the State Treasury.[21]

The lenient licensing policy implemented in 1989-1991 resulted in 60 permits to establish a bank of mixed public-private capital (see Table 1). Banks opened their operations in this time had diversified ownership structure. The biggest investors were financial institutions such as domestic banks, insurance companies, leasing companies. The other major shareholders of the newly created private banks could be divided into two specific groups composed of:

1. economic and industry associations and their member-enterprises,
2. local governments and municipal enterprises.

These investors intended to shift their financial services to the controlled banks. They expected also to reduce the financial costs due to lower commissions and preferential treatment of the banks they control.

Table 1. Commercial banks in Poland in 1989-1997

Items		1989	1990	1991	1992	1993	1994	1995	1996	1997
Number of issued licenses		8	45	17	5	1	1	7	5	5
Operating banks	Number	25	70	83	85	87	82	81	81	83
	Share (%)	—	—	—	—	93.4	94.7	95.2	95.4	95.5
Foreign-owned banks	Number	0	1	6	9	10	11	18	25	29
	Share (%)	—	—	—	—	2.6	3.2	4.2	13.7	15.3

Note: banks' share in the banking sector assets.

Source: own calculations based on data from: NBP (2007), pp. 9-10 – for 1989-1992; *Summary Evaluation…* (1999), p. 15 – for 1993 -1997.

The group of "industrial banks" includes, among others:

- Bank Cukrownictwa „Cukrobank" (major shareholders: Rolimpex[22], sugar plants),
- Bank Rozwoju Cukrownictwa (Rolimpex, sugar plants),

[21] The transformation of state banks into state-owned banks incorporated as a joint-stock company and next sale of shares of these banks were conducted based on the Act of 13 July 1990 on privatization of state enterprises (OJ of 1990, no. 51, issue 298).

[22] Foreign Trade Company "Rolimpex" dealt with domestic and foreign trade and storage of food and agricultural products.

- Wschodni Bank Cukrownictwa (Rolimpex, sugar plants),
- Bank Energetyki (Polish Power Grid “PSE”, Power Plant District of Radom and Kielce, Power Plant in Rybnik),
- Bank Ochrony Środowiska (The National Fund for Environmental Protection and Water Management, Directorate General of the State Forests),
- Bank Własności Pracowniczej (Repair Shipyard in Gdansk, Gdansk Refinery),
- CUPRUM Bank (Plant of the Cooper Mining and Metallurgy “KGHM Polska Miedź”, the local government of Lubin),
- Górnośląski Bank Gospodarczy (Metallurgy Supply Center in Katowice, Export and Import Trade Company "Kopex”),
- Petrobank (Petroleum Products Trade Company “CPN”, Brown Coal Mine “Belchatow”).
- The group of "municipal banks" includes, among others:
- Bank Częstochowa (the local government of Częstochowa, Still Mill Częstochowa),
- Bank Komunalny (the local government of Gdynia),
- Bank Przemysłowy (the local government of Łódź),
- Bank Ziemi Radomskiej (the local government of Radom).

Among the newly established commercial banks the most numerous group comprised banks incorporated as a joint stock company. They specialized in universal banking services assisting businesses and households with traditional credit and deposit services. Although most of the equity came from state-owned enterprises, these banks were managed in the same way as privately-owned entities. The market entry of a new group of banks was one of the most important factor contributing to the increase of competition in the banking sector. Deregulation and modernization of the banking sector enabled the newly established banks to gradually improve their market positions. The share of private banks in the total amount of deposits and loans of the banking sector increased from about 1% in 1990 to, respectively, 18% and 21% in 1992. In 1995 the shares of these entities in assets, deposits and loans of the banking sector were, respectively, equal to 24.7%, 21.3% and 26.9% (Wyczański and Gołajewska, 1996, pp. 75-76).

However, the banking sector deregulation carried behind some negative effects. The first signs appeared in 1991 when financial situation of some banks deteriorated significantly. Partly it was an impact of the weak situation of the Polish economy, which struggled with effects of deep structural reforms initiated in 1989. Bank activities also were hampered by high inflation rates and interest rates set by NBP. Their values exceeded 100% per annum at the beginning of 1990.[23] In such difficult macroeconomic environment in 1991 first banks reported problems with their insolvency. Curbing the crisis situation NBP placed several distressed banks into receivership and required banks being under the receiver authority to implement restructuring programs (see Table 2).

Table 2. Commercial banks under restructuring programs in 1991-1997

Restructuring actions	1991	1992	1993	1994	1995	1996	1997
Placement under receiver authority	2	1	6	4	0	0	0
Order for liquidation	0	1	2	4	2	0	1
Filing the application for a declaration of bankruptcy	0	0	0	2	1	0	1
Sale of the enterprise of a liquidated bank	0	0	0	3	8	9	10
Start of a restructuring program[1]	5	10	18	7	5	1	1
Execution of a restructuring program[1]	5	14	29	26	23	19	15
Acquisition of a bank[2]	0	0	1	6	2	2	1
Merger of banks[2]	1	0	1	0	1	2	2

Source: own calculations based on data from: NBP (2007), pp. 32-34 and 37; [1)] KNF (2009), p. 2; [2)] NBP (2001), p. 59.

[23] According to the Central Statistical Office, the average value of the Consumer Price Index equaled to 685.8% in 1990; see: http://www.stat.gov.pl/gus/5840_1634_PLK_HTML.htm. In January, February and March 1990 the NBP refinance credit rate equaled, respectively, to 432%, 240% and 120% (Wyczański and Gołajewska, 1996, p. 48).

The banking crisis became apparent in the strongest mode in 1993-1994, which forced NBP to issue more requests for implementation of restructuring programs in banks (see Table 2). Another response of NBP for the crisis situation was the tightening license policy and forcing, in some degree, domestic and foreign investors to take over distressed banks. By limiting the number of granted licenses NBP expected also to stabilize and increase the security of the banking sector by equipping banks with more equity (Śleszyńska-Charewicz, 2005). Financial authorities were aware that short-term acting domestic banks have a limited experience in the banking business and were in a much weaker market position compared to the long-term functioning Western European and American banks. Such disproportion introduced risk for a stable and balanced development of the entire banking sector in Poland. Applying some kind of a recovery period was aimed to give an opportunity for domestic banks to increase their market share, improve technology and quality of management and become more competitive against foreign banks intending to enter the Polish market (Dobosiewicz, 1995).

For the effective implementation of these objectives NBP undertook restructuring actions in which domestic and foreign financial institutions, as well as the central bank itself actively participated. Restructuring programs supervised by NBP, and in some cases supported by NBP, the Bank Guarantee Fund (BFG) and the Ministry of Finance consisted of liquidation or acquisition of distressed banks by a domestic and foreign bank. Acquisitions and mergers of troubled banks became one of the basic restructuring tools. Such several bank mergers and acquisitions took place in 1993-1995 (see Table 3). Major purposes of conducting consolidating actions included, inter alia, reduction the potential financial and social costs of bank failures and maintenance confidence in the newly formed banking system in Poland (NBP, 2007, p. 36)

Table 3. Mergers and acquisitions of banks resulting from implementation of restructuring programs in 1993-1997

Acquired bank or banking enterprise	Acquiring bank
1993	
Warszawski Bank Zachodni	Bank Zachodni
Bank Rozwoju Rzemiosła, Handlu i Usług	Bank Zachodni

„Market”	
Bank Ziemski	Kredyt Bank
Baltic Bank	Powszechny Bank Handlowy GECOBANK
1994	
Głogowski Bank Gospodarczy	Bank Zachodni
Bank Budownictwa in Szczecin	Pierwszy Komercyjny Bank in Lublin
Poznański Bank Handlowy „Merkury”	Pierwszy Komercyjny Bank in Lublin
Bydgoski Bank Komunalny	Pierwszy Komercyjny Bank in Lublin
1995	
Sopocki Bank Inicjatyw Gospodarczych Sopot Bank	Bank Gdański
Powszechny Bank Handlowy GECOBANK	Kredyt Bank
Bank Regionalny in Rybnik	Kredyt Bank
Bank Rozwoju Rolnictwa „Rolbank”	Bank Zachodni
Dolnośląski Bank Gospodarczy	Prosper Bank
1996	
Bank Depozytowo-Powierniczy GLOB	Kredyt Bank
Bydgoski Bank Budownictwa	Wielkopolski Bank Kredytowy
1997	
Bank Morski	Powszechny Bank Kredytowy
BIG Bank[1]	Bank Gdański
Polski Bank Inwestycyjny[1]	Kredyt Bank

Note: [1)] acquisition unforced by a weak financial situation of the acquired bank NBP (2001), p. 60.
Source: own elaboration based on data from NBP (2007), pp. 36-37.

Much lower number of new bank entries in 1995-1997, comparing to the first years of the 1990s, was a consequence of the NBP tightening licensing policy. However such situation became a stimulus for the consolidation. Some foreign and domestic banks to start their operations in Poland had to engage into the restructuring programs, and though acquisitions of troubled banks increased their market shares. The classic consolidation actions oriented on improvement of the market position were acquisitions made by Kredyt Bank[24], as well as acquisitions carried out by BIG Bank in the early 2000s, initiated in 1997 by the acquisition of Bank Gdański (see Table 3).

[24] Kredyt Bank acquired following banks: Bank Ziemski, Powszechny Bank Handlowy GECOBANK, Bank Regionalny in Rybnik, Bank Depozytowo-Powierniczy GLOB, and next took over Polski Bank Inwestycyjny.

The Act of 14 June 1996 on the connection and consolidation of some banks incorporated as a joint-stock company[25] significantly accelerated the consolidation process in Poland. On 16 September 1996, Bank Pekao, Bank Depozytowo-Kredytowy, Powszechny Bank Gospodarczy and Pomorski Bank Kredytowy signed an agreement on the establishment of the banking group. The purpose of this agreement was to strengthen the capacity of banks-members of the group, improve the quality of bank management, expand the range of provided services, and improve the financial stability of banks participating in the group. The full consolidation of the Pekao Group took place on 1 January 1999.

The privatization and consolidation process of 1989-1997 to some extent is characteristic for the initial stages of the banking sector development. The structure of the banking sector was transformed from an almost complete monopoly of NBP and several commercial banks at the beginning of 1989 to a concentrated structure of the sector, however composed of several large banks controlled by the State Treasury and dozens smaller privately-owned commercial banks. The sector`s transformation significantly improved the market position of privately-owned banks. At the end of 1997, their share in the banking sector assets amounted to 46.2%, including 15.3% of foreign-owned banks (see Table 1).

Decreasing concentration helped to raise the banking market competition, what was noticed with improving efficiency ratios and reduction of the interest margins.[26] At the end of 1997, concentration ratios[27] CR_5 and CR_{10} in terms of assets equaled, respectively, to 46.2% and 65.7%, and the HHI to 0,672. In case of deposit-taking and lending markets the CR_5 and CR_{10} amounted to, respectively, 51.9% and 69.8% for deposits and 35.7% and 60.7% for loans (NBP, 2007, p. 31). Higher competition was one of the causes of the improvement of banks cost efficiency measured with the C/I ratio[28] from 95.1% in 1993 to 85.3% in 1997. Additionally,

[25] OJ of 1996, no. 90, issue 406.
[26] The interest margin (NIM) equals to the interest income divided by the average value of assets.
[27] Concentration ratios are defined as follows: CR_5 (CR_{10}) as a share of five (ten) biggest entities in the market, HHI - Herfindahl-Hirschman Index equals to the sum of squares of the shares of all entities in the market. For a market composed of one entity HHI is 1.
[28] The C/I ratio equals to the operating costs divided by the income from banking activities.

the net interest margin at the end of 1997 equaled to 5.4% and was in a downward trend falling to 4.7% at the end of 1998 (NBP, 1999).

Separate areas of the banking consolidation were numerous mergers and acquisitions of cooperative banks. Shortly after the banking sector deregulation low level of equity and inadequate credit policy significantly worsened the financial situation of a large number of cooperative banks. One of the ways for effective restructuring of distressed banks was their acquisition by better managed and equipped with higher own capital banks. Such policy of the financial authorities was implemented during the crisis of the cooperative banks, which emerged in the first half of the 1990s. Restructuring of cooperative banks contributed to a significant reduction in their number (see Table 4). In 1993-1997 the President of NBP acting as the supervisory authority suspended business activities and submitted an application for the bankruptcy protection in relation to 145 cooperative banks. In a result, courts declared bankruptcy 131 of them. During this period, 202 banks merged, and properties of 49 banks, after liquidation, were incorporated into other banks. In 85 cases, the restructuring programs were supported by NBP and BFG. In a result of the restructuring consolidation wave, the number of cooperative banks decreased from 1,663 in 1991 to 1,295 in 1997 (see Table 4).

Table 4. Cooperative banks in Poland in 1991-1997

Items	1991	1992	1993	1994	1995	1996	1997
Number of banks	1,663	1,663	1,653	1,612	1,510	1,394	1,295
Merger with the shareholders decision	0	0	0	13	34	68	73
Sale of a banking enterprise to other banks	0	0	0	5	11	16	17
Declaration of a bank bankruptcy	0	1	10	23	57	30	6
Start of a restructuring program[1]	1	111	581	263	116	73	36
Execution of a restructuring program[1]	1	112	473	539	481	378	293

Source: own calculations based on data from: NBP (2007), pp. 11, 37-38; [1)] KNF (2009), p. 2.

3. The role of foreign banks in the process of restructuring and consolidation of the banking sector in the 1990s

Foreign banks played an important role in the withdrawal of the Polish banking sector from the crisis in the first half of the 1990s. They were engaged in the modernization and consolidation process in the successive stages of the Polish banking sector development. Participation in the consolidation of distressed banks was one of the most important ways of the foreign banks' involvement in the restructuring process. The first foreign-owned banks appeared in 1990. The equity requirement of 5 million ECU[29] was not a major obstacle in establishment new banks by foreign investors (Dobosiewicz, 1995). At that time, the reason for a cautious investment policy of foreign investors was high volatility of the Polish economy and the lack of certainty about the final results of the economic reforms introduced at the turn of 1989 and 1990. In 1990 Bank Amerykański (AmerBank) became the first foreign-owned commercial bank. In the following year operations began: Citibank (Poland), Creditanstalt Bank, International Bank in Poland (later: IBP Bank), Raiffeisen Centrobank, and in 1992: Polish-Canadian Bank of Saint Stanislaw and GE Capital Bank. Other foreign banks conducted the passive investment strategy and opened their branches or engaged in the privatization of large state-owned banks as minority investors.

The analysis of the foreign banks' involvement in the privatization of the Polish banking sector shows that they mainly follow three investment strategies (NBP, 2001, p. 57)[30]:

- purchase of minority stakes in the privatized domestic banks with the possibility to increase the share of ownership in case of positive developments in the banking sector[31],

[29] ECU – European Currency Unit – the artificial European currency used in a limited scale on the international commodity and financial markets. In 1999 substituted by euro with the ratio of 1:1; see: http://www.nbportal.pl/pl/commonPages/EconomicsEntryDetails?entryId=295&pageId=608.
[30] Methods of investing in Poland coincided with methods used at the entrance of banks of developed countries into the emerging markets; compare: Bayoumi (2011).
[31] This investment strategy was applied in case of: Wielkopolski Bank Kredytowy (1993) – the main shareholders: EBOiR 28.5% and Irish Allied Bank 16.3%; ING Bank Śląski (1993), – the main shareholder: ING Group 26%; Bank Przemysłowo-Handlowy (1995) – the main shareholder: EBOiR

- establishment of branches of foreign banks[32],
- start of subsidiary banks[33].

Foreign banks and other investors acquired minority stakes in state-owned banks in the way of negotiations and agreements with the Ministry of Finance and the Ministry of Ownership Transformation. Another form of the acquisition was the purchase of banks' shares directly on the Warsaw Stock Exchange. In this way, the State Treasury sold, inter alia, part of the shares of Wielkopolski Bank Kredytowy, Bank Śląski, Bank Przemysłowo-Handlowy and Bank Gdański.

Another reason for foreign banks to start operations in Poland resulted from the international operation of their corporate customers. Some foreign banks fulfilled the policy to follow customers and supported their home country corporations which invested in business ventures or started a long-term cooperation with Polish counterparts. At that time foreign corporations demanded financial services from home banks as the newly established domestic banks in Poland, due to technological and organizational gap, were unable to fulfill their financial expectations (NBP, 2001, p. 57).

Although the Banking Act of 1989 permitted to establish branches of foreign banks, this form of banking operation in Poland was not very widespread. In the 1990s NBP issued only three permissions for their creation. On this basis, American Express Ltd. and NMB Postbank (later ING Bank NV) opened branches in 1991 and Societe Generale in 1992. The restrictive licensing policy of NBP stemmed from the fear of being unable to exercise an effective control over these entities. NBP, as well as the Commission for Banking Supervision (KNB) supervising banks since 1998, believed that they could fully oversee the registered in Poland branches of foreign banks. However, foreign banks treated their branches in Poland in a literal way, as

26.4%; Bank Handlowy in Warszawa (1997) – the main shareholder: JP Morgan 15% (Lachowski, 1997).

[32] Branches of foreign banks opened: NMB Postbank (later ING Bank NV) and American Express in 1991, and Societe Generale in 1992.

[33] Examples of "greenfield" banks set up by foreign banks or financial institutions, often with their 100 percent participation, include: Citibank (Poland), Creditanstalt Bank and Raiffeisen Centrobank created in 1991, GE Capital Bank in 1992, Deutsche Bank and Westdeutsche Landesbank Poland Poland in 1995, and Hypobank Poland in 1996.

part of their organizational structure based in the home country. Consistently they recognized the right to supervise them by the financial authorities in their home countries. Lack of the clear settlement of this contentious issue was one of the major causes of the unfavorable attitude of the Polish banking supervision toward branches of foreign banks (NBP, 2001, p. 57). As a result, in subsequent years of the 1990s no more new branches were opened and existing liquidated or combined with a subsidiary of the parent bank. At the beginning of the 2000s the only branch of Societe Generale operated.

The licensing policy tightened since 1992 especially affected foreign investors. At that time, NBP almost completely ceased to authorize the opening of a subsidiary of foreign banks. The rationale for such approach was the need to stabilize the situation of domestic banks and increase their profitability and competitiveness against large EU and US banks planning to enter the Polish market. In 1994 NBP slightly revised its licensing policy and began to issue permissions, however, provided a significant commitment to support restructuring programs of distressed banks. One of the first banks to fall under such scenario was the Dutch bank ABN-AMRO. In 1994, it bought from the previous owners almost 100% of the shares of Interbank for 10 million USD. Furthermore it agreed to recapitalize the new Polish subsidiary, ABN AMRO Bank (Polska), with investment of 40 million USD. In a similar way operations on the Polish market started such banks as Westdeutsche Landesbank[34], Deutsche Bank, Bayerische Vereinsbank (see Table 5).

Table 5. Acquisitions of domestic banks by foreign banks as a part of restructuring actions in Poland in 1994-1999

Acquired bank	Acquiring bank	Bank after acquisition	Year of acquisition
Interbank	ABN AMRO Bank N.V.	ABN AMRO Bank (Polska)	1994
Solidarność Chase D.T. Bank	GE Capital Corporation; Selective American Financial Enterprises	GE Capital Bank	1995
PETROBANK	LG Investment Holdings	LG Petro Bank	1996

[34] Since 1994, Westdeutsche Landesbank together with Polski Bank Rozwoju supported the restructuring of declining Bank Morski. In 1997, Bank Morski was liquidated and the banking enterprise sold to Powszechny Bank Kredytowy (NBP, 2007, p. 27 and 36).

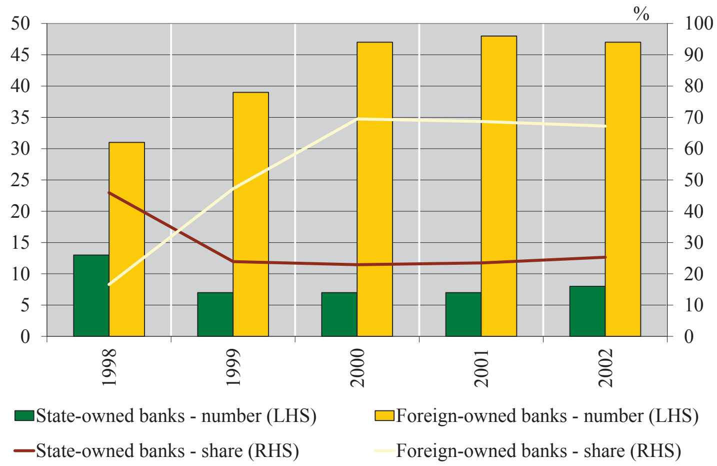
	BV		
Bank Rolno-Przemysłowy	Rabobank International Holding B.V.	Rabo-BRP Bank Polska	1996
Bank Ogrodnictwa „Hortex”	General Motors Acceptance Corporation	POLBANK (later: GMAC Bank Polska)	1996
Bank Przemysłowy	Union Group AS	Bank Przemysłowy	1997
Bank Podlaski	AIG Consumer Finance Group, Inc.	AIG Bank Polska	1998
Bank Rozwoju Energetyki i Ochrony Środowiska MEGABANK	Bayerische Vereinsbank AG	Vereinsbank Polska	1998
BWR Bank Secesyjny	DaimlerChrysler Services (debis) AG	DaimlerChrysler Services (debis) Bank Polska	1999
Bank Własności Pracowniczej	Unibank A/S	BWP Unibank	1999
Bank Komunalny SA	Nordbanken AB	Nordea Bank Polska	1999
Bank Współpracy Regionalnej	Deutsche Bank AG	Deutsche Bank 24	1999

Source: own elaboration based on data from NBP (2001), p. 58.

4. Consolidation as the conclusion of the Polish banking sector privatization in 1998-2002

The course of the next stage of the banking sector consolidation was associated with enacting in August 1997 amended banking laws: the Banking Act and the Act on Narodowy Bank Polski.[35] The introduced changes aimed at adjusting banking regulations in Poland to the European Union standards and increasing the confidence of foreign investors to the Polish banking sector. Larger foreign investments placed in 1998-2002 significantly changed the ownership structure of the banking sector in Poland. Most of transactions were completed in 2000, what caused that the share of bank assets controlled by foreign owners increased from 47% to 70% (see Figure 4).

Figure 4. Number of commercial banks controlled by the State Treasury and foreign investors and their shares in the banking sector assets in Poland in 1998-2002



Source: own calculations based on data from NBP (2003).

At the end of 2002, foreign shareholders (marked in brackets) exercised control in the following large commercial banks:

- Bank Śląski (ING Group, the Netherlands, since 1996),
- Wielkopolski Bank Kredytowy (Allied Irish Bank, Ireland, since 1997),

[35] Respectively, OJ of 1997, no. 140, issue 939 and OJ of 1997, no. 140, issue 938. The acts came into force on 1 January 1998.

- Bank Zachodni (Allied Irish Bank, Ireland, since 1999),
- Bank Przemysłowo-Handlowy (Bayerische Hypo- und Vereinsbank, Germany, since 1999),
- Bank Pekao (Unicredit, Italy, since 2000)
- Powszechny Bank Kredytowy (Bank Austria Creditanstalt, Austria, since 2000)
- BRE Bank (Commerzbank, Germany, since 2000)
- Bank Handlowym in Warszawa (Citigroup, the USA, since 2000)
- BIG Bank Gdański, currently Bank Millennium (Banco Comercial Portugues, Portugal, since 2000).

The consolidation of the privatized banks was the next stage of structural changes in the banking sector. One method to clean up the organizational structure of groups was merging independently operating banks-members of the group into one bank. This type of consolidation was implemented in such banks as ING Bank, Bank Handlowy w Warszawie, Bank Millennium, BZ WBK and Bank BPH (see Table 6).

Table 6. The consolidation of commercial banks in Poland in 1999-2002

Acquired or merging banks	Acquiring or newly established bank	Cause of consolidation
1999		
Powszechny Bank Gospodarczy, Pomorski Bank Kredytowy, Bank Depozytowo - Kredytowy	Bank Polska Kasa Opieki	Consolidation in the Grupa Pekao
Pierwszy Komercyjny Bank w Lublinie (banking enterprise)	Powszechny Bank Kredytowy	Increase in market share and continuation of the restructuring program by PBK
Hypo-Bank Polska, HypoVereinsbank Polska	Bank Przemysłowo–Handlowy	Consolidation in the group of Bayerische Hypo-Vereinsbank (BHV)
Bank Energetyki	Bank Inicjatyw Społeczno-Ekonomicznych	Increase in market share and continuation of the restructuring program by BISE
2000		

BWR Real Bank	Bank Współpracy Regionalnej (since 2001 Deutsche Bank 24)	Increase in market share and continuation of the restructuring program by Deutsche Bank
Bank Austria Creditanstalt Poland	Powszechny Bank Kredytowy	Consolidation in the group of Bank Austria Creditanstalt
Gliwicki Bank Handlowy (banking enterprise)	Wielkopolski Bank Kredytowy	Increase in market share and continuation of the restructuring program by WBK
	2001	
Bank Komunalny	Bank Własności Pracowniczej „Unibank"	Consolidation in the group of Nordea Bank
ING Bank NV Oddział w Polsce	ING Bank Śląski	Consolidation in the group of ING Group
Wielkopolski Bank Rolniczy	ING Bank Śląski	Increase in market share and continuation of the restructuring program by ING Bank Śląski
Wielkopolski Bank Kredytowy, Bank Zachodni[2)]	BZ WBK	Consolidation in the group of Allied Irish Bank
Bałtycki Bank Regionalny	Gospodarczy Bank Wielkopolski	Consolidation of the affiliating banks
Bank Inicjatyw Gospodarczych	BIG Banki Gdański	Consolidation in the group of BIG Bank Gdański
Citibank (Poland)	Bank Handlowy w Warszawie	Consolidation in the group of Citibank
	2002	
Powszechny Bank Kredytowy, Bank Przemysłowo-Handlowy[2)]	BPH PBK (Bank BPH since 2004)	Consolidation in the group of BHVas a consequence of acquisition of Bank Austria Creditanstalt by BHV
Gospodarczy Bank Południowo-Zachodni, Bank Unii Gospodarczej, Lubelski Bank Regionalny, Małopolski Bank Regionalny, Rzeszowski Bank Regionalny, Warmińsko-Mazurski Bank Regionalny[2)]	Bank Polskiej Spółdzielczości	Consolidation of the affiliating banks
Dolnośląski Bank Regionalny	Bank Polskiej Spółdzielczości	Consolidation of the affiliating banks
Pomorsko-Kujawski Bank Regionalny	Gospodarczy Bank Wielkopolski	Consolidation of the affiliating banks
Bank Cukrownictwa „Cukrobank"	Bank Inicjatyw Społeczno-Ekonomicznych	Increase in market share and continuation of the restructuring program by BISE

Note: 1) in some cases the banking enterprise was the subject of an acquisition, 2) merger of banks.
Source: own elaboration based on data from *Summary Evaluation of the Financial Situation of the Polish Banks,* NBP – editions of 1999-2002.

The most important goals of the restructuring and consolidation within banking groups include:

- reduction of operating costs,
- increase the efficiency of managing the entire group,
- improvement of the bank's market position.

The process of combining small subsidiary banks operating throughout a few branches into one bank was similar to the consolidation of the US banking sector in the second half of the 1990s followed by the adoption of the Reagle-Neal Interstate Banking and Branching Act (see Chapter 1). The aim of extensive merging was to reduce operating costs, raise equity and improve banks' market position.

In the cooperative banking sector the consolidation process particularly intensified in 1998-2002. The main reason was the need to raise equity in order to fulfill the regulatory minimum. In 2000, the Parliament enacted the act on the functioning of cooperative banks, which imposed on cooperative banks the obligation to achieve up to 31 December 2001, the minimum own capital at the value of 300 thousand euro.[36] To carry out this adjustment cooperative banks conducted over 600 mergers in 1998-2000. The total number of banks decreased almost by half (see Table 7). At this time, profitability and solvency of the cooperative banks increased, which caused that on average only 14 banks were required to start a restructuring program. As a result in following years banks rather seldom acquired and merged distressed cooperative banks (see Table 7).

Table 7. Cooperative banks in 1998-2002

Items	1998	1999	2000	2001	2002
Number of banks	1,189	781	680	642	605
Merger with the shareholders decision	96	406	99	35	35

[36] The act of 7 December 2000 on functioning cooperative banks, their affiliating and affiliating banks (OJ of 2000, no. 119, issue 1252) required cooperative banks to raise equity to the equivalent in zloty of: 300 thousand euro until 31 December 2001; 500 thousand euro until 31 December 2005 and 1 million euro until 31 December 2010.

Restructuring acquisition	0	1	2	2	2
Liquidation of a bank	6	1	0	0	0
Bankruptcy of a bank	4	0	0	1	0
Start of a restructuring program[1]	21	21	11	13	7
Execution of a restructuring program[1]	176	143	110	70	48

Source: own elaboration based on data from: NBP (2007), p. 45; and [1)] KNF (2009), p. 2.

The regulation of 2000 initiated also consolidation among affiliating banks. The legislature found that functions of these banks in some areas are similar to the functions of the central bank, including running accounts of cooperative banks, settlement of payments and maintenance of required reserves in NBP on behalf of cooperative banks. Such functions require preserving greater safety measures and maintaining higher equity. Affiliating banks were therefore obliged to raise equity to the level of 10 million euro by 28 July 2001, 15 million euro by 31 December 2003 and 20 million euro by 31 December 2005. The need to meet these requirements forced the consolidation of most from 11 operating at that time affiliating banks. As a result of mergers (see Table 6) at the end of 2002 only three affiliating banks remained:

- Gospodarczy Bank Wielkopolski,
- Bank Polskiej Spółdzielczości,
- Mazowiecki Bank Regionalny.

Another important goal of affiliating banks consolidation was the reduction of operating costs. Higher number of affiliating banks meant that some of them affiliated only a small number of cooperative banks. For example, in 2000, Dolnośląski Bank Regionalny and Bałtycki Bank Regionalny affiliated, respectively, 28 and 31 cooperative banks, of a total 679 cooperative banks (NBP, 2007, p. 46).

Such limited scale of operations of these banks raised the level of operating costs, incurred in serving banks-members of the affiliation. Higher costs forced affiliating banks to charge higher fees for providing services, what decreased profitability and stability of cooperative banks affiliated by small affiliating banks. The consolidation in the cooperative sector had proved such method as a unique and effective way to reduce fixed costs and raise security measures of affiliating banks and cooperative banks.

5. Consolidation within the single European financial system in 2003-2013

The process of the banking sector consolidation was significantly influenced by the Polish accession to the European Union in May 2004, and also by the acquisitions carried out in the EU-15 countries involving parent banks for Polish subsidiaries. In subsequent years the financial crisis gave another impetus for the consolidation, mostly due to weakening financial condition and solvency of some EU and US banks, and the need to sell their Polish subsidiaries to payback public aid funds.

In the first years of the 2000s banks performed significantly less mergers and acquisitions, than in the turn of the 1990s and the 2000s (see Table 8). Some banks, after completing mergers focused their activities on aligning management systems in newly-created structures. They harmonized execution procedures, back-office systems to support customer service in all branches of the bank. Some of foreign-owned banks changed names or brands in order to unify them with names of the international network managed by the parent banks. Among them, Bank Śląski changed its name to ING Bank Śląski, Bank Handlowy w Warszawie at Citi Handlowy, BIG Bank Gdański at Bank Millennium, BWP-Unibank at Nordea Bank Poland, Lukas Bank at Credit Agricole Bank Polska.

Table 8. Consolidation of the banking sector in Poland in 2003-2013.06

Acquired bank	Acquiring bank
2003	
Bank Wschodni	Bank Społem (later Euro Bank)
LG Petro Bank	Nordea Bank Polska
Bank Częstochowa	BRE Bank
2004	
Bank Przemysłowy	Getin Bank
GE Bank Mieszkaniowy	GE Capital Bank (later GE Money Bank)
Spółdzielczy Bank Rozwoju „Samopomoc Chłopska”	Bank BPH
2005	
Bank Svenska Handelsbanken Polska	Svenska Handelsbanken Banch in Poland
Nykredit Bank Hipoteczny	Nykredit Realkredit Banch in Poland
2006	
Danske Bank Polska	Danske Bank Banch in Poland

Calyon Bank Polska	Credit Agricole Corporate and Investment Bank (former Calyon) Banch in Poland
BNP Paribas Bank Polska	BNP Paribas Banch in Poland
2007	
66% of banking enterprise of Bank BPH	Bank Pekao
Bankiem Inicjatyw Społeczno-Ekonomicznych (BISE)	Bank DnB NORD Polska
2009	
Shares of Bank BPH with about 34% assets of the former Bank BPH, so called mini-BPH	GE Money Bank (later Bank BPH)
Dominet Bank	Fortis Bank Polska[37]
Cetelem Bank Polska	Sygma Bank Banch in Poland
2010	
Noble Bank	Getin Bank (later Getin Noble Bank)
Commerzbank Branch in Poland	BRE Bank
2011	
AIG Bank Polska	Santander Consumer Bank
ING Bank Hipoteczny	ING Bank Śląski
Mazowiecki Bank Regionalny	Gospodarczy Bank Wielkopolski (later: SGB)
2012	
Polbank EFG	Raiffeisen Bank Polska
Get Bank	Getin Noble Bank
2013[1]	
Kredyt Bank	Bank Zachodni WBK
RCI Bank Polska	RCI Banque Banch in Poland
The retail part of Bank DnB Nord Polska	Getin Noble Bank
Credit Agricole Corporate and Investment Bank Branch in Poland	Credit Agricole Bank Polska

Source: own elaboration based on data from: *Summary Evaluation of the Financial Situation of the Polish Banks*, NBP/KNF – editions of 2003-2012; [1)] web sites of banks.

The cooperative banking sector consolidation was limited to a few unforced mergers with the aim to improve the market position of the merging entities, and to increase capital buffers and improve the state of solvency. Some acquisitions of cooperative banks were a part of an implemented restructuring program, the number of which was significantly dependent on the macroeconomic situation. In a result of improving the economic situation in Poland in 2003-2012 the number of ongoing

[37] After acquisition of the Belgium part of Fortis Bank by BNP Paribas in May 2011 it changed name into BNP Paribas Bank Polska.

cooperative banks restructuring programs fell from 38 to 11 (KNF, 2009, p. 2 and KNF, 2013, p. 61).

Further structural changes in the banking sector occurred due to the Polish accession to the EU. Poland became a part of the single European banking system and branches of a credit institution (CI) started operations in the Polish banking sector. In accordance with the article 481 paragraph 1 of the Banking Act, a credit institution licensed in any member state has the right to conduct banking operations though a branch of CI (a separate organizational unit) in Poland without requesting additional authorization from the Polish Financial Supervisory Authority. Such form of presence in Poland undertook relatively small banking units. They mostly offered services of investment and corporate banking, and often complemented functions of a subsidiary of the parent bank specializing in universal banking.

Such way of carrying on banking activities results from the fact that retail banking is local, performed in a domestic language, and requires constant contacts with customers as well as a large network of branches. Retail services are realized by a subsidiary of a parent bank. The corporate and investment banking services do not require extensive branch network, and can be provided even in English. In addition, the fact that the lending entity (represented in Poland by the branch of CI) is a bank based in a large financial center was considered as an advantage for large Polish companies. They expected to get funds at more competitive rates. This way of banking operations at the Polish market realized: BRE Bank and Commerzbank Branch in Poland, BNP Paribas Bank Polska and BNP Paribas Securities Services Branch in Poland, Nordea Bank Polska and Nordea Bank AB SA Branch in Poland, Eurobank and Societe General Branch in Poland, Credit Agricole Bank Polska (former Lukas Bank) and Credit Agricole Corporate and Investment Bank Branch in Poland.

A special case of a branch of CI was EFG Eurobank Ergasias SA Branch in Poland. It specialized in retail banking services and conducted business under the brand name Polbank. Although it achieved a significant position in the banking sector, the unstable financial situation of its parent bank and financial turbulences in its home country-Greece, contributed to the change in 2011 the status of Polbank from the branch of CI to a bank incorporated as a joint stock company registered at the Polish Financial Supervision Authority. To accomplish this transformation there was necessary to amend the Banking Act, authorizing the creation of a domestic bank by transferring to it all of the assets of the branch of a credit institution.[38] The following year, Polbank EFG SA was sold and combined with Raiffeisen Bank Polska.

Some Western European banks used the fact that the simplified regulations applicable to a branch of CI and the possibility of direct management by the parent bank's board provide an opportunity to reduce costs and improve the profitability of the banking business in Poland. To realize such benefits several banks reorganized the system of conducting business in Poland. They implemented it through the specific consolidation. It was structured as follow. The parent bank, in addition to the existing subsidiary bank in Poland, opened the branch of CI. In the next stage the branch of CI took over assets of the banking enterprise of the pre-existing subsidiary bank with all its customers. The liquidation of the subsidiary bank followed the consolidation. Incorporating the branch of CI to a single organizational structure the parent bank expected to eliminate some fixed costs, unify management system and simplify the system of control by the home country financial supervisory agency.

Such type of consolidation was carried on by rather smaller, specialist banks. Their main area of activities included, among others: provision of consumer and housing loans to households, payment settlements, sale of credit cards, financial investment services. Such consolidation performed the following banks:

- Svenska Handelsbanken Polska acquired by Svenska Handelsbanken AB Branch in Poland in 2005,
- Nykredit Bank Hipoteczny acquired by Nykredit Realkredit A/S Branch in Poland in 2005,
- Danske Bank Polska acquired by Danske Bank A/S Branch in Poland in 2006,

[38] The act of 10 June 2011 on the amendment of the Banking Act and some other acts (OJ of 2011, no. 134, issue 781).

- Calyon Bank Polska acquired by Credit Agricole Corporate and Investment Bank (d. Calyon) Branch in Poland in 2006,
- BNP Paribas Bank Polska acquired by BNP Paribas Branch in Poland in 2006,
- Cetelem Bank Polska acquired by Sygma Banque Branch in Poland in 2009,
- RCI Bank Polska acquired by RCI Banque Branch in Poland in 2013.

As the aftermath of the financial crisis and a need to reduce operation costs some banks used an opposite type of consolidation. It relied on acquisition of the branch of CI by the subsidiary of the parent bank. In 2010 BRE Bank, a member of the Commerzbank Group, purchased from its parent bank the banking enterprise of Commerzbank AG Branch in Poland. This transaction was a consequence of the introduction of the austerity plan in Commerzbank aiming on elimination of too many entities in the group. In subsequent years in a similar manner Fortis Bank Polska (later BNP Paribas Bank Polska) took over the assets and liabilities of BNP Paribas SA Branch in Poland[39] and Credit Agricole Bank Polska took over Credit Agricole Corporate and Investment Bank Branch in Poland (CACIB) specializing in providing banking services to large companies and investment banking.[40]

After the EU accession some mergers and acquisitions conducted between domestic banks resulted from transactions between their Western European parent banks. In 2007, Bank Pekao took over 66% of the banking enterprise of Bank BPH, as a consequence of an acquisition of the German Bayerische Hypo- und Vereinsbank AG (the majority shareholder of Bank BPH) by the Italian bank Unicredit (the majority shareholder of Bank Pekao) in 2005. The acquisition of the entire Bank BPH was halted by the Polish Financial Supervision Authorities for the risk of an excessive increase of concentration of the banking sector. The KNF feared that the newly created bank would gain too high market share, what could lead to an

[39] Based on Consolidation Financial Report of the group of Fortis Bank Polska for the year 2010; see: http://www.bnpparibas.pl/relacje-inwestorskie/raporty/files/2_FBP_Raport_roczny_skonsolidowany_2010.pdf [in Polish].
[40] Press release of Credit Agricole Bank Polska of 13 November 2012; see: http://www.credit-agricole.pl/o-banku/biuro-prasowe/informacje-prasowe/szczegoly,id,262,credit-agricole-laczy-swoje-banki-w-polsce [in Polish].

excessive monopolization of the banking sector and lowering the quality of the competition. The remaining part of the banking enterprise of Bank BPH, so-called mini-BPH, was purchased by GE Money Bank and merged in 2009.

Bank consolidation conducted in 2009-2012 was largely a consequence of the global financial crisis. Due to the obligation to settle of the government assistance received during the financial crisis, several banks and insurance companies sold their subsidiary banks operating in Poland. The first case of such restructuring transaction was the sale of AIG Bank Polska to Banco Santander by the American International Group (AIG) in 2009. The purpose of this transaction was to raise funds to repay the aid funds received by AIG from the US government in September 2008, and the need to focus on the core activities i.e. insurance. In 2011, AIG Bank Polska merged with Santander Cosumer Bank, operating in Poland since 2002.[41] Similar goals were assumed before the acquisition of Allianz Bank Polska, controlled by the German insurance group Allianz by Getin Holding in 2010[42]. In the next stage, the bank, under the brand Get Bank, merged another member of the Getin Holding, Getin Noble Bank in 2012.

Both Banco Santander and Getin Holding in the following years actively participated in the consolidation forced by the negative effects of the financial crisis in the EU. The first one acquired a controlling interest of Bank Zachodni WBK from Allied Irish Bank in 2010. Next, it acquired Kredyt Bank from the Belgian bank KBC in 2012. In February 2013 both banks merged and continue operations under the brand Bank Zachodni WBK. Getin Holding continued to consolidate in 2010 by taking over GMAC Bank Poland (later Idea Bank) from GM Motors. In November 2012, Getin Noble Bank acquired Dexia Kommunalkredit Bank Polska from the threatened with insolvency Dexia Kommunalkredit Bank AG. The transaction was completed in 2013 and the bank's name was changed to Polski Bank Inwestycyjny. In addition, Getin Noble Bank in May 2013, concluded the transaction, initiated in

[41] Santander Consumer Finance acquired Bank of America Polska in 2002. The bank’s name was changed into CC-Bank in 2003 and to Santander Consumer Bank in 2006; sees: https://www.santanderconsumer.pl/historia [in Polish].

[42] In 2010 Getin Holding controlled two banks: Getin Noble Bank (created in 2010 by the merger of Getin Bank and Noble Bank) and Idea Bank (based on GMAC Bank Polska acquired in 2010).

2012, of purchasing the retail part of Bank DnB Nord Polska.[43] The last bank suffered significant losses on mortgage lending in foreign currencies and the sale of the retail units was an element of the bank's restructuring plan of focusing on the corporate banking services.

An important part of the process of the banking sector consolidation in Poland was mergers without a noticeably influence of the financial crisis. This type of consolidation was motivated by the intention to increase a market share, reduce fixed costs and harmonize the organizational structure of the group, and improve the efficiency of its management. Examples of this type of consolidation were mergers of:

- GE Money and GE Capital in 2004,
- Fortis Bank Polska and Dominet Bank in 2009,
- Getin Bank and Noble Bank in 2010
- Santander Consumer Bank and AIG Bank Polska in 2011,
- Raiffeisen Bank Polska and Polbank EFG in 2012,
- Get Bank and Getin Noble Bank in 2012,
- Bank Zachodni WBK and Kredyt Bank in 2013.

The financial crisis became also a cause of consolidation among affiliating banks. The acquisition of Mazowiecki Bank Regionalny (MR Bank) by Gospodarczy Bank Wielkopolski (later SGB-Bank) carried on in 2011[44] resulted mostly from a significant deterioration of MR Bank's capital adequacy – the effect of losses from its investments in Icelandic banks.[45] Loosing ability to generate profits MR Bank was required by the KNF to start the restructuring program and became an easy object to take over.

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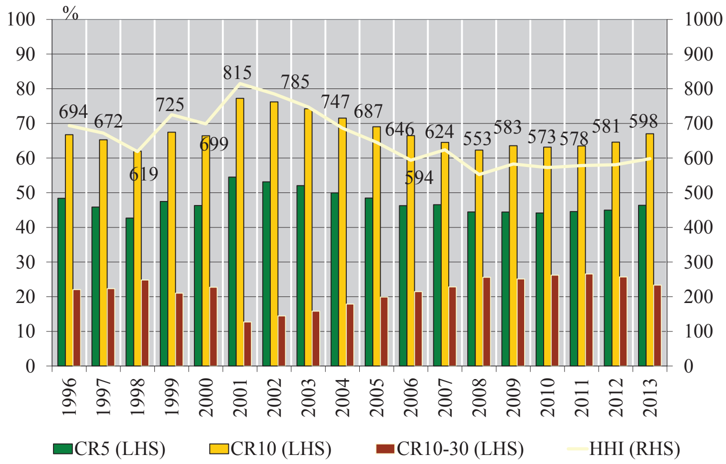
[43] Press release of DnB Nord Polska of 28 May 2013; see: http://www.dnbnord.pl/pl/o-banku-/aktualnosci/art94,dnb-nord-bank-korporacyjny-sprzedaz-czesci-detalicznej-banku-zakonczona.html [in Polish].
[44] Press release of MR Bank of 6 September 2011; see: *http://www.mrbank.com.pl/polaczenie-gbw-s-a-i-mr-banku-s-a* [in Polish].
[45] *Issuance of shares to cover losses in Iceland*, Rzeczpospolita (issue of 17 August 2009); see: http://archiwum.rp.pl/artykul/885416_Emisja_akcji_na_pokrycie_strat_w_Islandii.html [in Polish].

6. Consolidation and concentration of the banking sector in Poland

The consolidation of the banking sector in Poland significantly influenced the level of its concentration. However, the character of this relationship changed over the various stages of the banking sector development (see Figure 5). In the 1990s the consolidation was an important tool for the restructuring of distressed small banks. Therefore, a relatively large number of bank mergers and acquisitions (see Table 2) did not cause a noticeable increase in the level of concentration. During this period de-monopolization of the banking sector was the dominant type of the structural transformation.

Figure 5. Concentration of the banking sector in terms of assets in Poland in 1993-2013.06



Source: own calculations based on data from the NBP.

Reduction of the concentration level reflects the division of NBP into nine state banks, establishment of tens of commercial banks, and increase of assets of the newly established medium-sized private banks, controlled by domestic or foreign shareholders. The following banks could be included into this group: Kredyt Bank, BIG Bank, Bank Inicjatyw Społeczno-Ekonomicznych, Bank Współpracy Regionalnej. In turn, transactions that significantly raised the concentration of the banking sector may include mergers of: Kredyt Bank and Polski Bank Inwestycyjny, and Powszechny Bank Kredytowy and Pierwszy Komercyjny Bank in Lublin. As a result of these structural changes at the end of 1998, the concentration ratios in term of assets noticeably reduced (see Figure 5).

The consolidation of the banks within their groups, which took place in 1999-2002, contributed to a significant increase in the concentration of the banking sector. The level of concentration was impacted the most by mergers of:

- bank-members of Grupa Pekao, i.e. Bank Pekao, Bank Depozytowo-Kredytowy, Powszechny Bank Gospodarczy, Pomorski Bank Kredytowy in 1999,
- Bank Zachodni and Wielkopolski Bank Kredytowy in 2001,
- Bank Przemysłowo-Handlowy and Powszechny Bank Kredytowy in 2002.

A further development of the newly established private banks contributed to lowering the level of concentration. Banks which significantly increased their assets include: Kredyt Bank, Deutsche Bank, BISE, or Bank Ochrony Środowiska. The consolidation within the largest banking groups in Poland led to the highest growth and historically the highest level of concentration of the banking sector. Additionally the concentration was in some way affected by hundreds of mergers of cooperative banks and several mergers of affiliating banks, although due to the low value of banks` assets their impact was rather small.

In 2003-2010, the level of concentration of the banking sector showed a downward trend. Medium-sized and small banks increased their market shares. The structure of the banking sector became more homogeneous. The share of the group of medium-sized banks, at the positions from 11 to 30 in terms of assets, rose, respectively, from 15.8% to 26.2%. These changes resulted, among others, from the fact that the medium-sized banks increased the value of housing loans using cheap financing from their parent banks headquartered in the euro area. Incidentally, the concentration level was strongly boosted in 2007 by the acquisition of the 66% of the banking enterprise of Bank BPH by Bank Pekao. The transaction made the acquirer the second largest bank in Poland.

Since 2010 the trend in the level of banking sector concentration has bounced off. It was associated, among others, with intensification of consolidation activities of Getin Holding and Banco Santander (see Table 8). These banks took over and then incorporated into their structures several medium-sized and large banks. The impact of mergers on the concentration level was noticed the most in the first quarter of 2013, after the merger of Bank Zachodni WBK and Kredyt Bank. It can be expected that in the second half of 2013, the concentration would continue the upward trend due to the realization of acquisitions announced by PKO Bank Polski and Getin Holding.

Conclusions

The consolidation of the banking sector is a continuous process, depending, among others, on the degree of the financial system development and the macroeconomic situation of country. The major drivers of this process include regulatory changes, conducting restructuring procedures, utilization of the economies of scale and scope and improvement of market position.

The first strong wave of bank consolidation took place in the second half of the 1980s in the United States. It stemmed, among others, from the lifting of the regulatory restrictions imposed on banks and savings institutions and the need for taking over failing banks during the banking crisis. In the 1990s the permission to conduct interstate banking in the USA and the creation of a single European financial system in the EU, motivated to take over small banks and create large, respectively, interstate and international banks. In turn, during the financial crisis in 2007-2009 consolidation process was essentially of the restructuring nature. These included the acquisition of large banks forced by their worsening financial situation, as well as the sale of subsidiaries to repay obligations of parent banks due to the public aid funds granted to them during the financial crisis.

In Poland, the consolidation was preceded by de-monopolization of the banking sector started in 1989 and the creation of nine state-owned banks from the network of NBP. In the early years of deregulation, thanks to the liberal licensing policy of NBP dozens of private commercial banks were established. Some of them in a short time became insolvent and acquisitions and mergers were efficient tools for their restructuring.

The privatization of state-owned banks in the late 1990s and the early 2000s made possible for some foreign banks to consolidate members of their capital groups operating in Poland. These mergers had the greatest impact on the concentration of the banking sector in Poland. At the same time, regulations requesting higher level capital requirements forced cooperative banks to carry out more than 600 mergers and eleven affiliating banks to consolidate into three banks.

Since the Polish accession to the EU the consolidation of domestic banks has been largely influenced by the situation of their parent banks. Some acquisitions stemmed from the merger of parent banks. Other acquisitions and mergers resulted from the need to sell Polish subsidiaries to rescue a worsening situation of their parent banks, which was a consequence of the financial crisis of 2007-2009. Sales of some subsidiary banks was also forced by the European Commission, which conditioned the transfer of aid funds to parent banks with the repayment of their debts to the national governments. Additionally at that time some banks performed mergers and acquisitions to improve their market position and to gain the status of the bank of a systemic importance.

In 1989-2013 the consolidation in different ways affected the Polish banking sector concentration. By the end of the 1990s the downward trend of concentration was a consequence of the de-monopolization process and creation of dozens of privately-owned banks. The concentration increased the strongest in the early 2000s as a result of several mergers, which involved large banks separated from NBP in 1989. In subsequent years, the concentration of the sector lowered by the increasing importance of medium-sized private banks, usually with a majority foreign capital. This trend was temporary halted in 2007 by the acquisition of the 2/3 of the banking enterprise of Bank BPH by Bank Pekao. Since 2010, consolidation activities of banks intensified, what restored the upward trend in level of the Polish banking sector concentration.

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Statistical annex

Table A.1. Number of banks in Poland in 1989-2013.06

Year	Commercial banks	Branches of CI	Foreign-owned banks	Cooperative banks
1989	25	-	0	-
1990	70	-	1	-
1991	83	-	6	1,663
1992	85	-	9	1,663
1993	87	-	10	1,653
1994	82	-	11	1,612
1995	81	-	18	1,510
1996	81	-	25	1,394
1997	81	-	28	1,295
1998	83	-	31	1,189
1999	77	-	39	781
2000	73	-	46	680
2001	69	-	46	642
2002	59	-	45	605
2003	58	-	46	600
2004	54	3	41	596
2005	54	7	43	588
2006	51	12	40	584
2007	50	14	40	581
2008	52	18	42	579
2009	49	18	39	576
2010	49	21	40	576
2011	47	21	37	574
2012	45	25	36	572
2013.06	43	27	33	572

Note: CI – credit institution.

Source: NBP (2007), pp. 9-10 – for 1989-1992; *Summary Evaluation…* (1999), p. 15 – for 1993 - 1997, NBP for 1998-2013.06.

Table A.2. Total assets and the structure in terms of assets of the banking sector in Poland in 1993-2013.06

Year	Total assets (zloty bn)	Total assets (% of GDP)	Commercial banks (%)	Branches of CI (%)	Foreign-owned banks (%)	Cooperative banks

						(%)
1993	83.0		93.4	-	2.6	6.6
1994	109.7		94.7	-	3.2	5.3
1995	149.3	48.8	95.2	-	4.2	4.8
1996	197.2	51.1	95.4	-	13.7	4.6
1997	247.7	52.8	95.5	-	15.3	4.5
1998	318.7	57.6	95.7	-	16.6	4.3
1999	363.4	59.1	95.8	-	47.2	4.2
2000	428.5	59.2	95.8	-	69.5	4.2
2001	469.7	61.8	95.4	-	68.7	4.6
2002	466.5	57.7	95.0	-	67.4	5.0
2003	489.0	58.1	94.8	-	67.3	5.2
2004	538.5	58.3	94.1	0.6	66.9	5.3
2005	586.4	59.8	93.3	0.9	69.1	5.8
2006	681.8	64.9	90.7	3.1	66.6	6.2
2007	792.8	67.4	89.8	4.0	66.9	6.2
2008	1,039.1	81.5	89.2	5.4	67.0	5.4
2009	1,059.6	78.8	89.0	5.2	63.0	5.8
2010	1,158.5	82.0	89.2	4.7	61.6	6.1
2011	1,294.4	84.9	91.7	2.2	62.8	6.1
2012	1,350.2	84.7	89.3	2.1	61.5	6.4
2013 .06	1,401.3	87.8	91.1	2.3	60.5	6.4

Note: CI – credit institution.

Source: Central Statistical Office, *Summary Evaluation…* (1999), p. 15 for 1993 -1997, NBP for 1998-2013.06.

Table A.3. Top foreign investors in the Polish banking sector (in %)

Year	Germany	USA	Italy	Netherlands	Belgium	Spain	Portugal	Austria	Sweden	Ireland	France
1995	4.1	2.9	0.1	6.3	0	0	0	1.9	1.6	0.5	1.6
1996	8.3	5.0	0.1	5.4	0.2	0	0	3.4	3.0	1.5	3.0
1997	13.8	7.9	0.1	7.3	0.4	0	0	3.9	3.7	1.5	3.7
1998	15.9	14.3	0.1	7.0	0.5	0	0	3.6	4.5	0.8	4.5
1999	14.7	13.0	1.0	7.4	2.2	0	1.5	3.7	4.7	4.0	4.7
2000	13.5	15.2	1.1	7.0	2.0	0	2.3	3.0	4.3	4.0	4.3
2001	16.9	8.4	16.0	6.7	6.3	0	4.1	1.9	2.0	5.3	2.0
2002	17.9	8.6	14.1	6.8	5.9	0	4.0	1.4	2.2	5.2	2.2
2003	18.2	9.0	13.2	7.2	5.8	0	4.0	1.8	2.2	4.8	2.2
2004	18.9	8.7	11.2	7.9	5.0	0.5	4.0	2.0	2.4	4.9	2.4
2005	8.7	7.9	21.1	8.2	4.7	0.7	3.9	1.9	3.2	4.8	3.2

2006	8.4	7.8	19.9	8.2	4.9	0.9	3.6	2.3	3.9	4.6	3.9
2007	9.4	7.4	17.1	10.8	3.6	1.0	3.7	2.2	5.7	5.0	5.7
2008	10.4	8.6	12.9	10.7	3.9	1.0	4.5	2.3	6.5	5.4	6.5
2009	10.0	7.5	13.0	9.0	3.8	1.0	4.2	2.0	6.7	5.0	6.7
2010	10.3	6.4	12.4	9.1	3.8	1.5	4.0	2.0	5.8	4.5	5.8
2011	10.4	6.1	12.5	8.8	3.3	5.7	3.9	2.2	5.1	0	5.1
2012	10.5	5.7	12.8	8.8	3.1	5.4	3.9	3.9	4.8	0	4.8
2013.06	10.4	5.5	12.4	8.8	0	8.5	4.1	3.7	4.5	0	4.5

Note: for 1997-2000 the share of invested capital in the total banking sector equity: for 2001-2013.06 the share of assets of controlled banks in the total assets of the banking sector.

Source: *Summary Evaluation…* editions of 1999-2006 for 1995-2006, NBP for 2007-2013.06.

Table A.4. Concentration of the Polish banking sector in terms of assets in 1996-2013.06

Year	CR_5 (%)	CR_{10} (%)	$CR_{10\text{-}30}$ (%)	HHI
1996	48.4	66.7	22.1	693.7
1997	45.9	65.3	22.3	672.2
1998	42.7	62.0	24.8	618.6
1999	47.5	67.5	21.0	725.2
2000	46.3	66.4	22.7	698.9
2001	54.5	77.2	12.7	814.8
2002	53.2	76.2	14.5	785.1
2003	52.0	74.2	15.8	747.4
2004	50.0	71.5	17.9	686.6
2005	48.5	69.1	19.9	645.5
2006	46.3	66.5	21.5	593.7
2007	46.6	64.5	22.8	623.9
2008	44.5	62.3	25.6	552.6
2009	44.4	63.6	25.1	583.0
2010	44.1	63.1	26.2	572.6
2011	44.6	63.5	26.5	578.4
2012	45.0	64.6	25.7	580.8
2013.06	46.4	67.0	23.4	598.3

Note: CR5, CR10, CR10-30 – share of, respectively, the largest five (ten, from the position of 11 to 30) banks in the total assets of the banking sector, HHI – Herfindahl–Hirschman Index– the sum of squares of the market shares of all banks. The maximum value is 10,000 for the market composed of a one bank.

Source: own calculations based on data from NBP.

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