NARODOWY
BANK POLSKI

June 2025

Financial Stability Report

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Financial Stability Department
Warsaw, 2025

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This Report presents the analysis and assessment of threats to financial system stability in Poland.

The stability of the financial system is a situation when it performs its functions in a continuous and efficient way, even when unexpected, highly adverse and low-probability disturbances occur on a significant scale.

The analysis conducted in this issue of the report is based on data available up to the cut-off date of 30 April 2025. The report was approved by the Management Board of Narodowy Bank Polski on 9 June 2025.

This Report is a translation of NBP's *Raport o stabilności finansowej. Czerwiec 2025 r*. in Polish. In case of discrepancies, the original prevails.

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Executive summary

The systemic risk in the domestic financial system remains limited. Banks exhibit a great capacity to absorb losses and provide financial services even in pessimistic stress test scenarios. Banks' substantial excess capital ensures room for lending growth. The key future challenges for the financial system stem mainly from legal and regulatory risks. Cyclical risk runs at a moderate level and poses no threat to financial stability in Poland.

It is desirable to have a low level of risk in the financial system in principle, but it is important this is not achieved at the expense of its main functions performance. For some time, there has been a significant decline in credit to the real economy by the banking sector, while development of the rest of the financial sector remained limited. As a result, the role of the financial system in the real economy is decreasing. Public authorities and financial institutions need to take these trends into reflection.

The growth rate of lending to the non-financial sector is beginning to recover steadily, but in the next two years its pace will not be high enough for the bank loan-to-GDP ratio to increase markedly. The causes of this phenomenon mainly originate in persistently low loan demand.

Legal uncertainty and its costs remain a challenge to the functioning of Poland's financial system, and to the banking sector in particular. This has so far manifested itself in high costs of the legal risk of FX housing loans. Uncertainty associated with the interpretation of consumer protection regulations has recently begun to apply to zloty loans, i.e. both consumer loans due to the free credit sanction as well as housing loans after borrowers' attempts to contest agreements on floating interest loans. This limits predictability of the terms of the functioning of the credit market and may also reduce availability of credit, mainly for households.

The reform of benchmarks is progressing, but its successful completion still requires a number of steps. In December 2024, the Steering Committee of the National Working Group for benchmark reform in Poland chose the proposal for Polish Short-Term Rate (POLSTR[1]), as the intended interest rate benchmark to replace WIBOR. This decision reduces uncertainty related to the reform of benchmarks in Poland. In March 2025, the Steering Committee of the National Working Group accepted the updated roadmap. WIBOR remains the critical benchmark on the domestic financial market until the completion of the reform. The roadmap stipulates the preparedness to cease the determination and publication of WIBOR and WIBID benchmarks at the end of 2027.

The cost of credit risk remains moderate and it should not increase significantly. This is due to the robust labour market, the relatively high corporate capacity to service liabilities and the prudential lending policy of banks in the past.

[1] POLSTR (Polish Short-Term Rate, formerly under the technical name of WIRF-) will be based on unsecured overnight (O/N) deposits made by credit institutions and selected non-monetary financial institutions.

Banks in Poland demonstrate high resilience to liquidity risk. This is because, among others, of the high share of retail deposit in funding, low deposit concentration, high share of guaranteed deposits and large portfolio of liquid assets.

Banks' exposure to Treasury bonds and State Treasury-guaranteed bonds remains high, but their sensitivity to risk associated with the exposure is limited. Banks' sensitivity to changes in bond valuations is limited because a considerable portion of the portfolio is held to maturity and its duration is relatively short. At the same time, the portfolio of marked-to-market Treasury securities is sufficient to cover large scale liquidity risk.

Double gearing of capital and a high share of expected profits included in future premiums (EPIFP) in own funds still persist in the domestic insurance sector. Consequently, capital ratios reflect the real resilience of insurance undertakings inadequately. Limiting the use of such practices would result in a decline in the insurance sector's SCR coverage ratio, which would, however, remain above the statutory minimum.

Excessive liquidity transformation remains a risk factor in the sector of open-ended investment funds. Despite the record high net inflows to open-ended investment funds in recent quarters, they have not sought to increase the share of the most liquid assets. In the event of market shocks, the low liquidity ratio reduces the capacity of investment funds to fulfil redemption requests in a timely manner.

Recommendations

In addition to identifying and assessing risk in the financial system, the role of the Report is to offer measures aimed at mitigating systemic risk. This is one of the ways to fulfil the statutory mandate of NBP, which includes acting to maintain domestic financial stability (Article 3 paragraph 2 items 6a and 6b of the Act on Narodowy Bank Polski). In the opinion of NBP, implementation of the following recommendations will be conducive to maintaining the stability of Poland's financial system.

1. Reduction of legal and regulatory risk

A reduction of uncertainty of the legal and regulatory environment in which the financial system functions is desirable. Predictability of this environment facilitates risk assessment and has a favourable impact on access to credit and other financial services.

2. Proportional consumer protection

Ongoing work on an amendment of the Act on Consumer Credit should contain modifications of existing provisions on the free-credit sanction so that it varies depending on the type of breach and the size of breach by the bank.

3. Stable lending to the economy

Banks should actively seek opportunities to increase lending, especially to enterprises. Although the decline in the private sector credit-to-GDP ratio is mainly demand-driven, at the same time there are factors constraining credit supply to public sector financing. In this context, suitable modification of the tax on assets or WFD requirement would be conducive to increasing credit availability.

4. Reform of interest rate benchmarks

The smooth and orderly implementation of the interest rate benchmark reform in Poland requires intensive work and full commitment of domestic financial market's stakeholders, above all domestic banks. At the same time, the key component of the reform's success is to ensure that input data of the index, which is to ultimately replace WIBOR, are of unquestionable quality. In the process of benchmarks' replacement, it should be a priority to ensure that the data provided by banks for the index calculation purposes are reliable and error-free.

5. Settlements in FX housing loan cases

Banks and borrowers should seek to effectively conclude settlements in FX housing loan cases. The efficient conduct of this process so far has contributed to reducing uncertainty and mitigating legal risk in the financial system, as well as eliminating FX risk and significantly reducing borrowers' liabilities. Amicable settlements allow for a quick resolution of disputes, which is favourable for both parties.

6. The Minimum Requirement for Own Funds and Eligible Liabilities (MREL)

Banks should ensure that the MREL-RCA requirement is fully financed by eligible debt instruments. Despite substantial progress, there is still room for improvement in this regard. It is also necessary to systematically plan new issues aimed at ensuring the seamless replacement of maturing liabilities. A suitable share of debt instruments ensures the feasibility of resolution processes while simultaneously limiting the risk of undesirable interactions between macroprudential policy and the MREL requirement.

7. The Long-term Funding Ratio

It is advisable to review the desirability of the Long-term Funding Ratio (WFD). This fits into current efforts to simplify regulatory requirements for the banking sector. Adaptation measures taken by banks to fulfil the WFD may lead to increasing exposure to certain types of risk, including FX risk, and at the same time raise banks' funding costs.

8. The cooperative banking sector

The cooperative banking sector should strengthen its system of management of interest rate risk arising from the banking book. Due to their balance-sheet structure, cooperative banks are particularly exposed to such risk. If the quality of interest rate risk management is improved, this should result in reducing the sensitivity of the net interest income to interest rate changes, which is of particular importance at a time when expectations of interest rate cuts are increasing.

It is advisable that cooperative banks continue to take measures aimed at reversing the negative trend in the number of shareholders. This would help stabilise the sector's capital base and bolster confidence in cooperative banking, which would support its development in the long term.

9. Insurance companies

When conducting their solvency assessments, insurance companies should consider the risk stemming from a high share of expected profits included in future premiums in own funds and the double gearing of capital. Own funds obtained from including EPIFP have a limited ability to cover losses, despite belonging to the highest quality category according to the regulations. On the other hand, the lack of deduction of participations in other insurance companies and banks may lead to a transfer of losses between subsidiaries and the parent company.

It is advisable that life insurance companies complement their product range by life annuities and strive to provide adequate value for the customer in their contracts. Life annuities, which is standard insurance in other EU countries, allows policyholders to insure against longevity risk. Moreover, insurance undertakings should guarantee that in each product a correspondingly high proportion of the premium paid by the policyholder was earmarked for the payment of claims and benefits. A too low

value for the customer can reduce confidence in the insurance sector, having a negative impact on the performance of its core function.

It is desirable that insurance companies ensure that they properly communicate the information on the range of the cover provided as well as the amount of possible claims. Insurance policies contain many clauses excluding the liability of an insurance company, that policyholders are often unaware of, and the claim amount does not always cover the cost of the restoration of insured property to the situation that existed prior to the occurrence of the damage. More transparent terms on the insurance cover provided would allow insurance companies to fulfil their primary role to a greater extent.

10. Investment funds

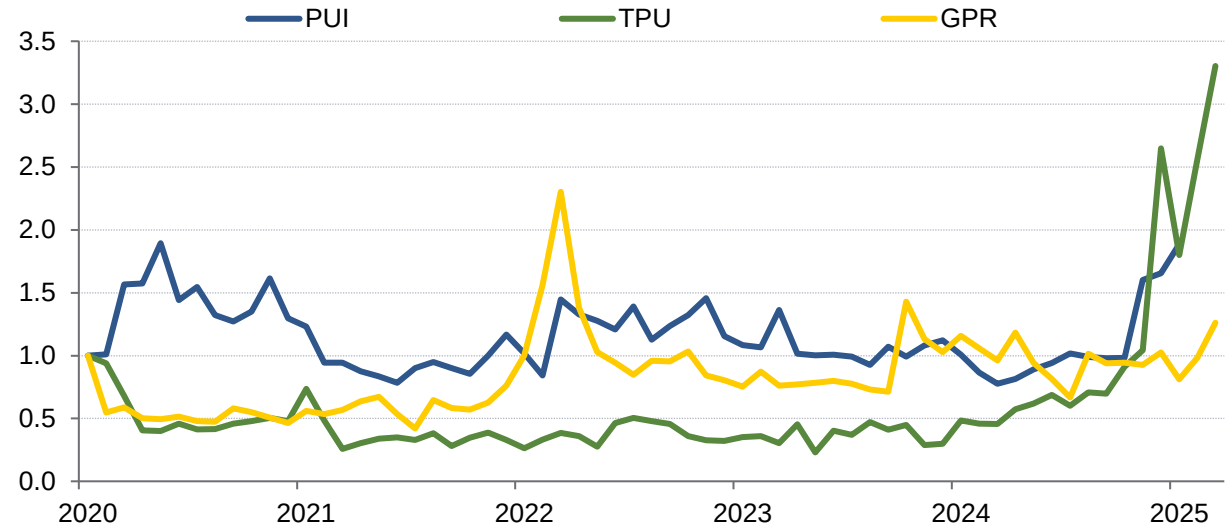
Open-ended investment funds should seek to reduce their liquidity mismatches between assets and liabilities. Considering the substantial net inflows into debt funds, which are the most popular among households, and the increased geopolitical risk, it is recommended that investment fund management companies take particular care with regard to liquidity transformation and to the buffers of most liquid assets.

1. Macroeconomic and external factors

1.1. External factors

Heightened geopolitical instability has become the primary source of risk for the global economy and the financial system. Uncertainty indices have exceeded levels observed during the COVID-19 pandemic. In particular, the US administration's announcement of reciprocal tariffs has contributed to an increase in geopolitical risk. Their effects are difficult to estimate and depend on many factors, among others: (i) the scale and scope of goods subject to the tariffs, (ii) the strength of their impact on the various branches of the economies, (iii) time when they would be in force and (iv) possible retaliation by other countries. This could lead to, among others, the fragmentation of global trade networks and a slowdown in the global economy. The consequences may also include more difficult financing conditions as a result of an increase in risk pricing in global markets and exchange rate changes. Amid the high uncertainty, the propensity of households to save is growing, which further weakens demand in the economy.

Figure 1.1. Indices of global economic policy uncertainty (PUI), trade policy uncertainty (TPU) and geopolitical risk (GPR)



Note: value of indices for 1 January 2020 = 1, indices are based on frequency of occurrence of words related to global economic policy uncertainty (PUI), trade policy uncertainty (TPU) and geopolitical risk (GPR) in the major newspapers of the USA and the UK, cf. https://www.policyuncertainty.com/index.html, **TPU**: Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo (2020), "The Economic Effects of Trade Policy Uncertainty," Journal of Monetary Economics, 109, pp.38-59. **GPR**: Caldara, Dario and Matteo Iacoviello (2022), "Measuring Geopolitical Risk," American Economic Review, April, 112(4), pp.1194-1225. Last readings for 1 March 2025 for the GPR index and 1 January 2025 for the PUI and TPU indices.

Source: PUI: www.policyuncertainty.com, TPU and GPR: www.matteoiacoviello.com.

The outlook for the world's major economies are dependent on the degree of their exposure to changing conditions of international trade. The IMF[2] underlines the difficulties in making accurate forecasts in the environment of unpredictable US trade policy. In the reference scenario[3] for the years 2025 and 2026, the IMF expects a significantly weaker of economic growth for most of the world's economies than indicated in the forecasts in 2024. This is a result of the direct and indirect impact of the escalation of trade tensions between the world's major economies. The lower economic growth forecast for the US is a result of the uncertainty about economic policy, trade tensions and weaker consumption. Inflation pressures[4] and – as a result – higher than expected interest rates may also persist in the USA. In turn, the IMF forecasts a slight fall in economic growth in the euro area in 2025, after which a rebound is expected in 2026. The economic growth forecast for China is also lower than the projections of 2024.

Geopolitical shocks may have a significant impact on all aspects of financial risk: (i) the quality, valuation and price dynamics of asset, (ii) profitability and liquidity of entities (through limited access to or higher costs of financing), and as a result, (iii) their solvency.

The EU banking sector shows significant resilience. In recent quarters, EU banks have recorded high profitability (ROE above 10%). Capital adequacy and liquidity are also satisfactory, as confirmed by 4Q 2024 data (Core Equity Tier 1 capital ratio was 16.1%, and the liquidity coverage ratio – LCR – 163.4%). Banks also have relatively large levels of management buffers (excess capital above the regulatory requirements) at their disposal, which confirms their loss-absorbing capacity and provides space to build, among others, a neutral level of the countercyclical buffer. However, the materialization of geopolitical risk may in the future result in a weakening of banks' capital position through an increase in loan losses and those arising from market risk. Large European banks that operate globally and have significant exposure to markets affected by tariff decisions may be more vulnerable to the potential effects of geopolitical instability.

Asset quality does not currently pose a significant risk to European banks. According to 4Q 2024 data, the non-performing loans ratio is at a record low level (1.9%), and the share of loans in stage 2 also remains stable at approx. 10%. Still, in several EU countries, the quality of exposures secured by commercial real estate (among others in Germany) is deteriorating, and there are concerns about the quality of exposures in economies heavily dependent on foreign trade (e.g. Germany and Ireland).

Along with increasing geopolitical instability, risk related to cyberattacks is growing. The frequency and scale of losses arising from cyber attacks increased significantly following the outbreak of the full-scale war in Ukraine in 2022.[5] Consequently, capital requirements for operational risk in EU banks have

[2] World Economic Outlook, IMF, April 2025

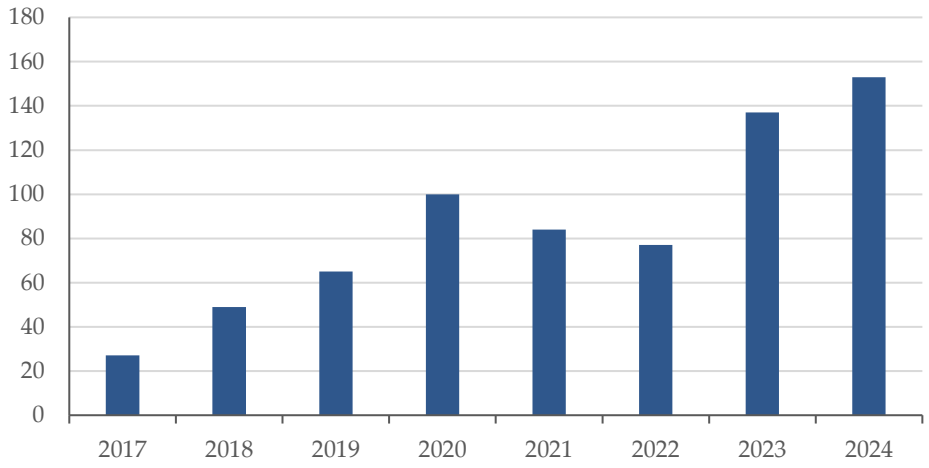
[3] The reference scenario is prepared taking into account the trade policy of the US and its trade partners as of 4 April 2025.

[4] see also: Speech by Chair Powell on the economic outlook - Federal Reserve Board.

[5] EBA, Risk Assessment Report November, Paris 2024.

increased.[6] Significant banks in the banking union[7] reported that the number of cyber incidents in 2024 doubled compared to 2022 (see Figure 1.2).[8] Cyber incidents often take the form of attacks primarily aimed at disrupting access to banking services or impairing confidentiality and integrity of bank data. In the short term, a cyber incident results in a liquidity shock for banks, and in the long term it also leads to additional costs (costs of intervention and investment in IT), as well as reputational risk. In EU banks, capital requirements for operational risk (taking into account cyber risk) are the second largest after credit risk requirements.[9] Cyber risk is therefore in the highest group of supervisory priorities in the banking union for the years 2025-2027.[10]

Figure 1.2. Number of cyber incidents reported by significant banks supervised by the ECB in the banking union



Note: in accordance with the NIS2 Directive, an incident means an event compromising the availability, authenticity, integrity or confidentiality of stored, transmitted or processed data or of the services offered by, or accessible via, network and information systems.

Source: ECB SSM.

The growing importance of trade barriers in the global economy and the circumstances surrounding it significantly increase uncertainty in the global financial markets. In markets characterised by overvaluation, this may lead to decrease of investors exposure to shares and corporate bonds, as well as to emerging market assets in favour of financial instruments considered as safe assets. As a result, there asset prices would fall and volatility would increase, additionally weakening exchange rates of

[6] EBA, Risk Assessment Report November, Paris 2024.
[7] Significant banks are under the ECB's direct supervision in the banking union when they fulfil at least one of the significance criteria set out in Single Supervisory Mechanism Regulation. These criteria relate mainly to the size of the bank, it's economic importance for the specific country or the EU economy as a whole, and also the scale of its cross-border activities.
[8] ECB, SSM Supervisory Priorities 2025-27, Frankfurt 2024.
[9] EBA, *Risk Dashboard*, Q4 2024, Paris 2024.
[10] ECB, SSM Supervisory Priorities 2025-27, Frankfurt 2024.

emerging market countries. This would result in an increase in country risk and, consequently, a fall in valuation of financial instruments issued by these countries.

The above-mentioned turmoil may in particular negatively affect certain types of non-bank financial institutions (NBFIs). Following the global financial crisis (2007+), assets of NBFIs in Europe grew at a higher rate than banks' assets. Currently the size of NBFI sector is comparable to the banking sector. Increased volatility in financial markets may lead t investor outflows, particularly in the case of investment funds with less liquid assets which allow frequent redemption opportunities. In addition, an increase in interest rate risk, related to uncertainty regarding the future direction of macroeconomic processes, may lead to fire sales by NBFIs using financial leverage, reinforcing downward trends in the valuation of financial assets worldwide. Higher asset volatility leads to an increase in the cost of market risk sharing and higher liquidity needs, as margin calls increase.

1.2. Macroeconomic situation in Poland

In the second half of 2024, the Polish economy continued to be in the recovery phase, amid the fading effects of the supply shocks in the global energy commodity markets. GDP growth in 2024 Q3 and Q4 rose to 2.8% and 3.4% y/y respectively. Consumption growth, both private and public, as well as input demand supported the recovery in economic activity, amid a fall in investment and negative contribution of net exports to GDP growth.

Following a marked fall in CPI inflation in the first half of 2024 to a level consistent with the NBP's inflation target, the second half of the year saw a renewed increase in consumer price growth, primarily due to the partial unfreezing of electricity and natural gas tariffs for households. In 2024 Q3 and Q4 it reached 4.5% and 4.8%, respectively, exceeding the NBP inflation target, which is 2.5% ± 1 p.p. In 2025 Q1 the CPI inflation amounted to 4,9% and in April it fell to 4.3%. Rising prices of food and non-alcoholic beverages following the reinstatement of the 5% VAT rate on staple food products (since April 2024) contributed to the higher price growth in these quarters, as did the increase in tariffs for the distribution of natural gas since January 2025. Meanwhile, core inflation (excluding food and energy prices), after remaining around 4% in the second half of 2024, declined to 3.6% in the first quarter of 2025 and to 3.4% in April.

According to the March "Inflation and GDP projection"[11], following a modest recovery of domestic economic activity in 2025, economic growth will slow down in 2026-2027. GDP growth will reach its peak in 2025 on the back of the expected sharp increase in the inflow of EU funds under the new 2021-2027 financial perspective and the National Reconstruction Plan, both raising the investment path to the greatest extent. Only to a small degree will GDP growth in Poland in the years 2025-2027 be supported by foreign demand, with only a limited recovery expected in the euro area in the face of

[11] The projection was prepared under the assumption of unchanged NBP interest rates based on the data available until 27 February 2025 (consequently, the reference rate of 5.75% was assumed).

prolonged stagnation in the German economy. The assumed end of spending under the National Reconstruction Plan in 2026 will to a large extent contribute to a marked slowdown in GDP growth in 2027.

The level of CPI inflation in the coming quarters will be strongly influenced by the effects of past and future regulatory measures affecting energy prices. According to the March projection, as the impact of these measures fades, it will return to the NBP inflation target tolerance band (2.5% +/-1 p.p.) within the forecast period. Disinflation will be supported by the gradual slowdown in labour cost growth and reduced demand pressure (reflected in the negative output gap in the years 2026-2027). Limited growth in import prices, resulting from low inflation in the environment of the Polish economy, will also contribute to slower growth in consumer prices. Demand pressure and the labor market situation in the upcoming quarters, the level of administered prices of energy carriers, and further actions in the area of fiscal policy remain uncertainty factors. Uncertainty is also caused by the shaping of inflation in the world, among others due to changes in the trade policies of major economies.

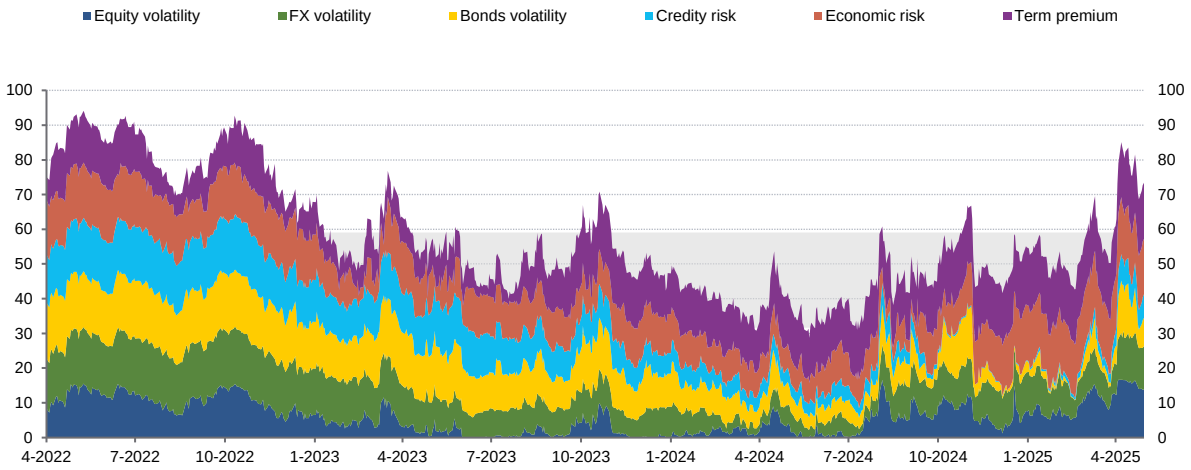
Besides the future government regulatory actions regarding energy prices, the future economic situation and path of CPI inflation in Poland is largely dependent on the development of economic activity in the euro area, in particular in the German economy. Geopolitical tensions and trade disputes between the United States, the European Union and China may affect consumer confidence and investors' strategies, and thus economic activity in Poland and the country's main trading partners. An uncertainty factor for the projection is the extent to which EU funds under the National Reconstruction Plan are used. The planned introduction of a new CO_2 emissions trading scheme, covering road transport and housing (the so-called ETS2), is another source of risk for energy prices in the later part of the projection horizon.

1.3. Financial markets

1.3.1. International environment

Tensions in the global financial markets fluctuated as investors' attention shifted from geopolitical risk to uncertainty about the nature and effect of the US trade policy. The global financial markets risk index remained at an elevated level compared to mid-2024. Its increase was mainly due to the economic and credit risk and the volatility in the equity market (see Figure 1.3). Initially, the de-escalation of tensions in the Middle East as well as rising expectations of achieving peace between Ukraine and Russia contributed to the stabilisation of geopolitical risk assessment. The uncertainty about US trade policy and other countries' reactions as well as their consequences for the global trade policy, which reached levels close to the ones observed in the face of the COVID-19 pandemic in 2020, has gradually become the main factor increasing risk aversion (see Figure 1.1). Markets were more concerned about a possible rise in inflation and recession risk due to higher customs tariffs, which was reflected, among others, in declines in major stock indices, especially in the United States. Due to concerns about revaluation in the AI sector, technological companies lost more than the major indices.

Figure 1.3. Risk pricing on global financial markets



Notes: Risk index estimate based on normalised empirical distribution of selected risk categories according to weights defined on the basis of the analysis of the main components: stock market volatility – the VIX index, bond volatility – the MOVE index, currency volatility – the JPM G7 volatility index, economic risk – TED spread, credit risk – the credit spread of corporate bonds; the grey area denotes risk-neutral levels, below 31 points – risk appetite, above 58 points – risk aversion Source: Bloomberg data, own study based on Morgan Stanley Research "EM Risk Indicator: A Regime-Switching Model Approach".

Source: Bloomberg data, own study based on Morgan Stanley Research "EM Risk Indicator: A Regime-Switching Model Approach".

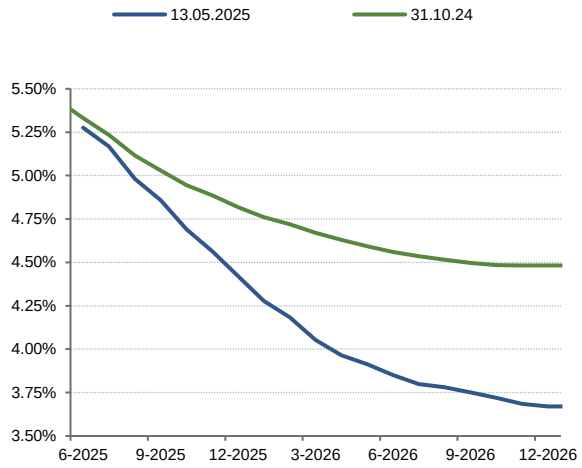
Greater uncertainty about the consequences of worsening global trade conditions and the prospects of a further easing of monetary policy induced higher volatility in global Treasury bond markets. Concerns about a recession in the US and economic slowdown globally increased demand for safe assets. As regards 10-Year US Treasury bonds, the yield curve steepened and the term premium increased (i.e. the risk component concerning future interest rates). This was connected with increased uncertainty about the Fed's response to changes in trade policy, despite persisting consensus about interest rate cuts this year. Meanwhile, German Bund yields increased temporarily at the long end of the yield curve, which was supported by plans of a significant increase in public expenditure on national defense and infrastructure. The scale of changes in other euro area debt markets (e.g. France, Italy and Spain) in response to the above impulse was similar, which confirms that this factor was perceived as pan-European, influencing them, among others, through a rise in economic activity. As a results, bond spreads of other euro area countries vis-a-vis Germany remained broadly unchanged.

1.3.2. Financial market in Poland

The domestic money market saw increased expectations of NBP interest rate cuts. The FRA rate curve got more negatively sloped and shifted downwards, discounting interest rate cuts by a total of 150-200 bps by the end of 2026, whereas the bulk of this shift is supposed to be seen by the end of 2025 (including the NBP interest rates decrease by 50 bps in May 2025), and the total interest rate cuts are supposed to be deeper than suggested by the market valuation of October 2024 (see: Figure 1.4).

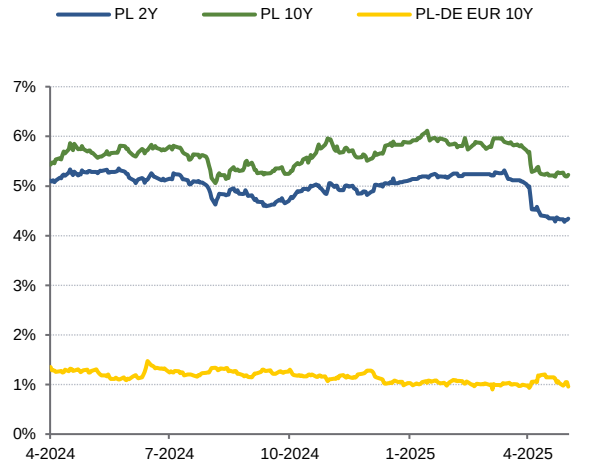
On the Treasury bond market, yields declined in both short and long term maturities. Lower yields in the front end were mainly the result of heightened expectations of NBP interest rate cuts. The long end of the yield curve was more affected by the news discounting geopolitical risk premia in the region (prospects of a ceasefire in Ukraine) and lower yields in core markets (see: Figure 1.5). The positive perception of the domestic market was confirmed by foreign investors' increased holdings in Treasury bonds. The assessment of the credit risk of Treasury bonds also remained stable, which was reflected in the spread of Poland's 10Y Eurobonds to German Bunds and the asset swap spread (spread between yields on Treasury securities and interest rates). Increased uncertainty concerning global trade policy did not have any major impact on the domestic debt market due to the smaller exposure of the domestic economy to changes in customs tariffs.

Figure 1.4. FRA-implied expected WIBOR 1M rate



Source: Bloomberg, NBP calculations.

Figure 1.5. Yields on Treasury securities and spread to German Bunds



Note: Spread in the yields on Polish bonds denominated in PLN and in EUR to 10Y German Bunds.

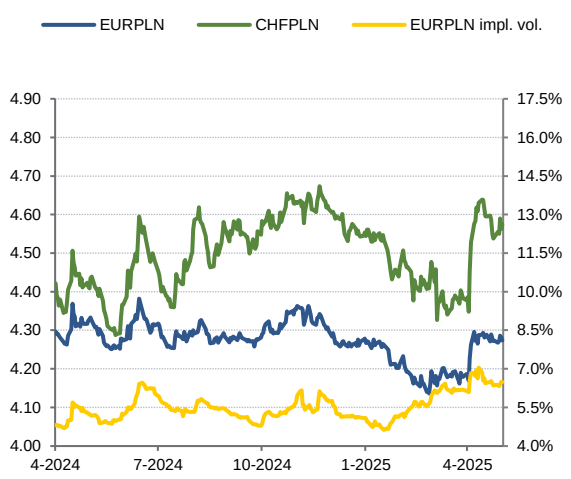
Source: Bloomberg.

The zloty appreciated slightly against the euro. The zloty, which appreciated the most among the CEE region currencies, was mainly supported by the decline in the geopolitical risk premium in the region connected with a possible ending of the war in Ukraine. Factors supporting appreciation of the zloty also included: (i)the widening disparity of interest rates compared with the euro area amid ECB interest rate cuts, (ii) the lower exposure of the Polish economy to changes in the US trade policy and (iii) the inflow of EU funds (see: Figure 1.6). In contrast, the depreciation of the zloty observed at the beginning of April was driven by increased risk aversion following the announcement of changes in the US trade policy and the acceleration of expectations for NBP interest rate cuts. As a result, the implied volatility of the exchange rate of the zloty against the euro also increased.

Domestic equity indices increased, despite a correction at the beginning of April. The increases were supported by the general decline in some geopolitical risk premia connected with a possible ceasefire in Ukraine, whereas the April declines, which failed to outweigh the earlier increases, were the result

of the global situation – a retreat from equity markets and increased risk aversion following the turmoil over changes in the US trade policy. The WIG Bank index increased more than the main WSE index, similarly to the equity index of banks in the euro area (more on banks' stocks in Chapter 2.9). The level of capital of the largest banks listed on the Warsaw Stock Exchange is adequate, which is elucidated by the low level of the SRISK measure (see: Figure 1.7). Most banks would not have capital shortfalls in the case of a significant shock, manifested in a large fall in the equity market, and in the other banks its scale would be insignificant.

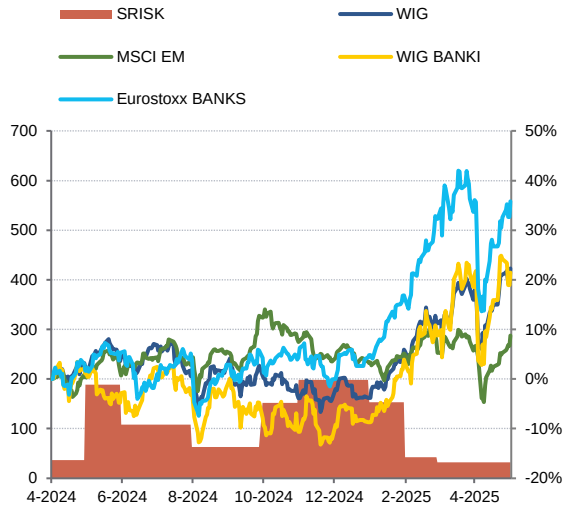
Figure 1.6. Zloty exchange rate against EUR and CHF and implied EUR/PLN volatility



Note: left axis: EUR/PLN and CHF/PLN exchange rate. Right axis: options-implied volatility of EUR/PLN exchange rate.

Source: Bloomberg.

Figure 1.7. Market assessment of undercapitalisation of Polish banks and stock exchange indices variations



Note: left axis – market assessment of undercapitalisation of the largest banks based on the SRISK measure with an assumed level of k=5% (PLN billion), right axis – equity indices: of the emerging markets (MSCI EM), WIG, WIG Banks and Euro Stoxx Banks were normalized to 0 at the end of April 2024.

Source: Bloomberg.

1.4. Real estate market[12]

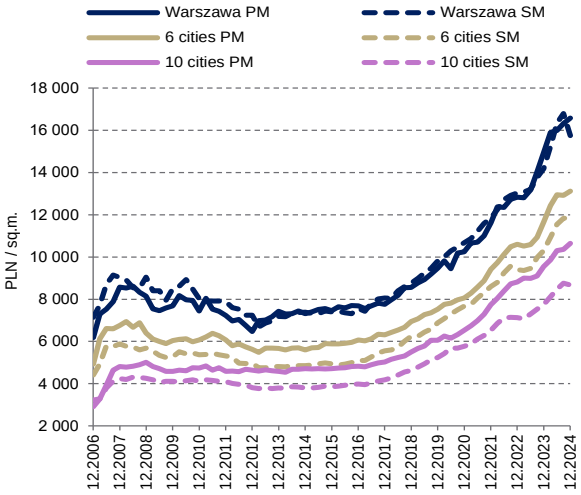
In the second half of 2024 demand in the primary housing market declined, prompting developers to limit supply. As a result of the delayed reduction in supply, the stock available on the market increased. Lower demand was the consequence of the expiry of the 2% Safe Credit (BK2%) programme at the end of 2023 and consequently, lower loan-financed housing affordability, which is an approximate measure of demand.

Nominal and real house prices continued to rise, albeit at a slower pace. This was affected by construction costs, i.e. costs of labour and rental of equipment, growing at a slower pace amid stabilising

[12] For more information on the current situation in the real estate sector in Poland see the paper "Information on home prices and the situation in the residential and commercial real estate market in Poland in 2024 Q4", available on the NBP website: https://nbp.pl/publikacje/cykliczne-materialy-analityczne-nbp/rynek-nieruchomosci/informacja-kwartalna/.

prices of materials. In 2024 the primary markets saw nominal average transaction prices per sq. m of housing grow significantly at the beginning of the year and slow down at the end of the period. The average annual growth in nominal transaction prices reached 17.9% in Warsaw, 17.7% in 6 cities and 12.4% in 10 cities, yet growth in real transaction prices compared to wages was lower (6.4%, 4.0% and 1.1%, respectively).

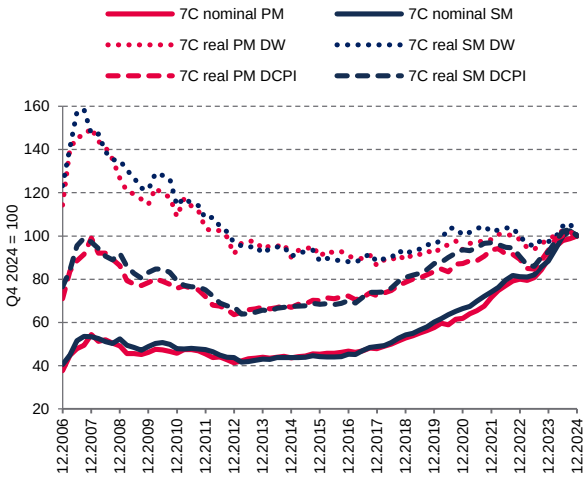
Figure 1.8. Nominal home transaction prices in the primary market (PM) and secondary market (SM) in Warsaw, 6 cities and 10 cities (PLN/sq. m)



Notes: 6M means 6 cities – Gdańsk, Gdynia, Kraków, Łódź, Poznań and Wrocław, and 10 cities include: Białystok, Bydgoszcz, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin and Zielona Góra.

Source: NBP.

Figure 1.9. Index of transactional, nominal and CPI (DCPI) and wage (DW) deflated house prices in the primary (PM) and secondary (SM) markets in 7 cities (Q4 2024=100)



Notes: 7M means 7 cities – Gdańsk, Gdynia, Kraków, Łódź, Poznań, Warsaw and Wrocław; PM – primary market, SM – secondary market, DW – deflated by wages; DCPI – deflated by CPI.

Source: NBP.

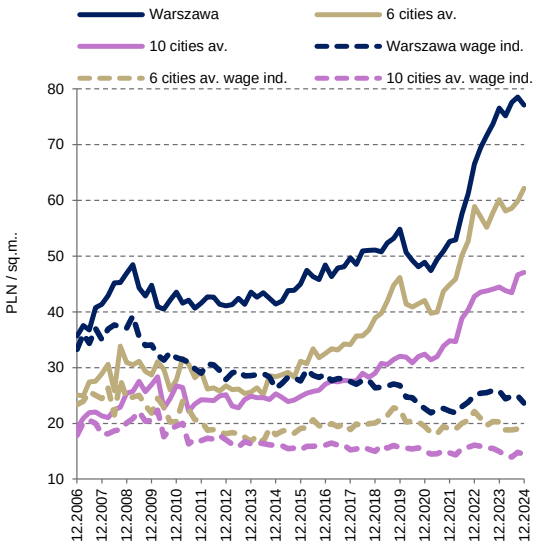
In 2024 the average annual nominal rental rates of 1 sq. m of housing (excluding operating expenses and utility fees) continued to rise in y/y terms. In Warsaw, 6 and 10 cities this growth was 4.3%, 2.4% and 3.9%, respectively. As growth in house prices increased, this slightly reduced rental profitability in large cities. The number of dwellings offered for rent continued to rise as dwellings purchased in 2020-2023, i.e. in the period when many investors decided to purchase rental housing, were completed[13]. As a result of investors' confidence in the possibility to retain the value of the capital invested in real estate and the higher perception of risk of investment in the capital market, rental housing continued to be seen as relatively attractive, despite the fact that the estimated cost of servicing housing loans exceeded income from home rental.

In 2024 the commercial real estate market returned to the pre-Covid-19 level, which was reflected in rising rents (see: Figure 1.12 and Figure 1.13). As a result of the development of teleworking, tenants continue to be less interested in office space or more interested in smaller offices, but located in

[13] NBP estimates based on NBP data.

buildings with high energy efficiency[14] and situated in good locations. Teleworking and the development of e-commerce have negatively affected the demand for retail space in the largest urban agglomerations but boosted demand for warehousing space. As a result, we have seen a falling growth in the supply of new office space, stagnation in the supply of new retail space and a constantly growing supply of warehouse space. The growing maintenance costs and service charges of such real estate may turn out to be a problem, especially in the case of older buildings. Since the outbreak of the war in Ukraine, these expenses have been on the rise, which is the result of growing prices of energy, goods, services, higher minimum wages and rising costs of building repair and maintenance.

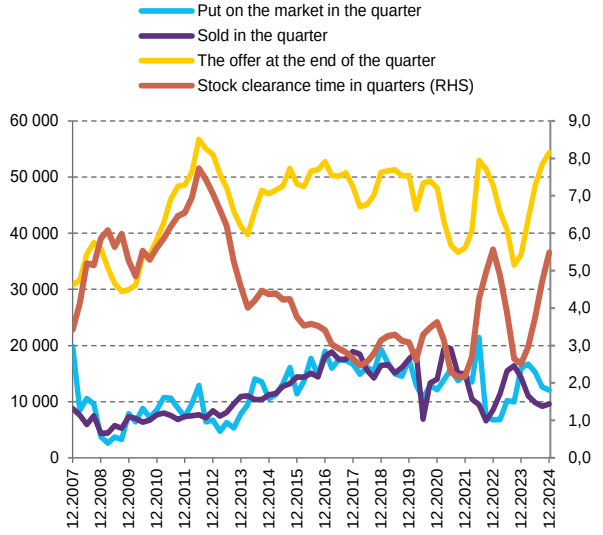
Figure 1.10. Average transaction rental rate in nominal and real terms compared to wages in selected groups of cities in Poland (PLN/sq. m)



Notes: 6M means 6 cities – Gdańsk, Gdynia, Kraków, Łódź, Poznań and Wrocław; and 10M means 10 cities – Białystok, Bydgoszcz, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin and Zielona Góra. In the case of 6M and 10M average weighed with stock.

Source: NBP.

Figure 1.11. Dwellings put up for sale in the primary market, sold and remaining on offer in the six largest markets in Poland and the selling time of the offer



Note: the group of 6 markets includes: Kraków, Łódź, Poznań, Warsaw, Tri-City and Wrocław.

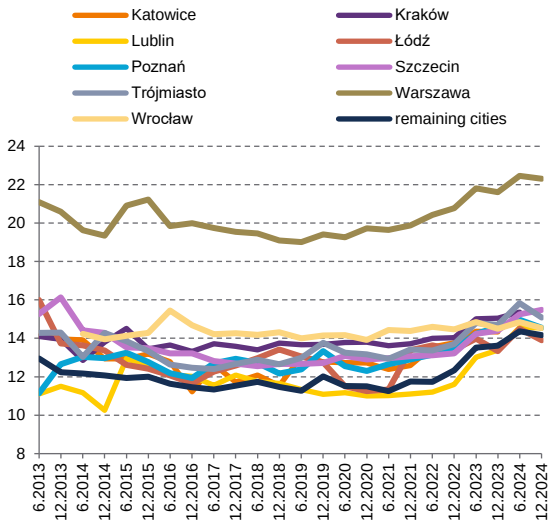
Source: NB based on JLL.

The value of the domestic commercial real estate stock is still relatively small, and the exposure of Polish banks to this sector remains insignificant compared to their assets. The value of credit for the purchase or construction of commercial real estate (housing, office, retail, warehouse and other) was stable and amounted to PLN 66.6 billion at the end of 2024. The exposure of Polish financial institutions, such as investment and insurance funds in commercial real estate was insignificant compared to their

[14] This results from significant rises in energy carrier costs, which are to some extent the effect of climate changes and the related climate policy.

assets. On the other hand, the exposure of foreign investors in the form of foreign direct investment is considerable.[15]

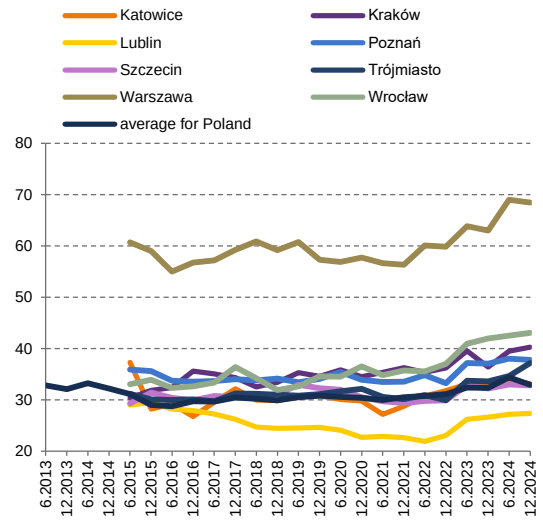
Figure 1.12. Transaction rents for A class office space (average in EUR/sq. m/month)



Note: other cities include Białystok, Bydgoszcz, Kielce, Olsztyn, Opole, Rzeszów, Zielona Góra.

Source: NBP.

Figure 1.13. Transaction rents for space in commercial centres with an area of 100-500 sq. m (averages in EUR/sq. m/month)



Source: NBP.

In the second half of 2024 the volume of transactions in commercial real estate increased compared with the first half of the year. The estimated value of sale transactions involving commercial real estate purchased for investment purposes[16], i.e. intended for rental, amounted to EUR 3.5 billion (see 1.14).[17]

[15] The exposure of foreign investors in financing real estate activities (section L PKD) for 2023 amounted to PLN 123 billion, of which PLN 55.4 billion were equities and other forms of participations and PLN 67.8 billion were inter-company loans. See: NBP https://nbp.pl/en/publications/cyclical-materials/foreign-direct-investment-in-poland/.

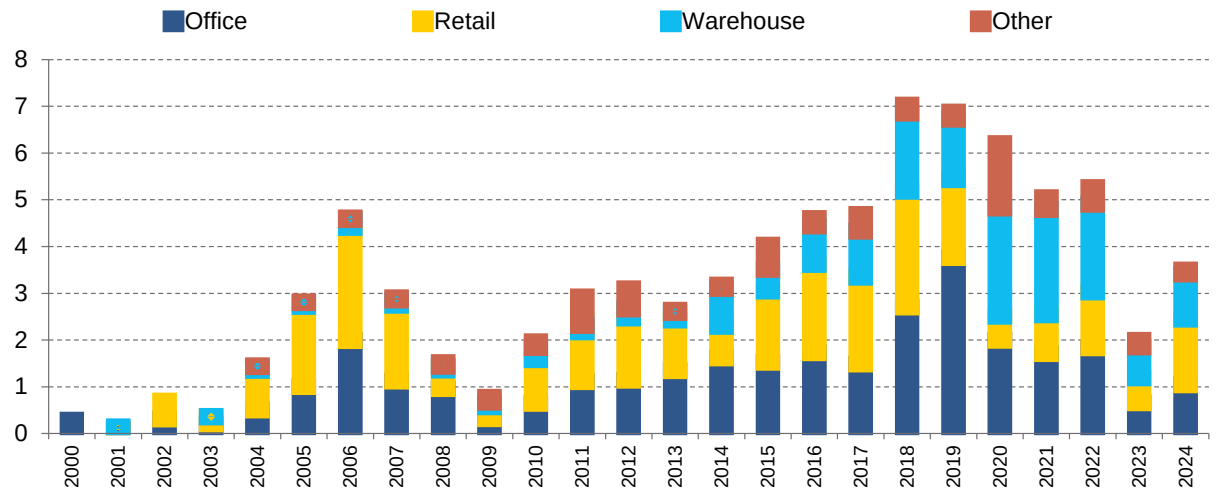
[16] Based on Comparables.pl data. The above investment projects concern the entire functioning company which leases a building and derives profit from it. Such transactions take place between: (i) a developer who has commercialised the real estate and sells it to an investor, and (ii) two investors. However, it should be emphasized that such data do not make it possible to formulate conclusions concerning foreign investors' share in the ownership of commercial real estate in Poland. There is a large stock of real estate which was built by the owner for their own use, sometimes even decades ago. Moreover, some domestic investors set up a developer company to build rental real estate for them and then manage such real estate. The above economic developments are not recorded in statistics concerning commercial investment.

[17] Approx. 33.2% of transaction value accounted for warehousing space, 33.1% office space and 26.5% retail space.

This value was higher than in 2023, when the value of transactions declined to approx. EUR 2 billion, but was still lower than in 2022, which was largely due to low activity of foreign entities.

In the domestic commercial real estate market no significant tensions are seen – even minor increases in rental rates of office and retail real estate may be recorded. The share of vacancies is moderate and the level of bank loans in stages 2 and 3 financing this segment of real estate market is also stable. Yet, a worse situation and prospects for foreign investors may negatively impact their activity also on the Polish market. The still lower level of activity of foreign investors than in the years 2015-2022 is, among others, the result of increased costs of financing in the euro area. This causes a decline in the profitability of leased buildings and thus, a fall in their market value.

Figure 1.14. The value of transactions involving investment in commercial real estate in particular years (in EUR billion)



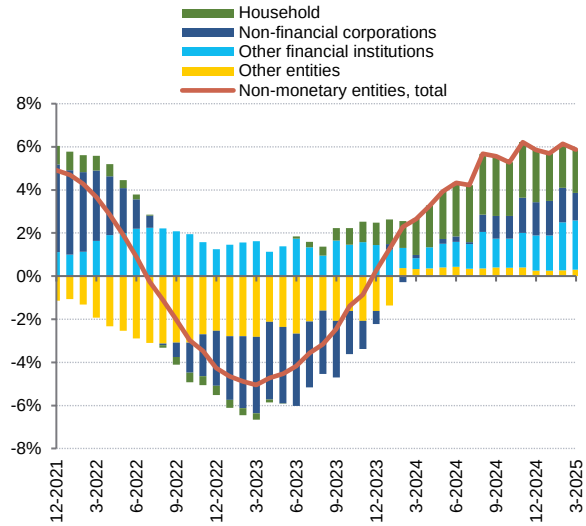
Source: Comparables.pl.

2. Banking sector situation

2.1. Lending

Following several quarters of recovery in lending, the debt growth of non-financial sector entities has started to stabilise at moderate levels since autumn 2024 (see Figure 2.1). The growth of lending was supported by macroeconomic conditions and the standing of non-financial entities. Growth of GDP and domestic demand stabilised at levels higher than in previous quarters, while real wage growth increased household creditworthiness. On the other hand, the elevated uncertainty of the economic environment caused a rise in the saving rate, non-financial corporations saw a marked decline in profitability, and relatively high interest rates were not in favor of loan demand as well.

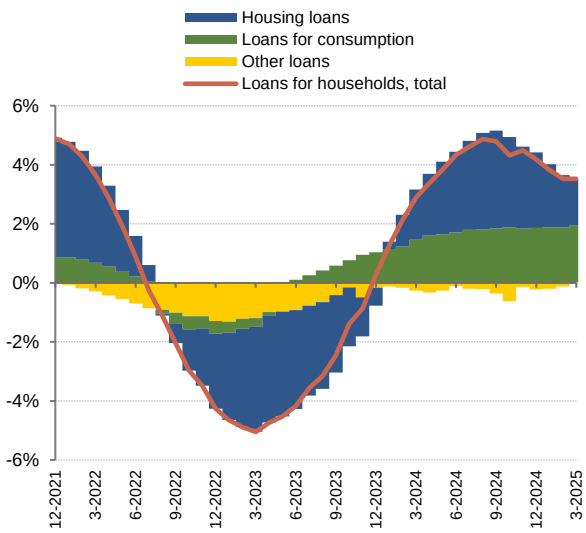
Figure 2.1. Growth rate of loans to non-monetary entities and contribution of its main components[18], y/y



Notes: The figure presents transactional changes. General government not included. Leasing companies represent the largest category of borrowers among *Other financial institutions* (accounting for approx. 65% of the debt).

Source: NBP.

Figure 2.2. Growth rate of loans to households and contribution of its main components, y/y



Notes: The figure presents transactional changes. The *Other loans* category covers, among others, loans to individual entrepreneurs and individual farmers.

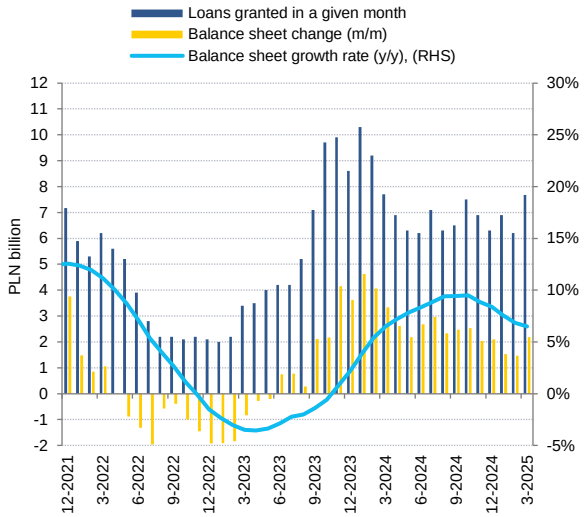
Source: NBP.

Since the fourth quarter 2024, the annual growth rate of housing loans has slightly decreased. After the mid-year review of housing loan applications, submitted under the "2% Safe Mortgage" programme, the value of new loans stabilised at a lower but still relatively high level (see Figure 2.3). Overpayments and early loan repayments (approx. 44 billion zlotys in 2024, or more than a half of new lending in the period) contributed to increasingly lower growth in the value of the loan portfolio. The value of zloty loans was also affected by the settlement process between banks and borrowers with FX

[18] The contribution of a loan category to the growth rate of total loans is the product of the growth rate of that category and its total share in loans.

loan agreements (mainly denominated in CHF). Namely, as a result of the settlement agreement, a small non-cancelled portion of the FX loan was converted into a PLN loan.

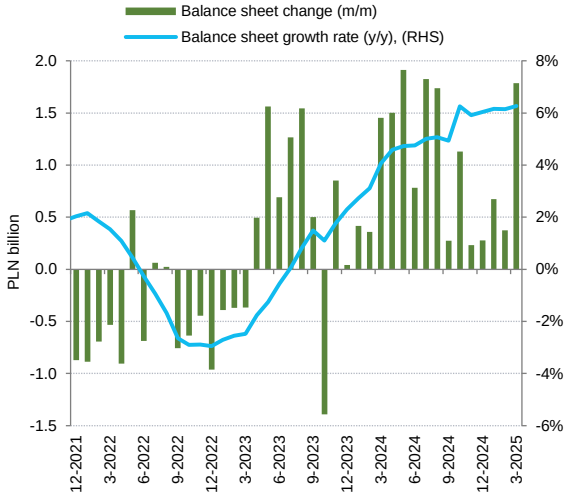
Figure 2.3. Housing loans (denominated in PLN)



Note: Monetary data.

Source: NBP and BIK.

Figure 2.4. Loans for consumption



Note: Monetary data.

Source: NBP.

The annual growth rate of loans for consumption increased, despite a temporary downturn in retail sales in the third quarter of 2024[19] (see Figure 2.4). Cash loans grew at a particularly fast pace, especially high-value loans (the value of new loans over 100 thousand zlotys increased by 45% y/y[20]). The growth in this category can be attributable to customers taking out consolidation loans. The amounts of new loans (flow) relatively insignificantly translated into changes in the balance sheet (m/m) and growth rate (y/y) of loans for consumption. It resulted, among others, from faster than the contractual repayment of the loans, as well the usage of consolidation loans to repay existing loans.

The annual growth of corporate credit increased, with increments dominated by investment loans (see Figure 2.5). However, the use of credit by enterprises remains low, which mainly results from structural factors[21], i.e. financing of operations primarily from their own resources and foreign debt.[22] Foreign entities, mostly with capital links to enterprises, are the largest group of creditors in the non-

[19] See "Consumer tendency – April 2025", Statistics Poland. Material and data file available at www.stat.gov.pl.

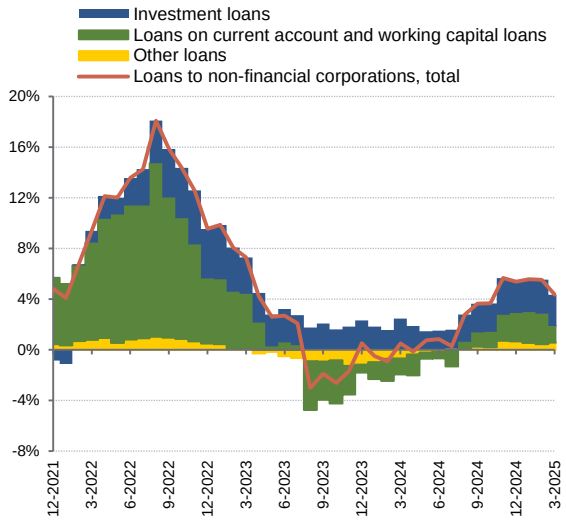
[20] See „Finansowanie konsumentów przez banki i instytucje pożyczkowe, podsumowanie 2024 r. i perspektywy na 2025 r." ["Consumer financing by banks and lending institutions, summary of 2024 and outlook for 2025"], BIK, 30.01.2025. Presentation available at www.bik.pl.

[21] For more on the reasons of the low corporate demand for loans, see Box 2.1. in: "Financial Stability Report, June 2024", NBP, available at www.nbp.pl.

[22] See „Szybki Monitoring NBP. Analiza sytuacji sektora przedsiębiorstw" [NBP Quick Monitoring Survey. Economic climate in the enterprise sector], April 2025, available at www.nbp.pl.

financial corporations sector. Since 2020, the surplus of corporate liabilities to foreign entities over liabilities to domestic banks has increased (see Figure 2.6). In addition, for two years now, the enterprises surveyed by NBP have reported a falling demand for loans. In the European studies, SMEs indicate the excessive cost of borrowing as the main obstacle to using loans.[23] On the other hand, SAFE surveys confirm the high interest of SMEs in leasing, which in the banking data is reflected as the increasing amounts of receivables from leasing companies, most often operating in the same banking group (see Figure 2.1).

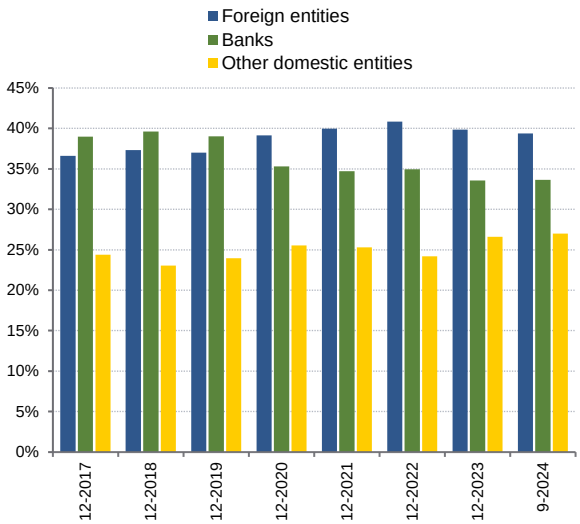
Figure 2.5. Growth rate of loans to non-financial corporations and contribution of its main components, y/y



Notes: The figure presents transactional changes. The *Investment loans* category includes, among others, loans for investments and real estate purchases.

Source: NBP.

Figure 2.6. Structure of corporate debt by creditors, domestic and foreign



Notes: Corporate indebtedness consists of debt securities as well as loans and borrowings (excluding trade credit).

Source: NBP.

Changes in loan demand were accompanied by slight adjustments in banks' lending policy.[24] Throughout most of 2024 (until the third quarter of 2024 inclusive), the banks surveyed reported a declining interest in housing loans and, in response, gradually eased lending terms (margins). According to banks' assessment, demand for loans for consumption, which was strong in the first half of 2024, grew at a slower pace in the subsequent period, with banks responding by easing lending standards and reducing credit margins. On the other hand, banks' lending policy towards SMEs continued to be

[23] European Commission: Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs and Verian, *Survey on the access to finance of enterprises (SAFE) – Analytical report 2024*, Publications Office of the European Union, 2025.

[24] Information on loan demand and changes in banks' lending policies can be found in NBP quarterly reports "Senior loan officer opinion survey on bank lending practices and credit conditions" available at www.nbp.pl

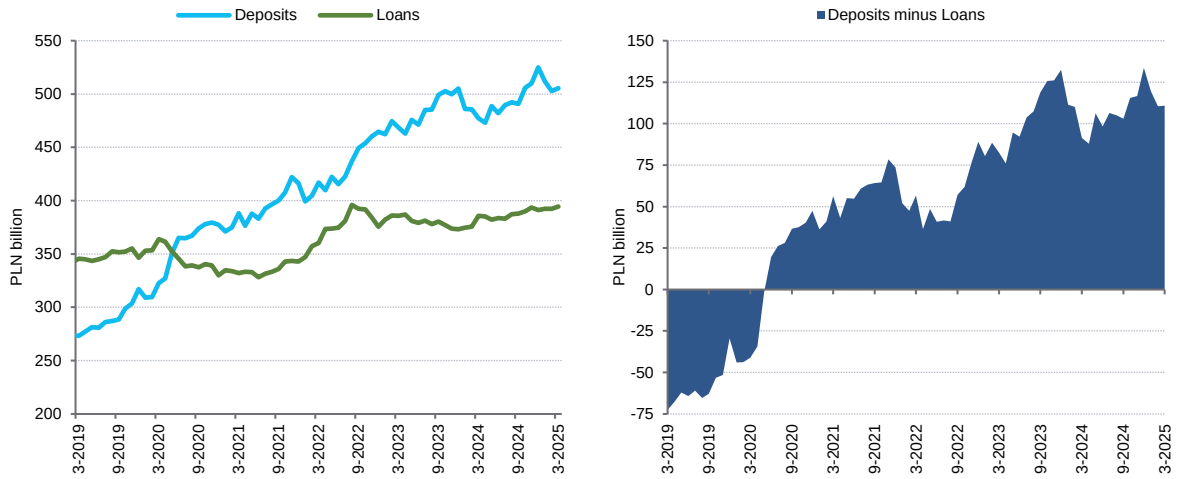
tightened (cumulative net percentages for four quarters were negative) and slightly eased towards large enterprises.

Outlook

Due to the high geopolitical uncertainty and consequences of changes in the trade policy of major economies, which are difficult to assess, any forecasts of loan growth is also uncertain. Deterioration and increased volatility of expectations about future macroeconomic developments will affect the loan demand from non-financial entities, as well as credit policy of banks.

Current forecasts indicate that, in the short term, the macroeconomic environment will be relatively favourable to household loan demand. Further growth in real wages, although no longer as fast as in the first half 2024, should increase creditworthiness of potential borrowers and thus support further lending growth. Interest rate cuts in May 2025 and potentially further cuts expected by market participants will have an impact in the same direction. A potential increase in geopolitical tensions or a deterioration of the economic situation can strengthen the propensity to save and refrain from incurring new debt. In the longer term, the demand for housing loan may depend on the entry into force of subsidies from the "First Keys" programme, the guidelines of which have been presented by the Minister of Development and Technology.[25]

Figure 2.7. Comparison of the amounts of corporate deposits and loans



Note: Monetary data, net of exchange rate effects.

Source: NBP.

In the case of corporate loans, further growth in investment loans can be expected in connection with financing of investments related to the defence industry, energy transition and others included in the National Recovery and Resilience Plan. Investment projects implemented with the use of EU

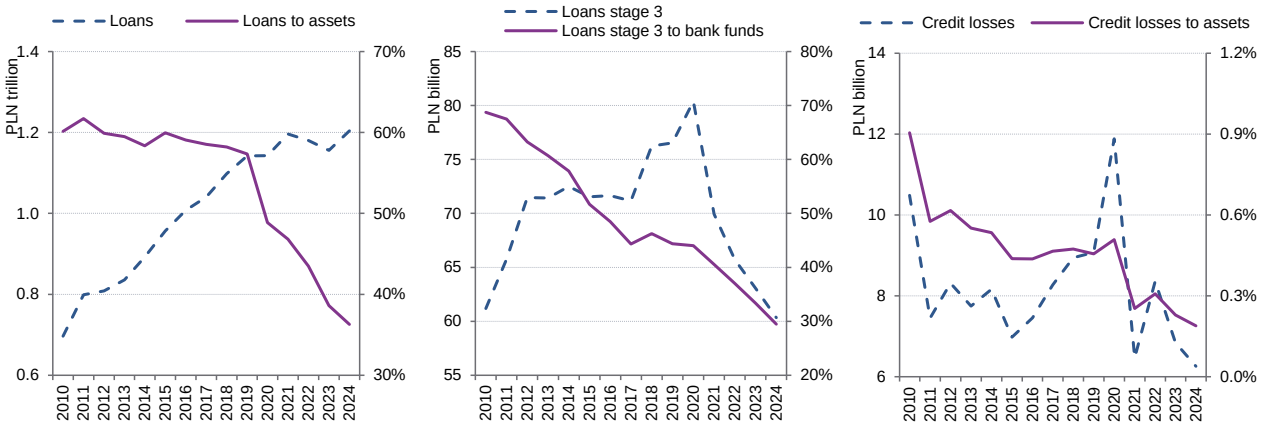
[25] Draft Act on Investments and Housing Loans "First Keys", https://www.gov.pl/web/premier/projekt-ustawy-o-inwestycjach-i-kredycie-mieszkaniowym-pierwsze-klucze.

funds require co-financing, which can drive demand for long-term loans. However, since the use of financial shields during the pandemic, the banking sector has been a net debtor to the corporate sector (in February 2025, for the amount of 110 billion zlotys, i.e. approximately 25% of the value of corporate loans), (see Figure 2.7). The demand for additional funding can therefore be partly satisfied through the use of funds accumulated in bank accounts by enterprises in the first instance.

2.2. Credit risk

The credit risk has clearly decreased in recent years. On the one hand, the share of loans in the banking sector's assets dropped (see Figure 2.8, left-hand panel). On the other hand, after a temporary increase in the years 2017-2020, a rapid decline of impaired loans and loan losses occurred, among others, due to the improvement in the quality of service and the general financial standing of borrowers (see Figure 2.8, right-hand panel). At the same time, the capacity to absorb credit losses by banks increased significantly due to the continued growth of the banking sector's capital base (see Figure 2.8, middle panel).

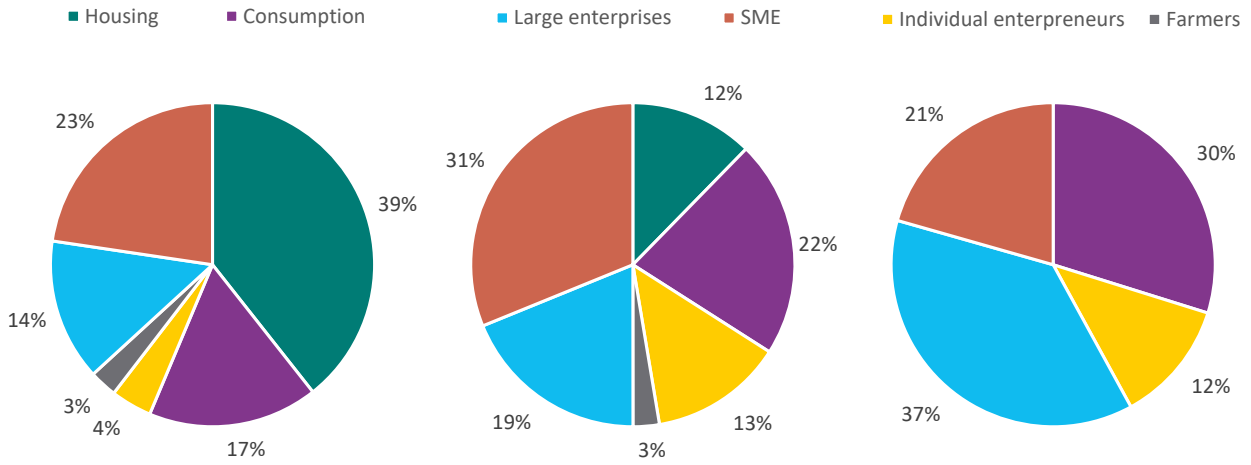
Figure 2.8. Portfolio of loans for non-financial sector compared to banking sector assets (left-hand panel), impaired loans compared to banks' own funds (middle panel) and credit losses compared to bank assets (right-hand panel)



Source: NBP.

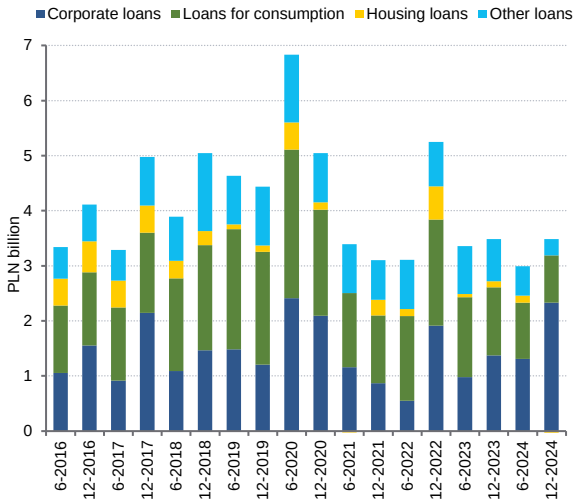
The diversified level of credit risk between individual loan categories persists. Housing loans, a category with the highest share in the portfolio of loans to the non-financial sector, contribute to the category of impaired loans as well as to the balance of credit losses to a limited extent (see Figure 2.9). Credit losses in the large corporate finance segment dominated the structure of total losses in the second half of 2024 (see Figure 2.9). This was mainly the result of an increase in the risk of exposure to one large borrower. Higher-than-average credit risk was also generated by loans for consumption and loans to individual entrepreneurs, but their share in the non-financial sector loan portfolio is lower. In the case of these bank receivables, credit losses are offset by the relatively high margins earned on these products.

Figure 2.9. Loan portfolio (left-hand panel), impaired loans (middle panel) and credit losses (right-hand panel), by type and entity at the end of 2024



Source: NBP.

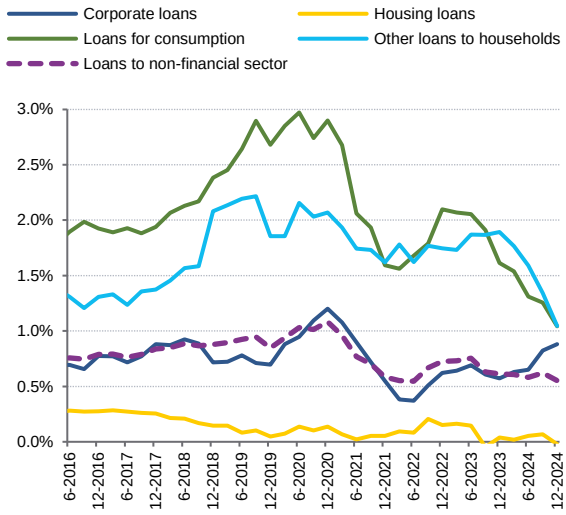
Figure 2.10. Loan losses in loans to non-financial sector



Notes: Data on loan losses in housing loans excluding the impact of the costs of provisions for legal risk of FX loans recognised as loan losses (in several banks); the *Other* category means loans to households other than housing loans and loans for consumption loans and loans to non-commercial institutions operating for households.

Source: NBP.

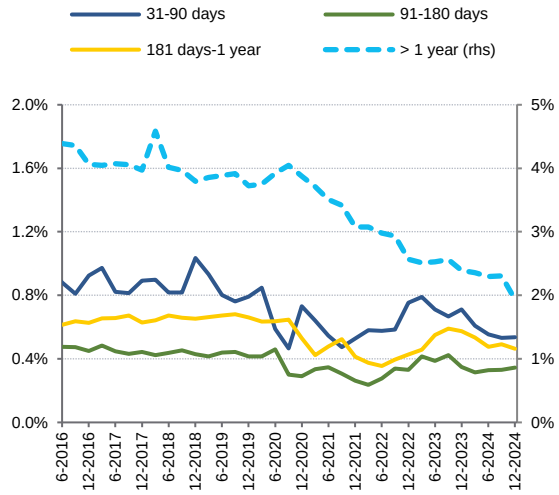
Figure 2.11. Loan losses to net loans ratio



Notes: Annualised data; the category *Other for HH* refers to loans to households other than housing loans and loans for consumption, mainly loans to individual entrepreneurs and farmers.

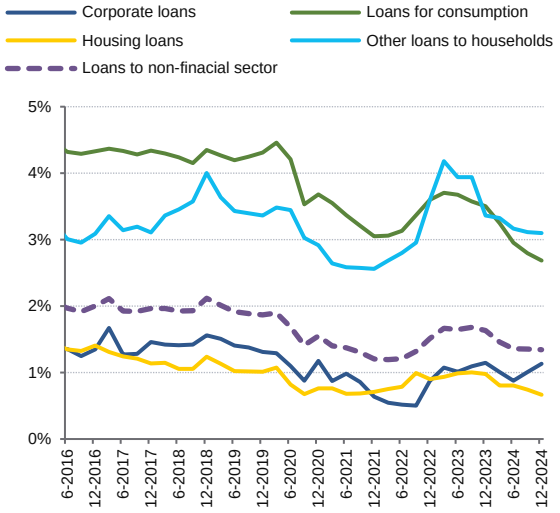
Source: NBP.

Figure 2.12. Shares of loans in arrears to the non-financial sector in individual arrears classes



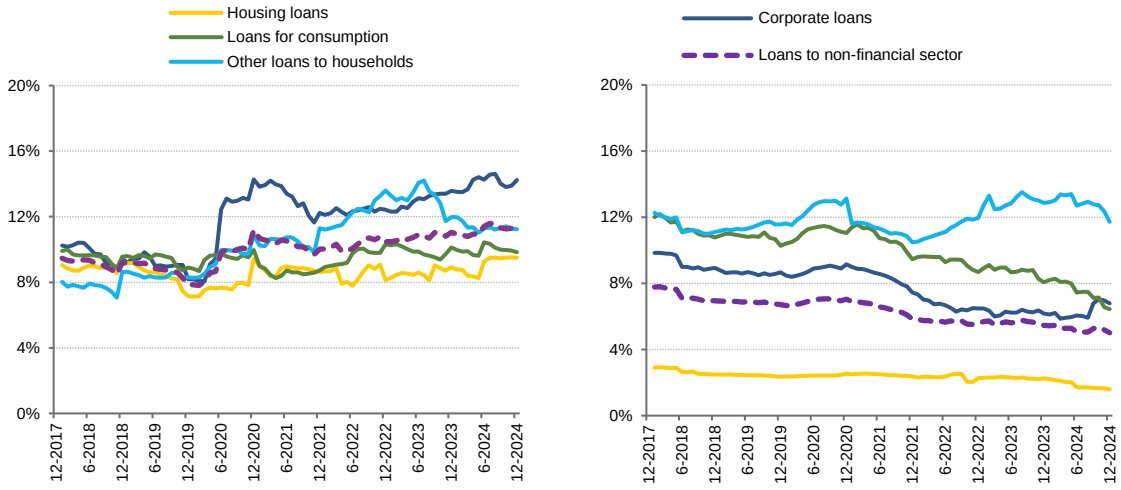
Source: NBP.

Figure 2.13. Shares of short and medium-term arrears (31 days to 1 year) for individual types of loans to the non-financial sector



Source: NBP.

Figure 2.14. Share of Stage 2 loans (left-hand panel) and impaired (Stage 3) loans (right-hand panel) in individual types of loans to the non-financial sector



Notes: Data for the entire banking sector, for banks applying IAS/IFRS – share of Stage 2 and Stage 3 loans; for banks applying PAS – watch-list and impaired loans, respectively.

Source: NBP.

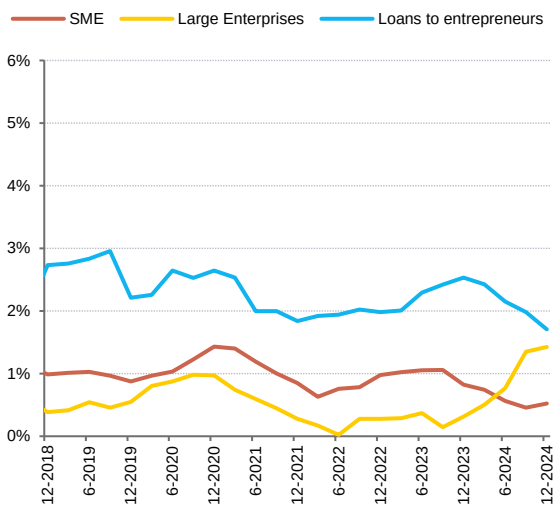
Loans to business entities

In the second half of 2024, most credit risk indicators for receivables from business entities stabilised at relatively low levels, with the exception of loans to large companies. Losses on loans to individual entrepreneurs and SMEs decreased (see Figure 2.11 and Figure 2.15). Short and medium-term delays in loan repayment were also lower (see Figure 2.13 and Figure 2.16).

The ratio of impaired loans (Stage 3) increased in the category of large companies, but remains lower than before the pandemic. However, the Stage 2 loan ratio recorded a slight decrease (see Figure 2.14). This was associated with the reclassification of relatively large exposures to entities in the manufacturing section from Stage 2 to Stage 3. On the other hand, risk assessment improved further in the construction and real estate sector as well as in industries particularly affected by the pandemic, i.e. tourism, hotels and restaurants.

The level of credit risk is heavily dependent on the size of activity of business entities. The smallest entities, including primarily individual entrepreneurs, remain particularly sensitive to the economic downturn. This segment shows the highest ratio of credit losses to net loans, despite the recently recorded decline, and the highest share of short-term and medium-term delays in loan repayment (see Figure 2.15 and Figure 2.16).

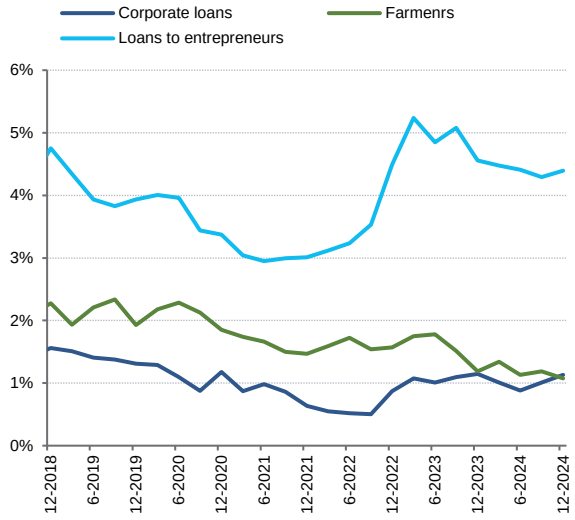
Figure 2.15. Ratio of loan losses to net corporate loans



Notes: Annualised data.

Source: NBP.

Figure 2.16. Share of loans to economic entities with arrears of up to 1 year



Source: NBP.

The expected acceleration in economic growth and investment activity is likely to affect the stabilisation of credit risk at the current, relatively low level.[26] A further decline in the profitability of enterprises may be a risk factor, among others, due to rising employment costs.[27] At the same time, high

[26] Business tendency in manufacturing, construction, trade and services 2000-2025 (March 2025), Statistics Poland https://stat.gov.pl/en/topics/business-tendency/business-tendency/consumer-tendency-march-2025,3,63.html

[27] See „Szybki Monitoring NBP. Analiza sytuacji sektora przedsiębiorstw" [NBP Quick Monitoring Survey. Economic climate in the enterprise sector], issues: January 2025 and earlier, available at https://nbp.pl/en/publications/cyclical-materials/economic-climate/

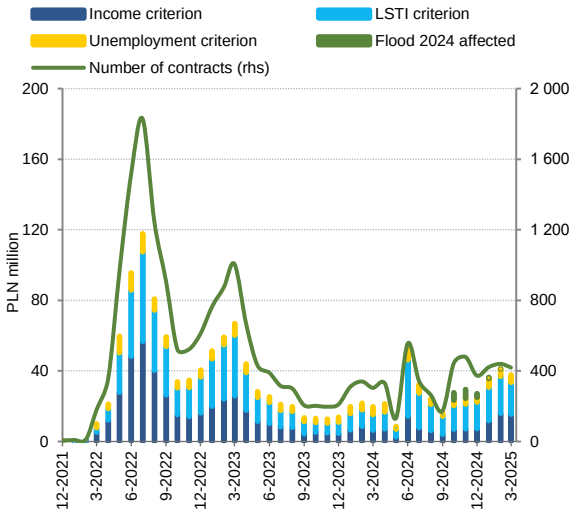
uncertainty in the international environment may result in a dramatic economic downturn and increased credit risk.

Loans to households

Owing to the robust labour market performance and availability of assistance programmes, most indicators of housing loan risk remained at low levels in the second half of 2024 and early 2025. Credit losses were close to historical lows (see Figure 2.10 and Figure 2.11). Loan arrears (see Figure 2.13), the impaired loan ratio (see Figure 2.14) and the share of forborne loans decreased (see Figure 2.18). Only Stage 2 loan ratio recorded a slight increase (see Figure 2.14).

The low cost of credit risk in housing loans was supported by the banks' relatively conservative lending policies in previous years. The rise in interest rates in 2022 was followed by a significant decline in the share of the most risky loans, i.e. those with high values in relation to borrowers' income in case of new loans (LTI ratio – see Figure 2.19). Despite a slight increase in 2024, this share remained significantly lower compared to the loans of 2020-2021, most risky in this respect and compared to the loans originated in the year immediately preceding the pandemic (2019).

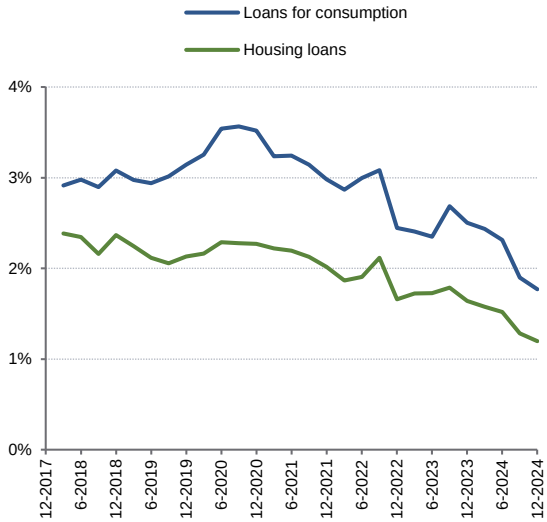
Figure 2.17. Number and value of contracts under the Borrower Support Fund concluded in individual months, by acceptance criterion



Notes: For the sake of clarity of the figure, a period before December 2021 has been omitted. The average monthly value of support in the period was very low and amounted to 0.5 million zlotys.

Source: BGK.

Figure 2.18. Share of forborne loans in housing loans and loans for consumption



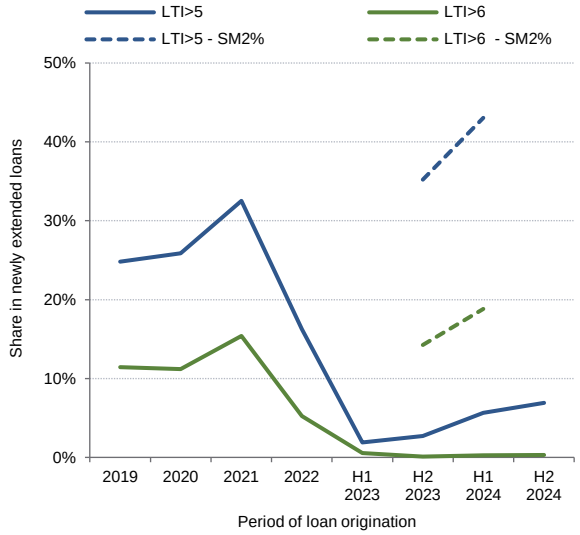
Source: NBP.

Following the termination of the "2% Safe Mortgage" programme, in the second half of 2024, the share of new loans with a high LTV ratio decreased significantly (LTV ratio, see Figure 2.20). In addition, due to the BGK downpayment guarantees, the risk associated with a lower collateral for loans

with LTV above 90% and the part of loans with LTV from 80% to 90% granted under the "Family Housing Loan" programme is significantly lower than a "standard" loan with the same LTV level.

Housing loan risk indicators continued to be positively influenced by assistance programmes in the form of the Borrower Support Fund and loan repayment holidays. However, since the costs of these programmes are borne by banks, the positive impact on credit risk indicators is associated with relatively high costs in other items of their income statement.[28] The amounts of new aid under the Borrower Support Fund increased in the second half of 2024 and at the beginning of 2025 (see Figure 2.17) in connection with: (i) easing of the access criteria in May 2024 and an increase in the amounts of aid, (ii) introduction of a possibility for borrowers affected by floods to use the Borrower Support Fund, and (iii) high indexation of income thresholds determining eligibility for aid.[29]

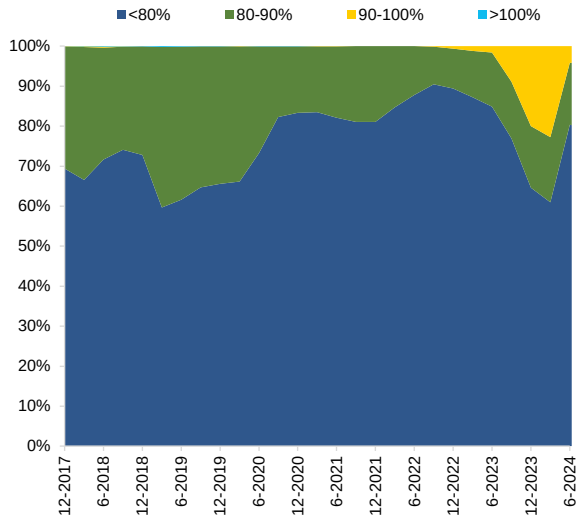
Figure 2.19. Shares of new housing loans with high LTI ratio



Note: Data for the second half of 2023 and the first half of 2024 separately for the "2% Safe Mortgage" (dashed lines) and the aggregate without 2% SM (solid lines).

Source: NBP estimates based on UKNF non-standard reporting data.

Figure 2.20. Distribution of LTV values of new housing loans



Source: NBP estimates based on UKNF non-standard reporting data.

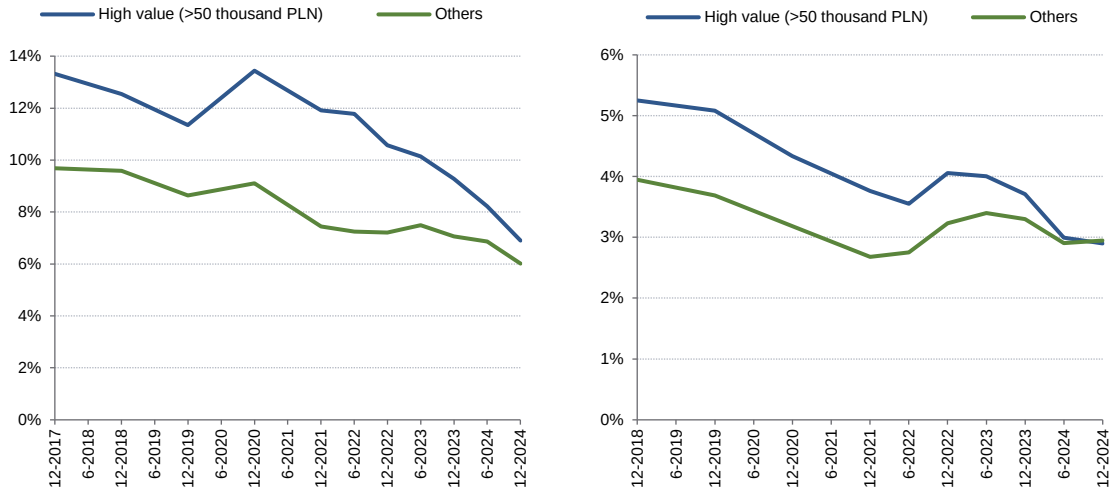
The favourable labour market situation also contributed to improved credit risk indicators in loans for consumption in the second half of 2024 and at the beginning of 2025. Credit losses (see Figure 2.10 and Figure 2.11), the share of loans with short and medium-term arrears in repayment (see Figure

[28] See "Financial Stability Report. December 2022", NBP, p. 31

[29] The Borrower Support Fund's thresholds for income after deducting housing loan servicing costs are calculated as 2.5 times the income criterion for social assistance benefits. The latter criterion is subject to indexation once every three years. The last indexation took place on 1 January 2025 and amounted to 30% for single-person households and 37% for multi-person households. Following the indexation, the Fund thresholds amount to 2,525 zlotys for single-person households and 2,057.5 zlotys per person for multi-person households.

2.13), impaired loan ratios and Stage 2 loan ratios (see Figure 2.14) and the share of forborne loans decreased (see Figure 2.18). The reduction in the impaired loan ratio was affected by both a lower balance of loans reclassified to Stage 3 in the second half of 2024 and the impaired loan management policy. In the last six months, major operations of transferring loans to off-balance sheet records after they had been fully written off as losses and sales of receivables took place.

Figure 2.21. Impaired loan ratios (left-hand panel) and shares of loans with short and medium-term arrears (right-hand panel), broken down by high-value loans and other loans



Note: High-value loans for consumption – loans with the value above 50,000 PLN upon origination.

Source: NBP estimates based on UKNF non-standard reporting data.

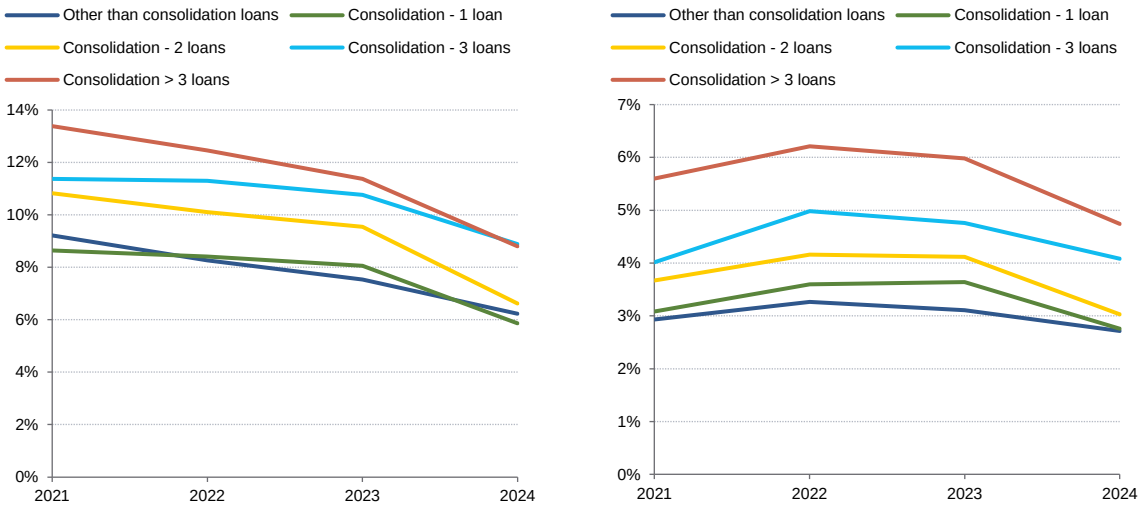
Reduction in risk indicators applied to both high-value loans for consumption and other loans. The difference in quality between both types of credit is currently insignificant (see Figure 2.21).

In the portfolio of loans for consumption, consolidation loans involving the consolidation of two or more loans carry a higher risk (see Figure 2.22 and Figure 2.23). In principle, consolidation of loans for consumption has a positive impact on the borrower's debt servicing ability by reducing the repayment burden (among others, as a result of extension of loan repayment period). However, the increase in the value of consolidated loans may be the result of excessive indebtedness of some households.

Over the last two years, the risk indicators of consolidation loans have decreased significantly (see Figure 2.22). At the same time, the share of more risky loans (consolidating more than 2 loans) has increased slightly, but is still insignificant (see Figure 2.23).

Household credit risk ratios should remain at a low level in the coming quarters. This will be supported by a stable labour market situation (moderate real wage growth, only a slight projected increase in unemployment), the banks' prudent lending policy in previous years, the market expectations of decreasing interest rates and the operation of the Borrower Support Fund.

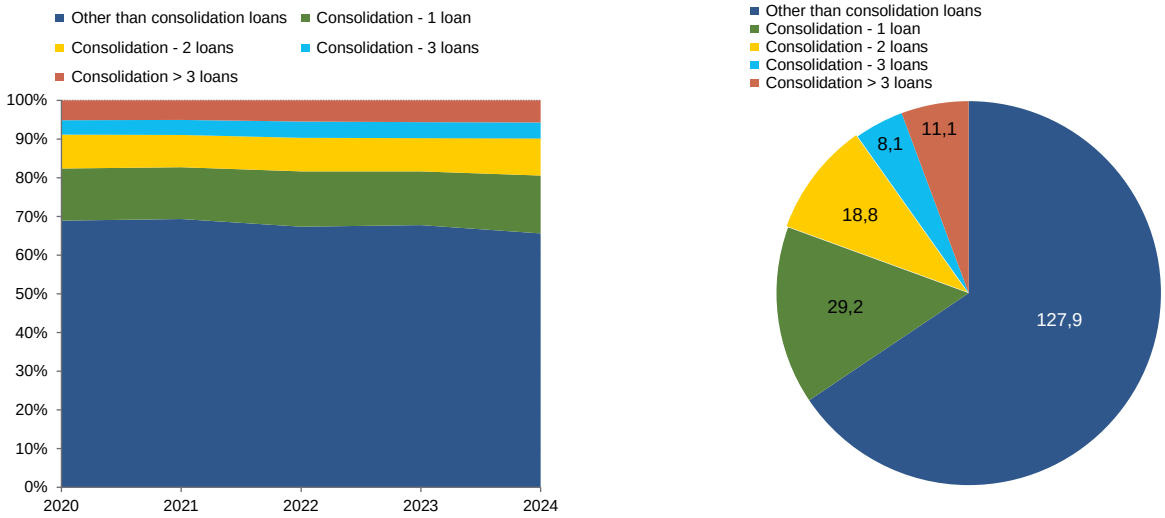
Figure 2.22. Impaired loan ratios (left-hand panel) and shares of loans with short and medium-term arrears (right-hand panel), broken down by consolidation loans and other loans



Notes: Consolidation loans, broken down by number of loans subject to consolidation.

Source: NBP estimates based on UKNF non-standard reporting data.

Figure 2.23. Structure (left-hand panel) and value (billion PLN) as at the end of 2024 (right-hand panel) of the portfolio of loans for consumption, by number of loans subject to consolidation



Source: NBP estimates based on UKNF non-standard reporting data.

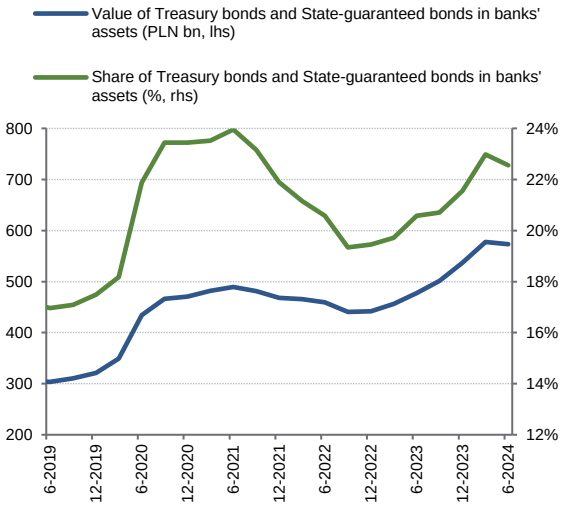
The announced termination of the loan repayment holiday programme should not have a considerable impact on loan servicing ability. Since the origination of the loans covered by this programme, wages have increased significantly. In addition, loan servicing ability may be supported by interest rate cuts. The relatively low sensitivity of residential borrowers to increases in their servicing costs may also be demonstrated by the low participation rate in the lastest loan repayment holiday programme. Loan servicing problems are likely to affect mainly that group of borrowers of 2020-2021 who took out loans

at the limit of their creditworthiness and whose income growth since then has been significantly lower than inflation.[30]

2.3. Risk related to the banking sector exposure to Treasury bonds

The share of the portfolio of Treasury bonds and Treasury-guaranteed bonds in banks' assets increased to 24.4%, surpassing the 2021 peak. Since mid-2024, the portfolio of these securities has increased by 91 billion zlotys, or 15.9% (see Figure 2.24). As at March 2025, the book value of Treasury bonds and Treasury-guaranteed bonds amounted to 664 billion zlotys.

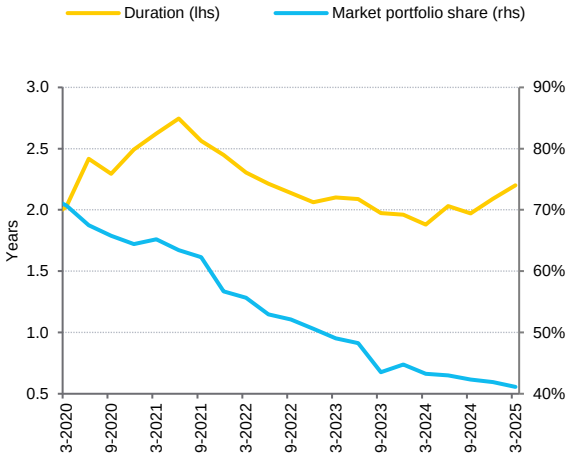
Figure 2.24. Share of Treasury bonds and State Treasury-guaranteed bonds in banking sector's assets



Note: Banking sector excluding BGK.

Source: NBP.

Figure 2.25. Duration and the share of Treasury bonds and State Treasury-guaranteed bonds portfolio marked to market



Note: Banking sector excluding BGK.

Source: NBP.

The risk associated with the market-priced bond portfolio remains limited due to the decline in the share of this portfolio in the total portfolio. The share of the market portfolio has decreased steadily for several years. This means that the portion of the portfolio that is sensitive to current bond price movements continues to decrease. On the other hand, the duration of the banks' total TS portfolio, a measure of sensitivity, has slightly increased (see Figure 2.25).

The increase in the value of the Treasury bond portfolio in the banks' balance sheets mainly involved the not-marked-to-market portfolio. This portfolio, measured by amortised purchase cost, has increased its value by 82 billion zlotys since the first half of 2024. Consequently, the share of the not-marked-to-market bond portfolio in the total Treasury bond portfolio increased to nearly 59% (see Figure 2.25). While an increase in the share of this portfolio reduces the banks' sensitivity to market interest rate changes, it can generate one-off significant losses if the securities included in portfolio have to be

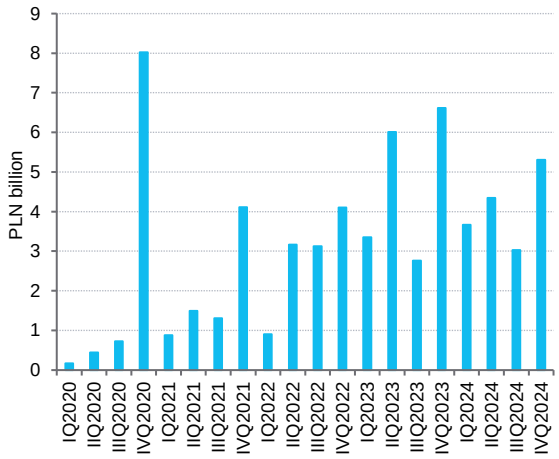
[30] See "Financial Stability Report. December 2022" (pp. 30-31) and "Financial Stability Report. December 2023" (pp. 28-31).

sold suddenly. However, it is significantly limited due to sufficiently high liquid asset buffers at banks (see Chapter 2.5) and the possibility of using TS in conditional transactions, including with NBP.

2.4. Legal risk associated with the portfolio of FX housing loans

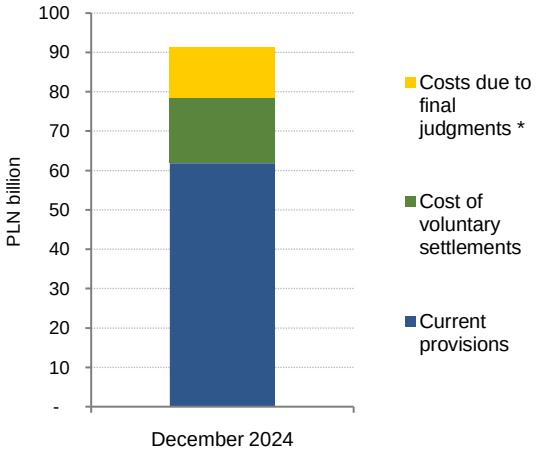
Banks have managed the legal risk associated with the portfolio of FX housing loans effectively and are now well prepared for any further materialisation of it. This risk, however, remains the most important burden for banks due to the high level of provisions created and the cost of settlements.

Figure 2.26. Legal risk provisions and other costs of legal risk of FX housing loans in eight listed banks



Source: Reports of GPW-listed banks.

Figure 2.27. Balance of legal risk provisions for FX housing loans at the end of 2024 and use of the provisions to date



* Estimates.

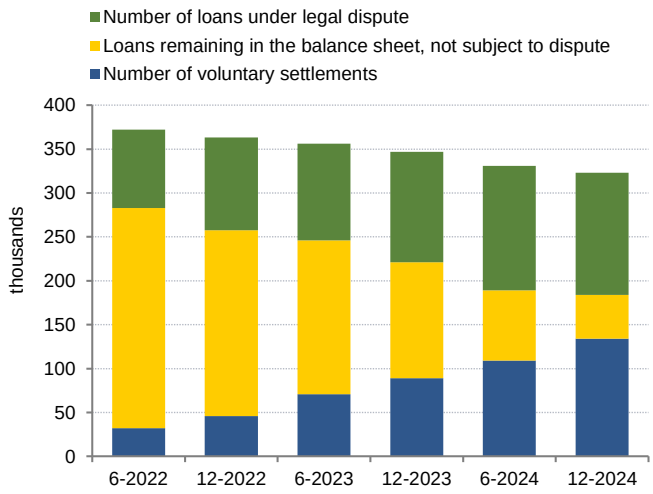
Source: NBP estimates based on UKNF non-standard reporting data.

The line of jurisprudence developed in favor of bank customers results in high interest of the borrowers in challenging FX housing loan contracts. To a growing extent, this phenomenon has also started to apply to repaid loans and euro-denominated loans. There are currently approx. 160 thousand cases involving FX housing loans pending at courts, of which almost one-third are lawsuits filed in 2024. Despite some acceleration in the processing of applications, so far a relatively small part of the lawsuits has resulted in a final judgement (approx. 36 thousand cases) or a court settlement between the bank and the borrower (approx. 22 thousand cases). The steady flow of new lawsuits, albeit at a slightly lower rate in 2024 than the year before, results in an increase in the number of unresolved cases and congestion in the courts. A draft law prepared at the Ministry of Justice aims to streamline the

procedural process.[31] However, it does not interfere with the substance of court rulings on FX housing loan cases, so it will not significantly affect the final level of costs to banks.

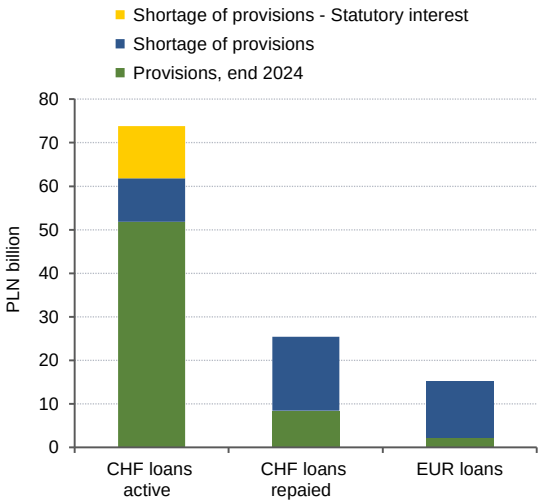
In parallel, the process of concluding settlements with borrowers is taking place at the initiative of banks. Compared to protracted litigation, concluding a settlement agreement significantly reduces the time taken to resolve a dispute. By the end of 2024, banks and borrowers signed approx. 134 thousand settlements concerning FX housing loans.

Figure 2.28. Number of CHF loans at the end of given quarters



Source: NBP estimates based on UKNF non-standard reporting data.

Figure 2.29. Estimated cost of legal risk assuming challenging of all agreements



Notes: The simulation was carried out at the exchange rate of the Swiss franc and the euro of 31 December 2024. The estimates of the shortage of provisions do not include the costs of litigation and the potential costs of statute of limitations of claims. For the sake of simplicity, the estimated amount of statutory interest has been entirely allocated to active CHF loans. The values shown in the figure do not include the costs of settlements already concluded and court cases closed.

Source: NBP estimates based on UKNF non-standard reporting data.

Over the last few years, banks have created substantial provisions for legal risk of FX housing loans. By December 2024, the total value of legal risk provisions was approx. 90 billion zlotys. To date,

[31] The aim of the act is to develop special solutions to enable courts to recognise cases involving FX housing loans denominated in Swiss francs more quickly. See Projekt ustawy o szczególnych rozwiązaniach w zakresie rozpoznawania spraw dotyczących zawartych z konsumentami umów kredytu denominowanego lub indeksowanego do franka szwajcarskiego - Kancelaria Prezesa Rady Ministrów - Portal Gov.pl [Draft act on special solutions on the recognition of cases concerning loan agreements denominated in the Swiss franc or indexed to the currency concluded with consumers].

approximately one third of this amount has already been used to cover the costs of final court judgements and settlements reached with borrowers (see Figure 2.27). Banks continued to create charges to provisions, adapting the provisioning models to the current situation and projections regarding, among others, the number of disputable cases, average loan losses, etc. (see Figure 2.26). The number of credit agreements not covered by the dispute currently is approx. 50 thousand (compared to over 200 thousand at the end of 2022) (see Figure 2.28). Banks are gradually covering these loans with portfolio provisions as well, to the extent depending on their own assumptions. In addition, to a greater extent banks take into account the costs due to statutory interest charged for the delay in recognising customer claims.

Most of the costs associated with the legal risk of active Swiss franc loans have already been incurred, but additional provisions may still be needed. NBP estimates indicate that the value of new provisions needed to cover the risk of active loans can be estimated at approx. 10 billion zlotys (see Figure 2.29). Additional provisions (on top of the current 10.5 billion zlotys) may be required to cover the costs of lawsuits filed by borrowers who took out a loan in euro or have already repaid their liabilities in CHF (under the extreme assumption that all agreements are challenged, the scale of costs can be estimated at approx. 30 billion zlotys). The banking sector would also have to create additional provisions for the payment of statutory interest for delays (the cost of which can be estimated at approx. 10 billion zlotys).

2.5. Liquidity risk and funding

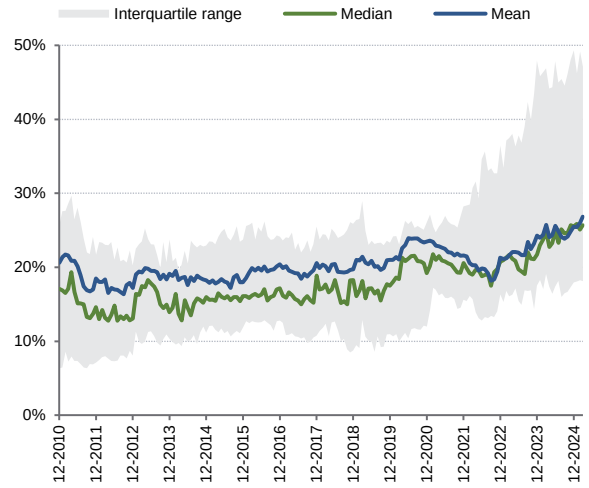
Liquidity risk

The liquidity position of the banking sector is good. The sector has significant surpluses of liquid assets. Although the liquidity position of individual banks varies – both in terms of the size and structure of the liquid asset portfolio – the position of banks with the relatively highest liquidity risk profile is gradually improving (see Figure 2.30).

The value of the banking sector's portfolio of liquid assets in relation to the balance sheet total is steadily increasing (see Figure 2.31). Since the second half of 2024, most banks increased their portfolios of Treasury bonds. Consequently, at the end of March 2025 over 31% of the banking sector’s balance sheet (excluding BGK) consisted of securities issued and guaranteed by the Treasury and NBP bills. In the context of liquidity risk, the high share of Treasury securities should be assessed positively, but it should be noted that in the long term this phenomenon may limit the role of banks in financing of the real economy and also raise challenges for banks' profitability and capital position (see chapter 2.8).

The short-term liquidity ratio (LCR), which all banks in Poland are required to comply with, significantly exceeded the regulatory minima and were among the highest levels observed so far (244% for commercial banks at the end of March 2025) (see Figure 2.32). The estimated value of the surplus of liquid assets – both in absolute terms and in relation to banks' liabilities – have also been historically high (see Figure 2.33).

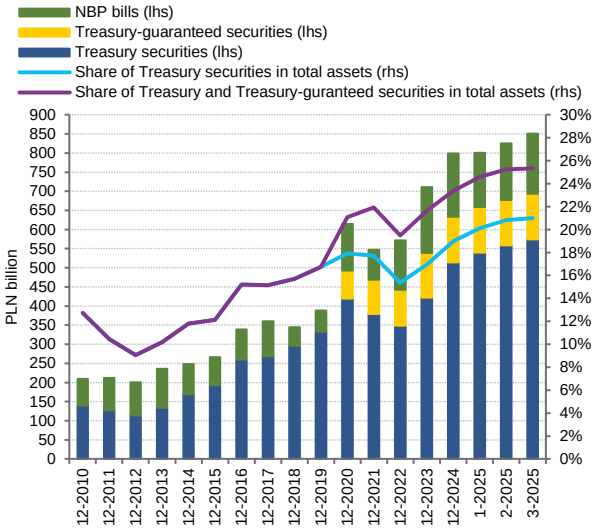
Figure 2.30. NBP bills and Treasury securities in assets of domestic commercial banks



Note: Excluding BGK. Recent data for March 2025.

Source: NBP.

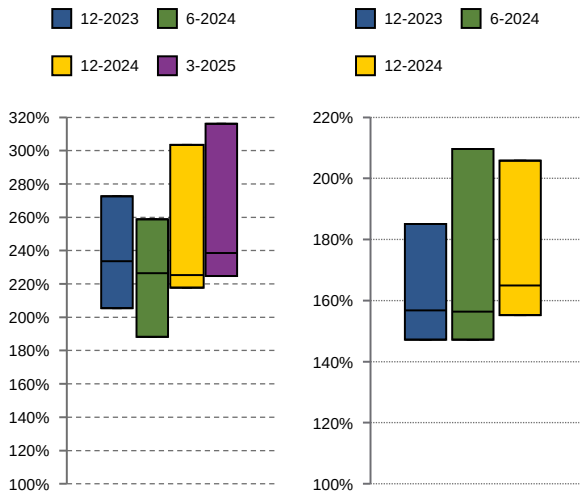
Figure 2.31. NBP bills and Treasury/Treasury-guaranteed securities in total assets of banking sector



Note: Excluding BGK.

Source: NBP.

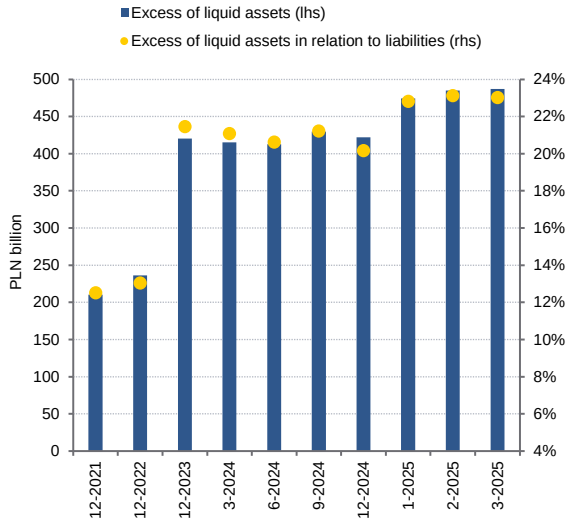
Figure 2.32. The LCR (left-hand panel) and NSFR (right-hand panel) ratios of domestic commercial banks



Notes: The horizontal lines indicate individual quartiles, and the height of the box indicates the inter quartile range. Excluding BGK and associating banks. Banks with LCR ratios higher than 500% are also excluded from the sample. The LCR of cooperative banks operating independently amounted to 453% in March 2025, and for institutional protection schemes – 376% and 371%.

Source: NBP.

Figure 2.33. Excess of liquid assets at domestic commercial banks



Notes: Excess of liquid assets understood as a surplus of liquid assets over net outflows under the condition that LCR=100%. Excluding BGK and associating banks.

Source: NBP.

The results of the hypothetical simulation of liquidity shocks[32] in domestic commercial banks confirmed that these banks demonstrate high resilience. At the assumed magnitude of the shock[33], all banks had adequate liquid asset buffers to cover the increased outflows of funds and to maintain LCR levels above supervisory minima. A noticeable improvement in results is observed compared to the simulation based on the data for June 2024, when the total liquid assets shortfall amounted to approx. 4 billion zlotys. It should also be borne in mind that the simulation does not take into account the possibility for banks to apply for liquidity injections from NBP, which would further increase banks' resilience to a liquidity shock.

Funding risk

Deposits of the non-financial sector remain the main source of funding for banks in Poland (70% of total assets at the end of March 2025). Liabilities to financial entities accounted for 7.2% and equity – for 9.4%. Household deposits which account for half of liabilities and demonstrate the highest increase in term of amount, are particularly important (see Figure 2.34). The share of other sources of funding still remains small and ranges between 2-5% of the balance sheet total.

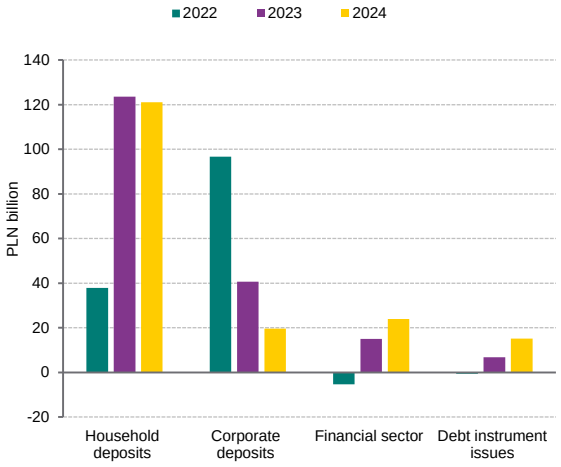
The role of issued bank debt instruments increased slightly but remains limited (approx. 2.5% of liabilities). However, the purpose and consequently the structure of the instruments issued has changed. At present, the issuance of debt instruments is mainly driven by the need to meet the MREL requirement rather than by banks' liquidity needs (see Chapter 2.7). Moreover, meeting of the new WFD requirement, to apply from the end of 2026, will require banks to further increase the size of debt issuance. The estimated shortfall in funding sources to meet the 40% WFD requirement *ceteris paribus* amounts to approximately 20 billion zlotys (based on December 2024 data).

Liabilities of most banks in Poland are characterised by low entity concentration, which reduces liquidity risk. In the context of the risk of concentration of household deposits, a significant factor positively influencing their stability is the high entity fragmentation of deposits and the high share of guaranteed funds, which makes them less susceptible to massive outflows. In commercial banks, guaranteed deposits account for more than 80% of retail deposits (45% of liabilities) and 62% of non-financial sector deposits (47% of liabilities).

[32] The level of the LCR-based liquidity stress tests adopted in the simulation was equal for all banks. In fact, the probability and magnitude of a potential shock for individual banks may be irregular and driven by many factors, including those which are not directly associated with the bank's liquidity profile.

[33] Key assumptions: a 15% revaluation of Treasury securities, a 2.5-fold increase in the volume of deposit outflows classified in the LCR as stable, volatile and subject to higher outflow rates, inclusion of deposit outflows typically excluded from the calculation, and a 2-fold increase in the use of off-balance sheet for non-financial customers. Simulations carried out based on December 2024 data.

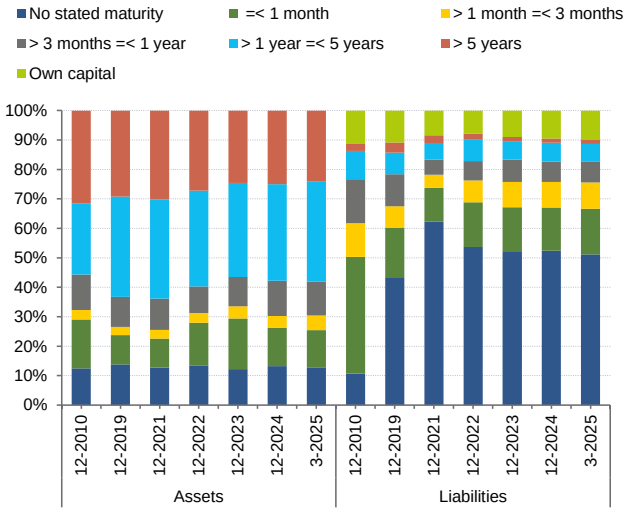
Figure 2.34. Change in banks' main funding sources (y/y)



Note: Excluding BGK.

Source: NBP.

Figure 2.35. Term structure of assets and liabilities of the banking sector



Note: The item *No stated maturity* on the liabilities side recognises amounts that cannot be attributed to specific maturity, mainly current accounts and savings accounts and smaller items (e.g. income tax liabilities, provisions).

Source: NBP.

Despite exceeding the long-term liquidity ratio (NSFR) by banks (see Figure 2.32) a significant maturity mismatch between assets and liabilities persists (see Figure 2.35). The banks' liabilities are dominated by items with maturities of up to 1 year. However, the determinants of banks funding imply that the potential for the current maturity mismatch to turn into systemic risk appears to be very limited.[34]

The systemic risk of term mismatches is also low due to the small offer of investment products for households alternative to bank deposits. The household saving rate in Poland was approx. 7.8% at the end of the third quarter of 2024[35], which was almost twice as low as the average for EU countries. The low saving rate translates into relatively small amounts of household savings.[36] The structure of domestic household financial assets is dominated by bank deposits and, to a lesser extent, by cash. Although a noticeable increase in household interest in Treasury retail bonds has been observed since 2020, and in investment fund units since the beginning of 2023, the role of these instruments in household financial assets is growing very slowly. Household deposits are likely to remain the main source

[34] This issue is discussed in more detail in Box 2.2 in "Financial Stability Report. December 2023", NBP, Warsaw, Box 2.2 available at www.nbp.pl.

[35] Household savins rate defined as the percentage of gross disposable income remaining after consumption needs are met, see https://ec.europa.eu/eurostat/databrowser/view/teina500/default/table?lang=en

[36] Only approx. 13% of Poles have savings above PLN 40 thousand, see https://financestreet.pl/oszczednosci-polakow-2025/#Podzial_kwot_oszczednosciowych

of funding for the banking sector in Poland over the next few years. However, banks should aim to diversify their sources of funding in the medium term in order to be able to respond flexibly to changes in households' preferences regarding the investment of their savings. This change may result from growing competition from non-bank entities and the expected effects of the implementation of the Savings and Investment Union (SIU) project in the EU.

Box 2.1. Savings and Investment Union

In March 2025, the European Commission put forward its strategy for the Savings and Investments Union (SIU)[37], which is based on the proposals of the E. Letta[38] and M. Draghi[39] reports. These reports recommend steps towards creating the SIU to be taken in three areas: a) **the supply of capital**, b) **the demand for capital**, c) **capital market infrastructure** enabling the flow of assets and funds and **the capital market supervision**.

Why does the EU need the SIU?

The SIU aims to increase the competitiveness of EU economies and stimulate economic growth, which calls for – among others – investment to boost innovativeness. The investment gaps between the EU economy and the economies of the USA and China have been widening for several years, which demonstrates in a lower level of private and public investment in the EU since 2007-2008, compared to the US, despite a significantly higher level of saving rate in the EU.

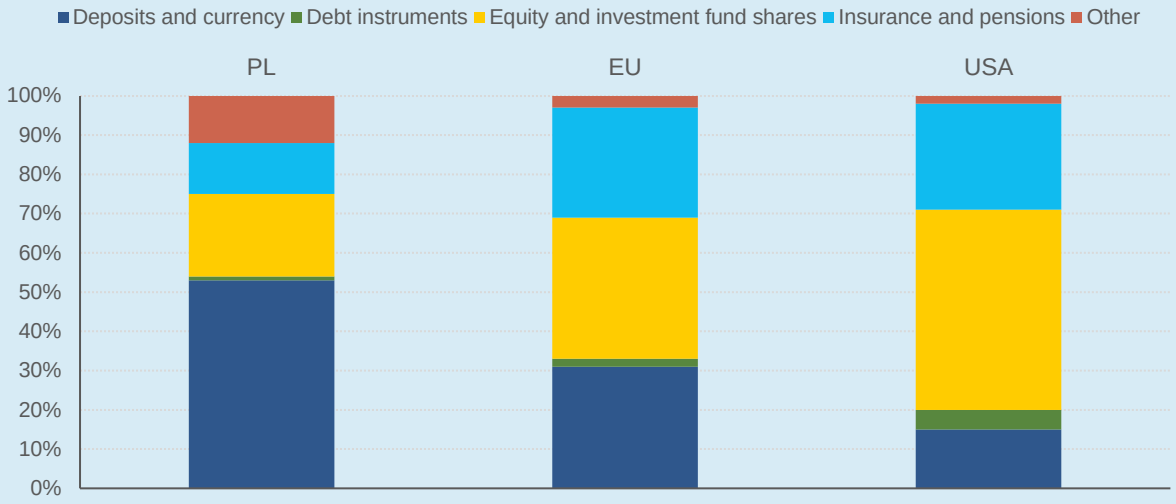
The lower level of investments is to a great extent related to the lower efficiency of the financial intermediation in the EU. This is primarily the result of: (i) a significant participation of banks in financing the economy (57% of assets in the EU vs 17% in the USA), (ii) the fragmentation of the financial markets (iii) regulatory barriers, (iv) diverse supervisory practices, tax regimes and bankruptcy law in the EU Member States.

Household savings in the EU represent a significant, yet untapped, potential for funding innovation and technological change in the economy. A substantial share of household savings (approx. EUR 11trn euro, i.e. around 31% of households' assets) has been held in bank deposits. And banks, due to the structure of their balance sheets and the scope of regulation they are subject to, have a limited propensity to finance riskier investments, since this involves higher capital requirements for them to comply with. A larger scale of innovation financing might be possible if the role of market

[37] Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, and the Committee of the Regions. Savings and Investments Union A Strategy to Foster Citizens' Wealth and Economic Competitiveness in the EU, Brussels, 19 March 2025.
[38] "Much more than a market. Speed, security, solidarity. Empowering the Single Market to deliver a sustainable future and prosperity for all EU Citizens", Enrico Letta, April 2024.
[39] "The Draghi report: A competitiveness strategy for Europe (Part A), In-depth analysis and recommendations (Part B)", Mario Draghi, September 2024.

financing becomes more prominent in the EU economies, which in turn requires a change in the structure of households' financial assets (see Figure 2.36). Like their counterparts in the US, European households could invest more of their financial assets into equities. This, however, calls for an efficient and integrated financial market in the EU.

Figure 2.36. Structure of financial assets of households in Poland, the EU and the USA in 2023



Note: in case of the USA Equity and investment fund shares category includes: corporate equities, mutual fund shares and equity in noncorporate business.

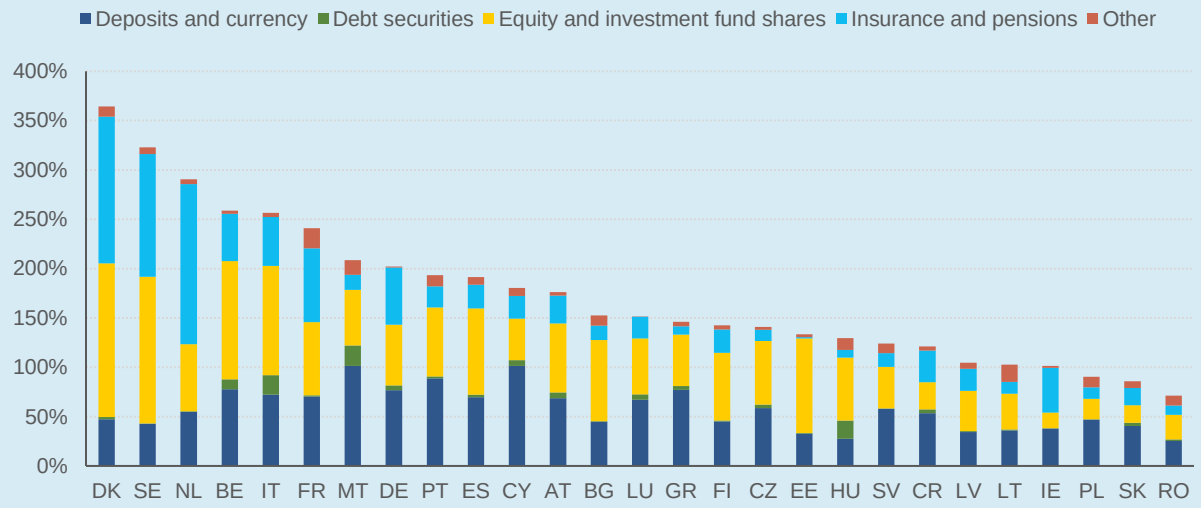
Source: Eurostat, Federal Reserve Economic Data.

The effects of the SIU implementation will not be homogenous across all EU countries, due to the significant variation in household wealth, but also the degree of development and size of their financial systems (see Figure 2.37). More developed capital pension systems exist in countries with the highest value of household financial assets in relation to GDP (e.g. Denmark, Sweden, the Netherlands), resulting in a much higher share of financial assets represented by capital market instruments held directly or indirectly (by pension funds). These countries also offer tax incentives and there is a wide range of investment products available. Also, wealth differences across households may affect their propensity to invest in the capital market: households with more savings may be more willing to make such risky investments. In turn, the less affluent households prefer forms of saving with a guaranteed positive nominal rate of return, i.e. bank deposits.

Polish households hold more than 50% of their financial assets in the form of cash and bank deposits (see Figure 2.36) The potential for using household savings to finance the economy is therefore vast in Poland. The domestic financial system is relatively small (118% of GDP in 2023 compared with 470% on average in the euro area) and dominated by banks, with a low loan-to-deposit ratio and a relatively low amount of lending to non-financial enterprises. This creates space for activating household savings and redirecting some of them from bank deposits to the capital market. Thus, some of

the initiatives under the SIU may result in a higher return on retail consumers' savings and better availability of non-bank financing for firms. This should incentivise the banks to compete for both deposits and customers interested in financing innovative investment projects.

Figure 2.37. Share of type of financial assets of household in EU countries as a percentage of GDP in 2023.



Source: Eurostat.

The SIU focuses on measures, which can be grouped under following headings:

1) **increasing the supply of savings invested in the capital markets (area "Citizens and savings"):**

- incentives for retail investors to participate in capital markets by creating European savings and investment products with a recommendation on their taxation (implementation in 2025 Q3);
- developing the supplementary pensions schemes, including a recommendation on auto-enrolment in supplementary pension schemes. The EC will also review the existing EU legislation on Institutions for Occupational Retirement Provision and the Pan-European Personal Pension Product (implementation in 2025 Q4):

2) activating demand for capital (area "Investments and financing"):

- stimulating equity investment by institutional investors by, among others, defining criteria for the favourable prudential treatment of long-term equity investment for insurance companies and issuing guidelines for banks on favourable prudential treatment for such investment. The EC will also analyse unwarranted barriers to equity investment by institutional investors (implementation in 2025 Q4):
- removal of national differences in taxation, which generate red tape and barriers to cross-border investment (ongoing);

- simplification of EU listing rules (ongoing);
- facilitation of investors' exit from investment in private companies (implementation in 2026 Q3);
- simplification of rules and adjustment of prudential requirements for banks and insurance companies on securitisation (implementation in 2025 Q2);

3) **capital market infrastructure (area "Integration and scale"):**

- removal of barriers to integration of trading and post-trade infrastructures by legislative proposals on central securities depositories, financial collateral, settlement and the trading market structure, as well as reducing the administrative burdens for these infrastructures and considering replacing directives with regulations (implementation in 2025 Q4);
- removal of barriers to the distribution of EU-authorised investment funds across the EU and proposals to reduce operational barriers for cross-border groups, simplification of the operations of asset managers, and provision of more efficient servicing of clients (implementation in 2025 Q4);

4) **efficient supervision in the single market:**

- enhancing supervisory convergence and increasing of its effectiveness as well as achieving a more unified supervision of the capital markets, including by transferring some of the tasks to the EU level (implementation in 2025 Q4);
- working out arrangements for managing a failure of mid-sized banks as part of the crisis management and deposit insurance framework negotiations and putting forward a proposal on the European deposit insurance scheme (ongoing). The EC will also assess the overall situation of the banking system, including its competitiveness, in the Single Market (implementation in 2026).

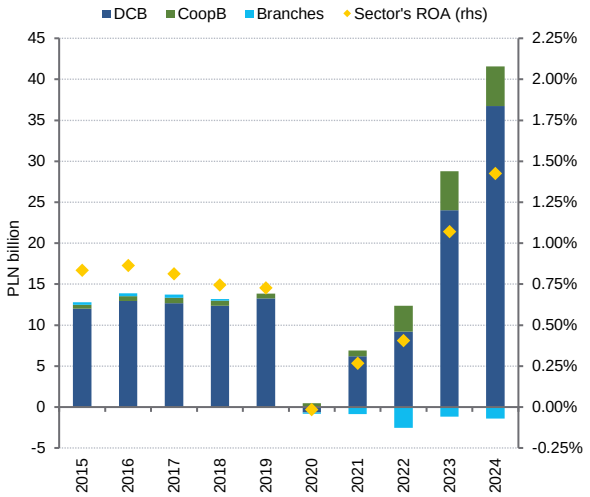
2.6. Earnings

The earnings of the banking sector increased dynamically, both in nominal terms and in relation to the scale of operations. The sector's net profit in 2024 increased by 45% y/y (see Figure 2.38), reaching its record high, while the earnings for the first three months of 2025 were 16% higher y/y. On the other hand, average returns on assets (ROA) and returns on equity (ROE) in March 2025 have reached their highest levels since 2008. The rapid growth of earnings and profitability ratios was reported mostly by domestic commercial banks, while the profit growth of cooperative banks slowed down. Nevertheless, cooperative banks continued to achieve on average a higher return on assets than domestic commercial banks (see Figure 2.40).

The profitability ratios of domestic commercial banks remain significantly diversified, mainly as a result of heterogeneous exposure to the legal risk of FX housing loans (see Chapter 2.4). Cooperative

banks are more homogeneous in terms of earnings, while their diversification has further decreased recently, primarily through a decline in the returns of the most profitable entities. On the other hand, among domestic commercial banks, the improvement in the situation of low-profit entities is noteworthy. The share of banks with negative profitability in the sector's assets decreased, as did the amount of losses borne by them.[40] Losses were mainly reported by institutions whose activities are limited to managing of the portfolio of previously granted FX housing loans.

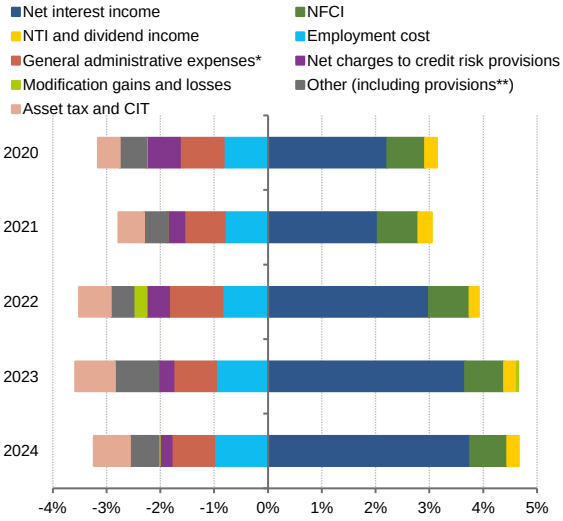
Figure 2.38. Net earnings in respective years and ROA of the banking sector



Notes: DCB – domestic commercial banks, CoopB – cooperative banks, Branches – branches of credit institutions. ROA – annualised data, excluding flow funds of BGK.

Source: NBP, BGK website.

Figure 2.39. Structure of banking sector's earnings (items of P&L account in relation to average assets)



* General administrative expenses (less tax on certain financial institutions) and depreciation.
** including provisions for legal risk of FX housing loans, except for banks which recognised them jointly with the provisions for credit risk.

Notes: Annualised data. Average assets excluding flow funds of BGK. NFCI – net fee and commission income. NTI – net trading income.

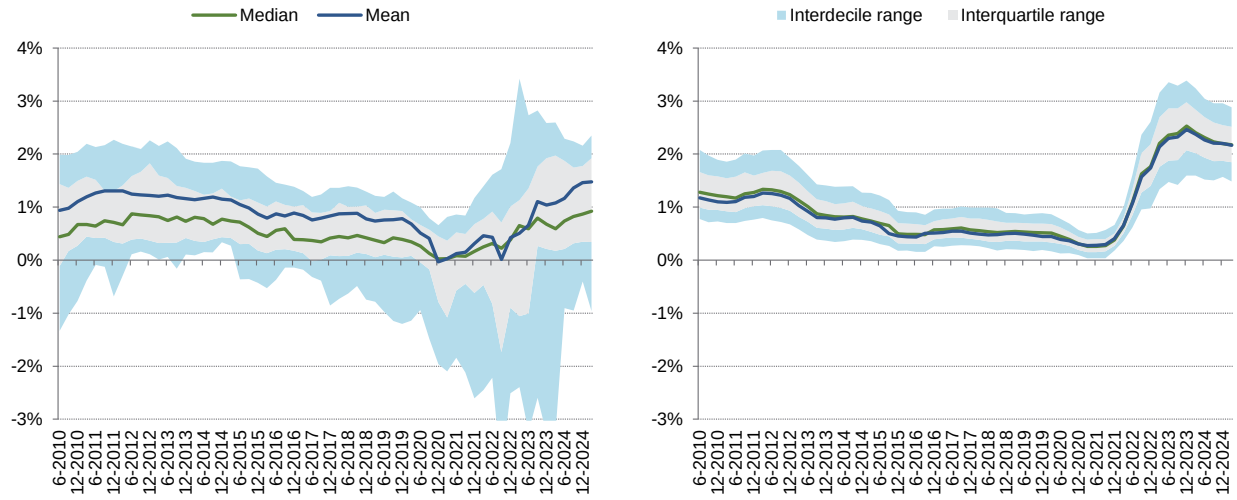
Source: NBP, BGK website.

Net interest income was again the banking sector's most important source of earnings and the main reason for the improvement in its profitability (see Figure 2.41). The share of net interest income in net income from banking activity continued to gradually increase and exceeded 80% (see Figure 2.39), and for cooperative banks – even 90%. At the same time, the importance of interest income from the non-financial sector continued to decline (especially from households) – in 2020-2021 it accounted for almost 80% of total interest income and by the end of 2024 its share declined gradually to 55% (see Figure 2.42). One reason for this change was the increasing share of Treasury bonds and Treasury-guaranteed bonds in banks' assets. In addition, the higher level of market interest rates increases (ceteris

[40] The share of banks with negative profitability and the amount of losses they made were 1.6% and 5.3 billion zlotys, respectively at the end of March 2025, compared to 8.5% and 9.3 billion zlotys at the end of March 2024.

paribus) the share of interest on safe assets (with low credit spreads) in interest income. In some commercial banks, the increase in net interest income was also due to the expiry of derivative transactions concluded in the past to hedge the interest rate risk, which (during their term) partly offset the positive impact of higher interest rates on the banks' earnings.

Figure 2.40. Return on assets in domestic commercial banks (left-hand panel) and cooperative banks (right-hand panel)

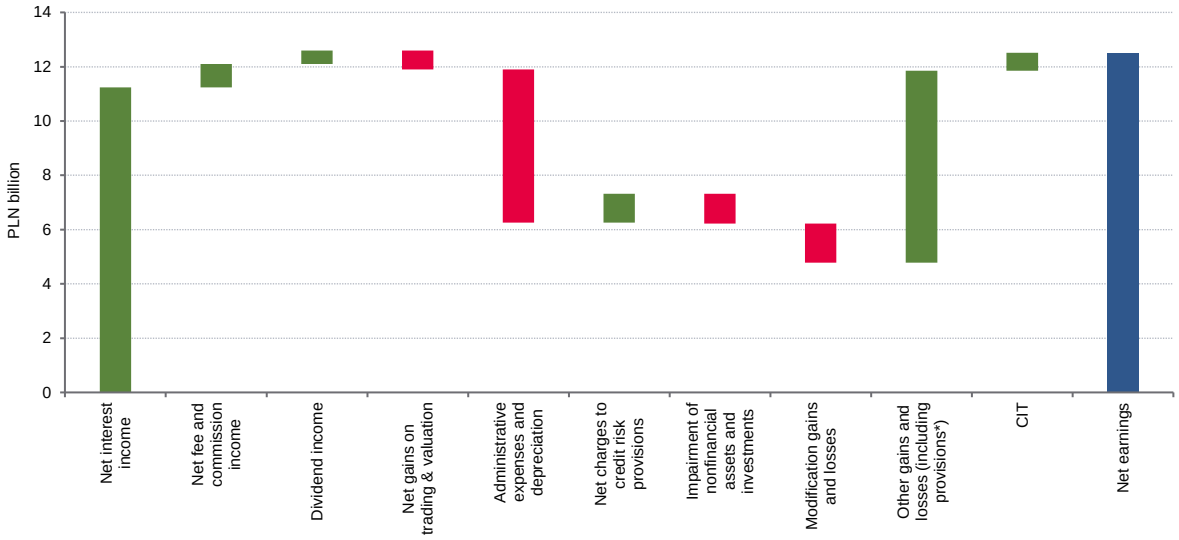


Notes: Annualised data. Average ROA for domestic commercial banks excluding flow funds of BGK. Last data point for March 2025.

Source: NBP, BGK website.

The net interest margin (NIM) ratio of the Polish banking sector was one of the highest in the EU (see Figure 2.49), which resulted from both cyclical and structural reasons. The level of NIM in each country was largely driven by various levels of basic interest rates in those countries. The NIM of the Polish banking sector is also favourably affected by the high surplus of non-financial sector deposits over loans, which has further increased in recent years. Due to this surplus, banks operating in Poland are not willing to compete strongly for customers' deposits (especially while the demand for credit is low – see Chapter 2.1) and offer them interest rates well below market interest rates, thus achieving high deposit margins. The average interest rate on liabilities is also affected by their term structure – a significant share of low-interest current accounts (see Figure 2.35). On the other hand, contrary to popular belief, the NIM level of the Polish banking sector is less affected by credit margins (i.e. the difference between loan interest rates and market interest rates, see Box 2.2). There is also virtually no divergence in the level of net interest margin (or effective interest rate on liabilities) between banks with different levels of burden due to tax on certain financial institutions or exposure to legal risk. This may be partly due to differences in the business models and market strength of these groups of banks: large universal banks generally pay the tax on certain financial institutions and have portfolios of FX housing loans, while smaller institutions with a narrower scope of business are often free of these burdens.

Figure 2.41. Change in banking sector's net earnings in 2024 compared to 2023 and decomposition of the change

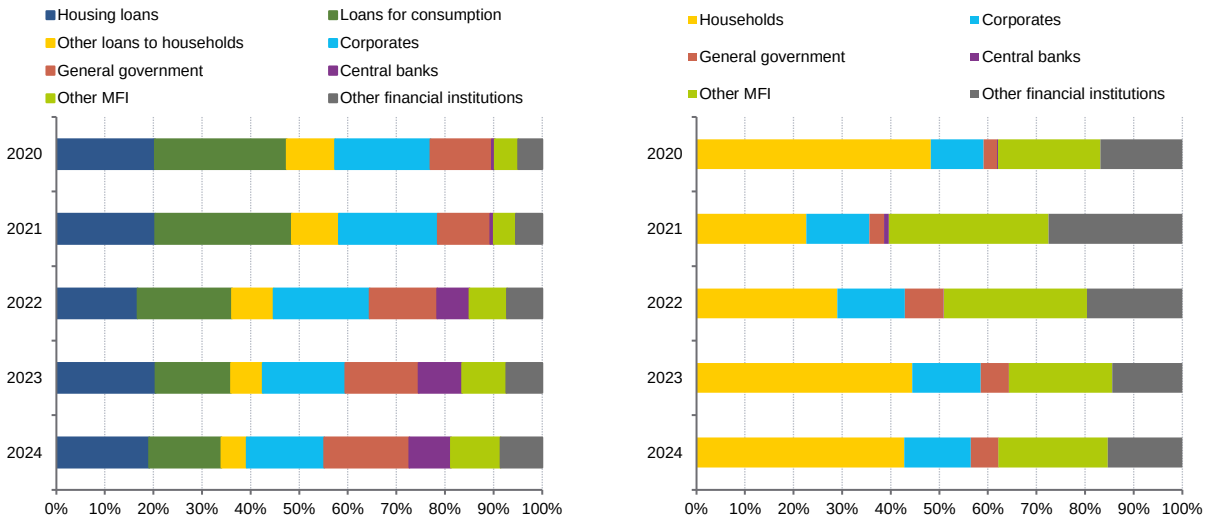


* Including the provisions for legal risk of FX housing loans, except for banks which recognised them jointly with the provisions for credit risk.

Notes: The height of green and red bars indicates a change in the relevant P&L item of the banking sector. A negative change in cost items indicates an increase in cost, which translates into lower net earnings. Some items of the decomposition, in particular *Modification gains and losses* (which include a part of costs of loan repayment holidays) and *Other gains and losses (including provisions)* can take both positive and negative values, so one can infer from the figure whether the change in this item had a positive or a negative impact on net earnings.

Source: NBP

Figure 2.42. Structure of interest income (left-hand panel) and interest expense (right-hand panel) of the banking sector



Notes: Annualised data. Banking sector excluding BGK. MFI – Monetary financial institutions.

Source: NBP.

Box 2.2. Credit margins on housing loans in Poland versus the EU

The credit margin is the difference between the interest rate on a loan and the relevant market rate which reflects the time value of money. The 3-month or 6-month WIBOR is usually used as a benchmark for floating-rate PLN-denominated loans in the Polish market. In the case of periodically fixed-rate loans, where instalments do not change during the agreed period (usually of 5 years), the interest rate is set on the basis of the benchmark reflecting the average level of interest rates expected by the market during that period, i.e. 5-year IRS. Regardless of the rate applied and the bank's margin, the cost of credit is largely determined by the current and the expected level of market rates.

The credit margin is intended to cover at least the expected costs of credit risk and operating expenses. In addition, it should account for other risks associated with lending, such as legal risk and liquidity risk, regulatory factors, and loan-specific characteristics. In the case of periodically fixed-rate loans, the credit margin might also cover the cost of a hedge applied by the bank to protect against early prepayment of the loan.

A comparison of credit margins between countries requires taking into account the characteristics of these markets and the regulatory frameworks in force. Different types of loans may predominate in different countries (e.g. solely floating-rate loans) or there may be different solutions concerning compensation for early loan prepayment. Specifically in Poland, owing to the legal uncertainty concerning the permissibility of charging early prepayment fees, such costs are included in the credit margin.[41] In addition, only a few EU member states have a bank tax in the same form as Poland, where banks' assets (including loans) serve as the tax base.

The average credit margin on PLN-denominated housing loans from 2014 to 2025 was approximately. 2.7%, though it varied depending on the type of loan. In the first quarter of 2025, the credit margins on floating-rate loans reached an all-time low of below 2% (see Figure 2.43). The margins on periodically fixed-rate loans were about 0.5 p.p. higher, which likely due to the need to account for, among other factors, the risk of early prepayment. Nevertheless, from the second half of 2022, the interest rates on periodically fixed-rate loans have been more attractive to the customers than those on floating-rate loans, despite the higher margins (see Figure 2.44). The reason for this was the market expectations of interest rate cuts in the long term. Lower interest rates on periodically fixed-rate loans, coupled with regulatory incentives,[42] made this type of loan being chosen more frequently by borrowers (the share of new loans with periodically fixed interest rate has been growing steadily, from

[41] Article 40(6) of the Act on Mortgage Credit and the Supervision of Mortgage Credit Intermediaries and Agents states that a prepayment fee is generally permissible, but section 7 imposes a general restriction concerning the rules of calculation of the prepayment fee, stating that the prepayment fee may not be higher than the costs directly incurred by the lender in connection with prepayment. Due to the difficulties and doubts concerning the correct definition of such cost

approx. 5% in 2021 to over 80% in the first quarter of 2025).

Figure 2.43. Historical credit margins by loan type in Poland.

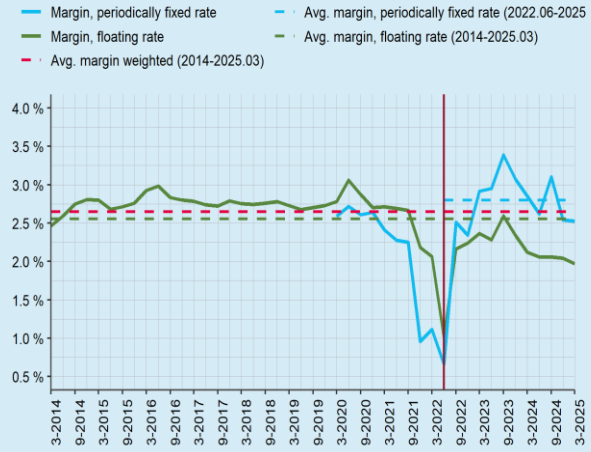
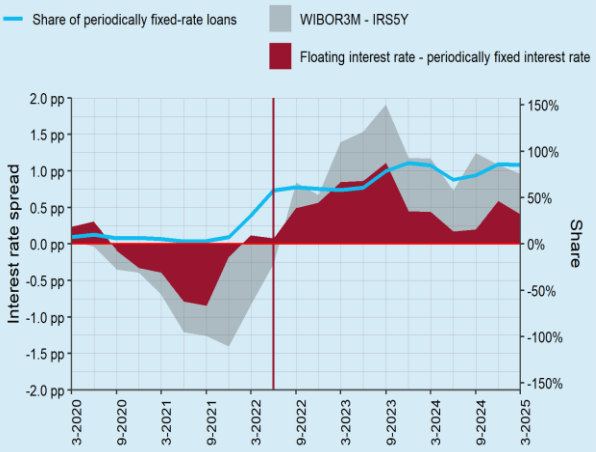


Figure 2.44. Difference in the interest rates on the different types of loans (lhs) and the share of periodically fixed-rate loans (rhs).



Notes: the margin on floating-rate loans is calculated on the basis of WIBOR3M, whereas in the case of periodically fixed-rate loans, it is calculated in reference to IRS5Y. Periodically fixed-rate loans have been offered by banks in Poland since 2020, so in the case of such loans the graphs cover the period since 2020. The vertical maroon line marks the moment when they became predominant (June 2022). The average margin during the period from 2014 to March 2025 (2.7%) weighted by the volume of loans of the given type is marked in dashed red.

Source: NBP interest rate statistics, NBP calculations.

Credit margins in Poland have been higher than the average in other EU member states, largely due to factors beyond the control of banks and specific to the Polish credit market (e.g. regulations). The margins on floating-interest loans, which had predominated among new mortgages in Poland until the end of 2021, were approx. 0.3 p.p.[43] higher than on average in the other countries where this type of mortgage predominated (see Figure 2.45). On the other hand, the difference in the case of periodically fixed-rate loans was approx. 1.5 p.p. (see Figure 2.46). The higher level of margins in Poland, regardless of the interest rate formula, was influenced by the tax on banks' assets (in principle, the credit margin should increase by 0.4 p.p. to compensate for the tax), and in the case of periodically fixed-rate loans, also by the cost of early prepayment risk (a comparison of the differences in the margins on floating-rate loans and those on periodically fixed-rate loans suggests that it might amount to 0.5-1.0 p.p.). Adjusting for these factors, the level of margins in Poland would not differ much from the average for the other EU member states, although it would still be among the highest compared to the other banking sectors (see Figure 2.47).

and the direct link between the cost and prepayment, in practice the banks do not charge a fee for the prepayment of a single loan so to avoid exposure to additional legal risk.

[42] In particular, the „2% Safe Mortgage" interest subsidising scheme covered only periodically fixed-rate loans.

[43] The average difference between the average credit margin on floating-rate loans in Poland and in the EU following the introduction of the bank tax in Poland, i.e. from 2016 to the end of 2021, was approx. 0.3 p.p. The difference during the period from 2016 to March 2025 was approx. 0.4 p.p.

Figure 2.45. Credit margins on floating-rate loans in Poland vs. EU average during 2014 – 2021

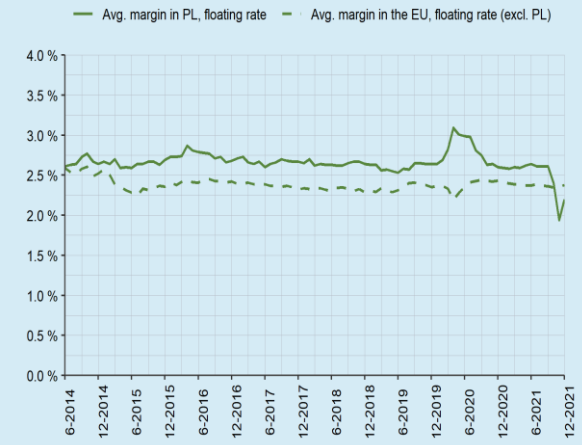
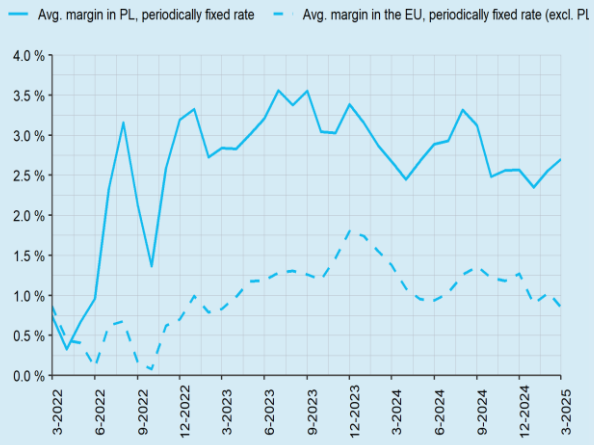


Figure 2.46. Credit margins on periodically (5-year) fixed-rate loans in Poland vs. EU average during 2022 - 2024.



Note: Figure 2.45 compares credit margins in Poland to the EU average in the case of floating-rate loans in the period from 2014 to 2021, as the floating interest rate predominated at the time, whereas Figure 2.46 shows the comparison for the period from 2022 to March 2025, when most new mortgages had periodically fixed-rates. The average margin in the EU concerns only the countries with a floating rate (Figure 2.45) or periodically fixed-rate (Figure 2.46) predominant. The average EU margin is not weighted by the loan volume.

Source: ECB interest rate statistics, NBP calculations.

Figure 2.47. Average credit margins in EU member states in the period 2016 – 2025, allowing for adjustments for certain margin components.

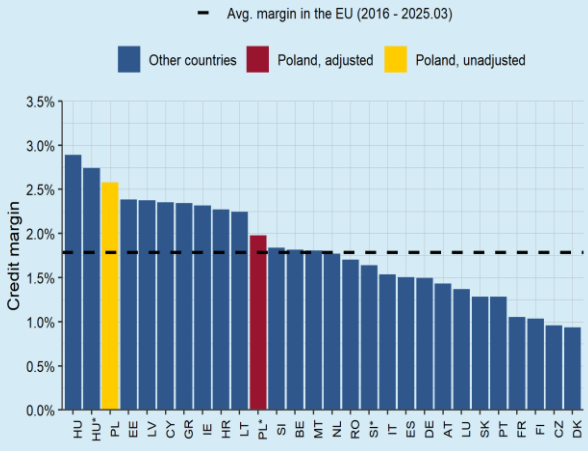
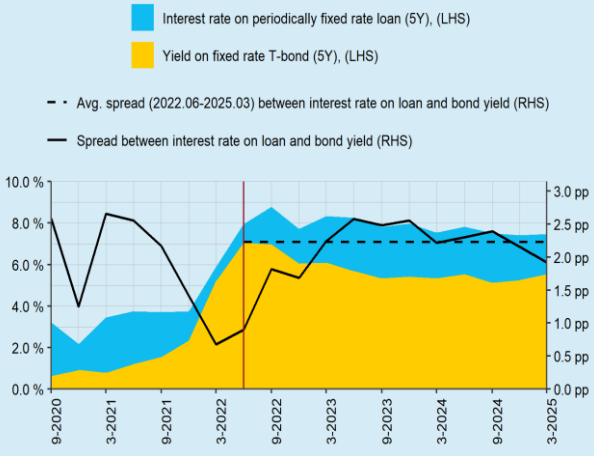


Figure 2.48. Interest rate on periodically fixed-rate loans and yield on 5-year Treasury bonds in Poland.



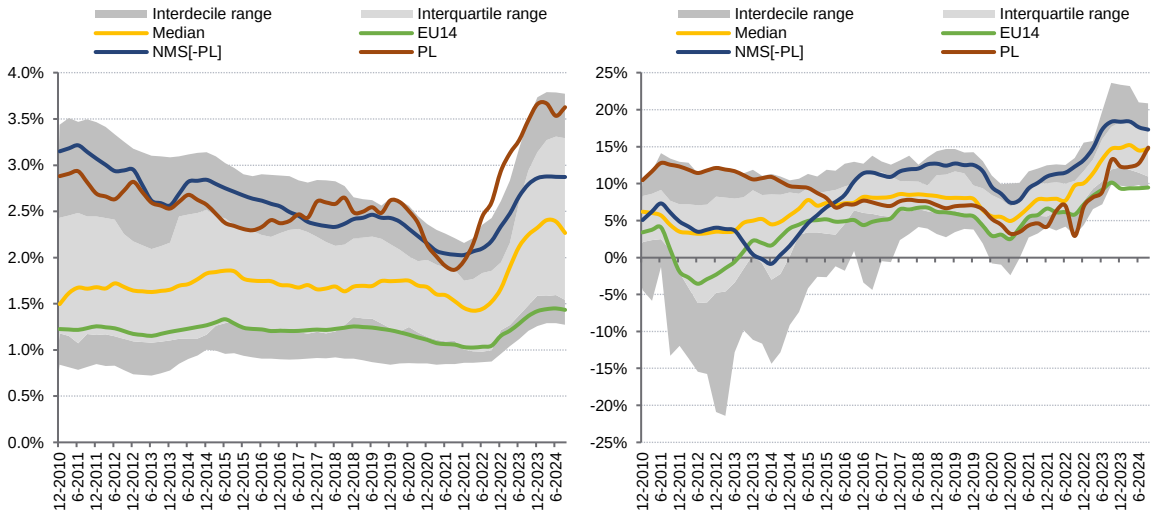
Notes: Figure 2.47 – the credit margin was calculated as the average in the period 2016-02025.03 weighted by the type of interest rate. The Figure disregards Sweden and Bulgaria due to the lack of data. An asterisk (*) marks where the margin has been adjusted by the bank tax (PL 0.4 p.p., HU 0.15 p.p., SI 0.2 p.p.) and the estimated cost of prepayment risk (PL 0.5 p.p.). In addition, Poland is highlighted with colour (yellow – unadjusted values, and maroon – adjusted values). The EU average is marked with a dashed line (approx. 1.8%) and has been calculated disregarding the volume of credit in the respective countries (each country has the same weight). **Figure 2.48** – the vertical maroon line marks the moment when periodically fixed-rate loans started to predominate in Poland.

Source: Data from the ECB and Bloomberg, NBP calculations.

The level of credit margins can also be assessed by comparing them to yields on alternative investments. In the case of housing loans, Treasury bonds may be such an alternative. In recent years, interest rates on mortgage loans have been on average approx. 2.2 p.p. higher than yields on 5-year fixed-rate bonds (see Figure 2.48). The difference is explained by the fact that Treasury bonds are exempt from the bank tax, are not subject to early prepayment risk, have a lower credit and liquidity risk profile and generate lower operating expenses for the bank.

To sum up, historically, credit margins in Poland are currently below the long-term average. However, they remain higher than the average in other EU member states, which is partly due to factors specific to the Polish banking sector. Taking these factors into account namely the tax on bank assets and the cost of early prepayment risk, which in Poland is provisioned at the time the loan is granted and applies to all borrowers, not only those who prepay their loans - the margins do not differ significantly from the EU average, although they are indeed higher.

Figure 2.49. Distribution of NIM (left-hand panel) and ROE (right-hand panel) for the banking sectors of EU countries



Notes: Annualised data. EU14 – average ratio for the 14 EU member states before the 2004 enlargement. NMS[-PL] – average ratio for CEE countries that joined the EU in 2004 or later (excluding Poland). Last data point for September 2024.

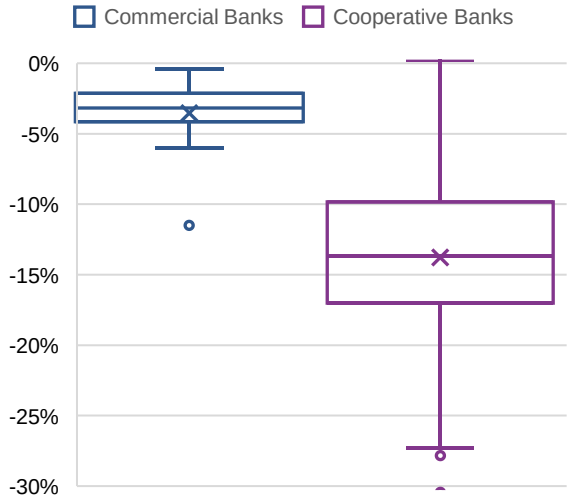
Source: Own calculations based on ECB data.

In the coming quarters, a decrease in the NIM can be expected due to the easing of the NBP's monetary policy. Decreases in NBP interest rates, both already made and expected by financial market participants (see Figure 1.4) would negatively affect banks' net interest margins due to the nature of the Polish banking sector's exposure to interest rate risk. The results of the SOT NII test[44] indicate that lower interest rates would significantly diminish the net earnings of cooperative banks due to their business model, and would affect the earnings of commercial banks to a lesser extent (see Figure 2.50 and Figure

[44] The SOT tests are discussed in more detail in Box 2.2 in "Financial Stability Report. December 2024", NBP, p. 54.

2.52). Commercial banks reduce the sensitivity of their net interest income by extending the average revaluation date of their assets (by lending at a periodically fixed rate, buying fixed-rate bonds) or by means of derivative transactions. The economic value of equity (EVE) of cooperative banks is also more sensitive to changes in interest rates than for commercial banks (see Figure 2.51), but the difference in sensitivity is smaller than in the SOT NII test. At the same time, it should be borne in mind that the decrease in the economic value of equity only illustrates the scale of the lost benefits and is not related to the accounting loss from the valuation of the bank's assets and liabilities. The decline in NIM may be strengthened by the need to issue long-term debt instruments to meet regulatory recommendations (MREL, WFD). As a rule, such instruments carry higher interest rates than bank deposits, as their acquisition involves higher risk.

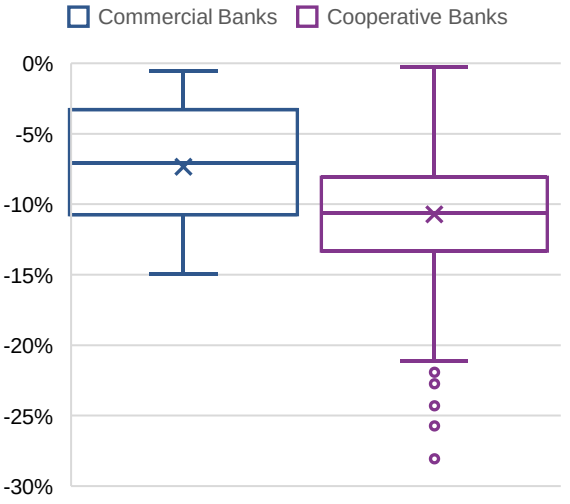
Figure 2.50. Distribution of sensitivity of banks' net interest income to the fall in interest rates in the SOT NII test



Note: Change in net interest income in the worse of the two scenarios, referenced to Tier 1 capital.

Source: NBP.

Figure 2.51. Distribution of sensitivity of the economic value of banks' equity to the increase in interest rates in the SOT EVE test



Note: Change in the economic value of equity in the worst of the six scenarios, referenced to Tier 1 capital.

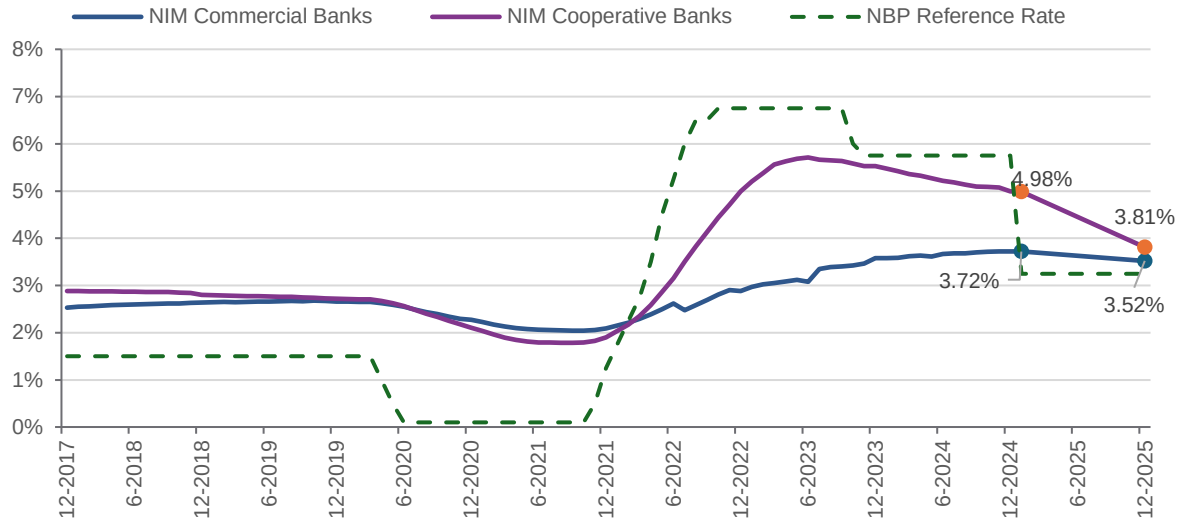
Source: NBP.

Despite high net interest margins, the profitability of the banking sector in Poland is moderate compared to banking sectors in other EU countries.[45] The ROE of the Polish banking sector at the end of the third quarter of 2024 exceeded slightly the median for EU countries (see Figure 2.49), but was noticeably lower than in other CEE countries. The profitability of Poland's banking sector is also moderate compared to other domestic financial institutions (see Figure 2.53). The reasons for the relatively lower profitability of domestic banks are their high effective taxation and the high (albeit lower than a year

[45] For more information on the profitability of the Polish banking sector in comparison to banking sectors in other EU countries, see Box 4.1.1 in *Rozwój systemu finansowego w Polsce w 2023* [Financial System in Poland 2023] available on the NBP website.

earlier) costs of legal risk specific for the Polish banking sector (see Chapter 2.4).[46] Polish banks also have lower non-interest income than banks in other EU countries and average cost efficiency (excluding taxes). On the other hand, their profitability in recent years has been favourably influenced by the low burden of credit risk costs (see Chapter 2.2).

Figure 2.52. Net interest margin (NIM) of banks against the NBP reference rate



Note: The period from December 2024 to December 2025 shows the estimated change in NIM as a result of a hypothetical 2.5 p.p. reduction in the NBP reference rate by the value assumed in the SOT NII test, i.e. 2.5 p.p.

Source: NBP.

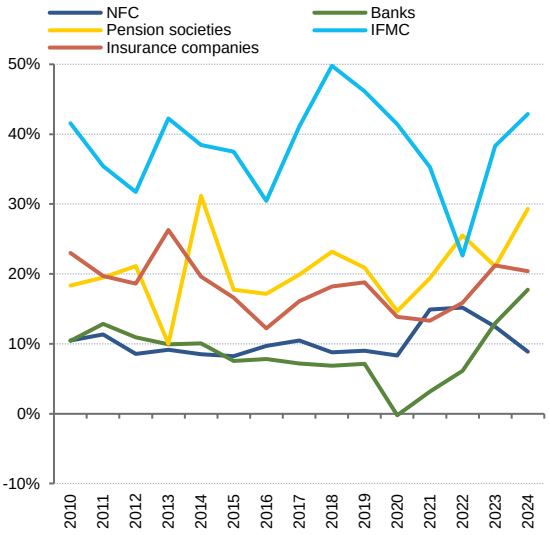
The effective taxation of banks has decreased in recent years but still remained relatively high. In 2024, the combined effective rate of tax on certain financial institutions (the so-called tax on assets) and CIT for banks can be estimated at 29%, compared to 32% a year earlier and less than 20% before 2016 (see Figure 2.54). The effective CIT rate is higher than the statutory rate, because (among others) ax on assets and part of costs to banks (including the provision for legal risk) are not recognized in the calculation of taxable income. The transitional decline in the effective CIT rate in the last few quarters was caused by the banks' use of the possibility (temporarily in force – until the end of 2026) to reduce taxable income by the equivalent of housing loans waived to customers (e.g. when concluding settlements).[47]

Banks, like most businesses, have faced rising operating costs. Employee costs increased particularly rapidly (by 13%), with employment rising slightly (1% y/y).[48] As a consequence, banks' cost efficiency

[46] In the previous year, the profitability of banks (especially mortgage banks) was also reduced by further loan repayment holidays, although their impact was lower than in 2022.
[47] The terms of this tax reduction are defined in Regulation of the Minister of Finance of 11 March 2022 on the waiver of income tax on certain income (revenue) related to a mortgage loan granted for residential purposes (consolidated text – Journal of 2024, item 102).
[48] The increase in headcount at bank head offices was accompanied by a (slightly lower) decrease in branches.

ratios (i.e. operating costs to assets and to net income from banking activity) deteriorated slightly. A continued rise in wages in the banking sector can be expected in the coming quarters. Banks' costs will also be increased by the reinstatement of the contribution to the BFG deposit guarantee fund.[49]

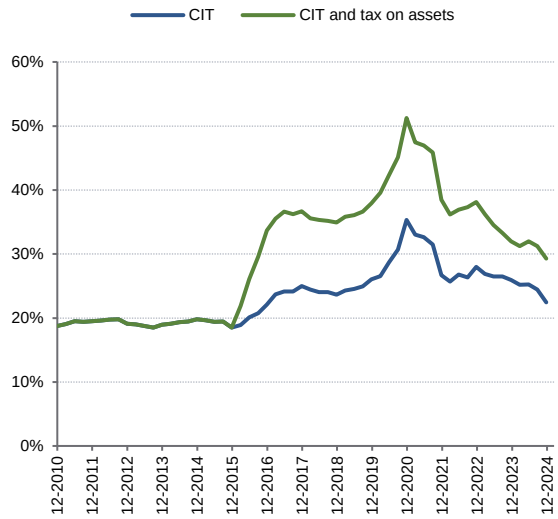
Figure 2.53. ROE of domestic banks, other financial institutions and non-financial corporations in Poland



Note: Annualised data.

Source: Own calculations based on NBP, UKNF and Statistics Poland data.

Figure 2.54. Effective rate of CIT and of tax on assets at banks



Notes: Annualised data. Estimate for banks with positive net earnings in 12-month periods.

Source: NBP.

2.7. Capital adequacy

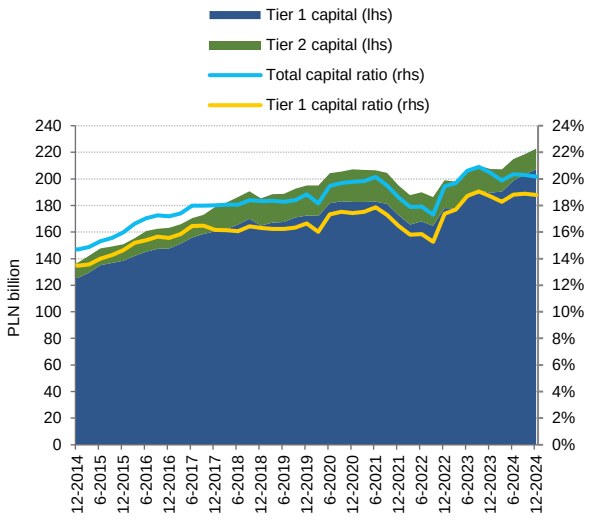
The solvency level of the banking sector remained high, supported by a systematic increase in own funds. In the second half of 2024, the average levels of capital ratios changed insignificantly (see Figure 2.55). The total risk exposure amount (TREA) was historically high (see Figure 2.56) as a result of, among others, continued recovery in lending growth and a steady increase in the amount of operational risk exposure.[50] At the same time, the sector's own funds exceeded 220 billion zlotys due to an increase in Tier 1 capital, including additional capital (AT1) (see Figure 2.57). In the second half of 2024, the AT1

[49] Pursuant to resolutions of the BFG Council adopted on 11 February 2025, the contribution to the guarantee fund in 2025 will amount to 893 million zlotys (no contribution in 2024) and the contribution to the resolution fund will reach 1.8 billion zlotys (1.6 billion zlotys in 2024).

[50] The capital requirement for operational risk reflects, among other things, the costs incurred due to legal risk.

capital increased mainly as a result of issuance of capital bonds (contingent convertible bonds)[51] by two banks. The CET1 capital increased due to, among other things, the partial retention of profits, as well as the continuation of the favorable trend in the changes of the valuation of Treasury securities (see Figure 2.58).

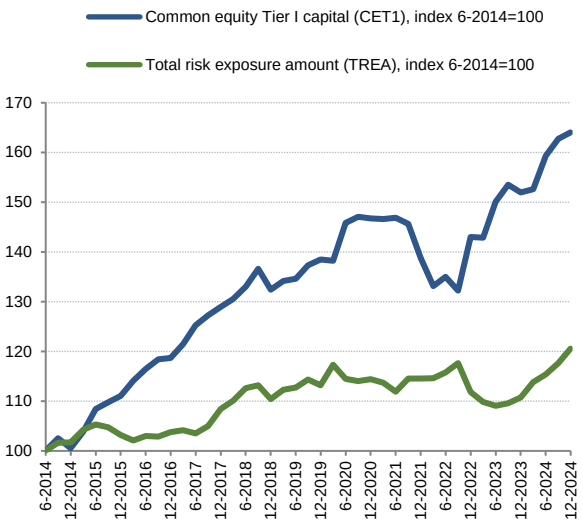
Figure 2.55. Own funds and capital adequacy ratios



Note: Excluding BGK.

Source: NBP.

Figure 2.56. Changes in the common equity Tier 1 capital ratio components



Note: Excluding BGK.

Source: NBP.

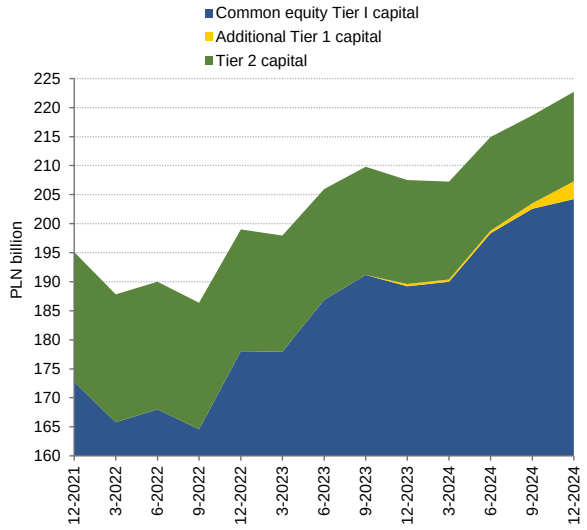
The bank's own funds have significantly exceeded capital requirements in the risk-based regime. At the end of December 2024, common equity Tier 1 (CET1) surplus over Pillar 1 and Pillar 2 and the combined buffer requirements increased to almost the record high level (on average approx. 8.4% TREA, and in most banks – above 6% TREA; see Figure 2.59). These surpluses can be used to meet the requirements of the parallel prudential regimes, i.e. the leverage and resolution frameworks. The gradual introduction of a non-zero countercyclical capital buffer[52] will not cause a *ceteris paribus* decline of these surpluses to the extent that could be a factor in the reduction of bank lending.

[51] At the beginning of the fourth quarter of 2023, as part of the amendment to the Bond Act, provisions came into force allowing the issuance of a new class of AT1 capital instruments (see Financial Stability Report. June 2023 NBP). Since then, the associating banks have also implemented AT1 instruments in cooperation with the cooperative banks affiliated to the group.

[52] On 14 June 2024, the Financial Stability Committee adopted a resolution (No. 74/2024) recommending that the countercyclical buffer rate should be set at a level of 1% after the lapse of 12 months and 2% after 24 months from the date of publication of the regulation of the Minister of Finance on this matter. See Regulation of the Minister of Finance of 18

The sector's leverage ratio also remained at a level well above the required minimum and amounted to the average of approx. 8% at the end of December 2024. In the case of the Polish banking sector, despite a substantial portfolio of Treasury securities with a zero risk weight, the risk-based capital requirements framework generated higher capital needs than the leverage regime, reflecting the banks' conservative approach to the application of risk weights. Among others, due to the more widespread use of the standardised approach (SA), the average risk weight assigned to exposures of banks operating in Poland is higher than the EU average. Consequently, the implementation of the revised CRR in 2025, particularly with regard to the determination of the capital requirement for credit risk, should entail less changes for the Polish banking sector compared to other European sectors, which have so far made greater use of advanced approaches (IRB).

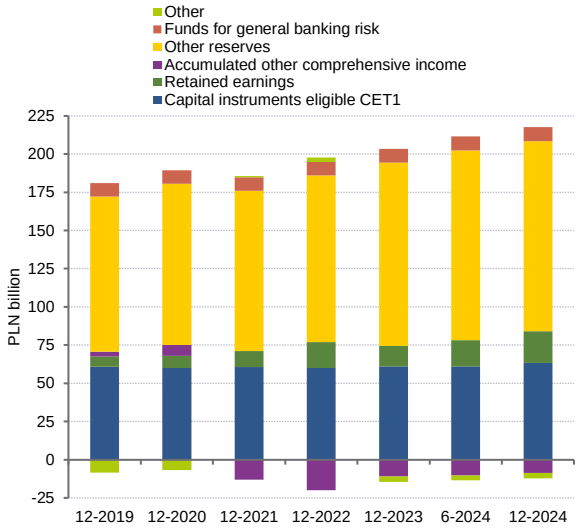
Figure 2.57 CET1, AT1 and T2 capital



Note: Excluding BGK.

Source: NBP.

Figure 2.58 Selected CET1 items



Note: Excluding BGK.

Source: NBP.

Banks continued to increase the share of eligible liabilities to meet the MREL-RCA requirement[53], significantly reducing the use of surplus CET1 capital for this purpose.[54] The increase of funding with eligible liabilities, as well as AT1 instruments, resulted in a significant increase in estimated CET1

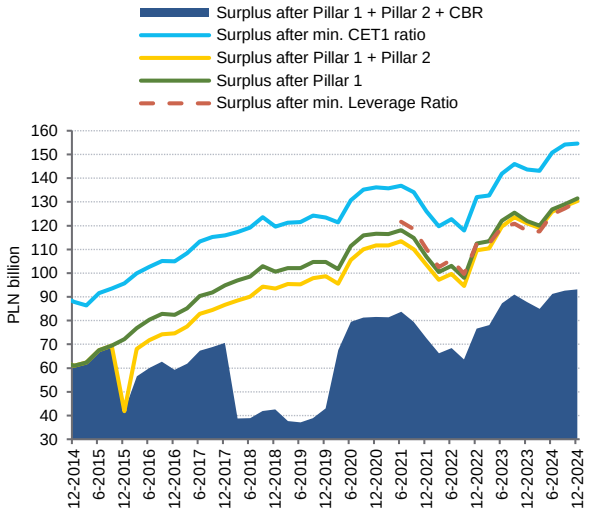
September 2024 setting the countercyclical buffer rate at 1%, which will apply from 25 September 2025 (Journal of Laws 2024, item 1400).

[53] In the case of banks for which the resolution strategy does not involve ordinary insolvency, the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) consists of two components – for loss absorption (LAA) and recapitalisation (RCA). The loss absorption amount corresponds to the amount of Pillar I and Pillar II requirements of the risk-based regime and is met solely with own funds. On the other hand, the recapitalisation amount can be met with both own funds and eligible liabilities.

[54] CET1 surpluses available after meeting the capital adequacy regime requirements.

capital surpluses over the combined buffer requirement in addition to MREL-TREA (CBR-M) in the second half of 2024 (to approx. 5.5% of TREA; see Figure 2.60). From a financial stability perspective, this trend should be assessed positively, as the high coverage of MREL-RCA by eligible instruments supports the effectiveness of potential resolution processes by limiting their costs for the banking sector as a whole and does not absorb capital that could be used for lending. Significant differences in terms of MREL-RCA coverage remained among issuers of eligible liabilities. The majority of eligible liabilities is on the balance sheets of the seven banks, with MREL-RCA coverage levels in this group ranging from approx. 60% to 125% (and when AT1 and T2 instruments are also included, according to the latest methodology[55], the ratio ranges from approx. 75% to 150%). Subordinated loans from parent entities within the group constitute a relatively large share of eligible liabilities (approx. 30%; see Figure 2.61).

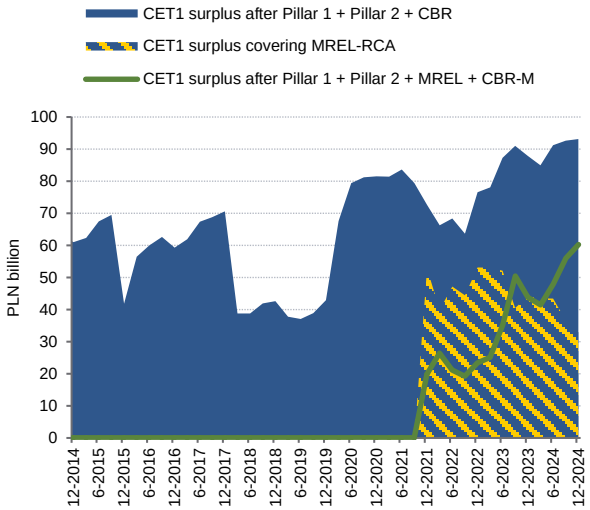
Figure 2.59. CET1 surplus after fulfilling selected capital requirements



Note: Excluding BGK.

Source: NBP.

Figure 2.60. Estimated share of CET1 surplus covering MREL



Note: Excluding BGK.

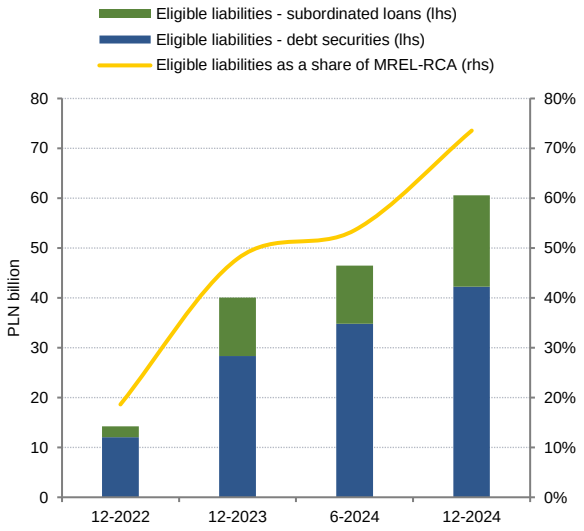
Source: NBP estimates based on NBP, BFG data and banks' current reports.

Growing capital surpluses in each of the parallel regulatory regimes indicate the sector's high potential to expand lending and absorb costs arising from unforeseen shocks. Further, already announced, issuance of debt securities and uptake of subordinated loans as well as classifying those instruments as additional Tier 1 or Tier 2 capital (including for the purposes of the MREL requirement) should contribute to the growth of the capital base. The growth outlook for common equity Tier 1 capital will depend primarily on the propensity of banks to retain profits and ascribe them to own funds.

[55] In November 2024, a new MREL methodology was published, which formulated the BFG's expectation that the MREL requirement for the recapitalisation amount (RCA) should be fully met with debt instruments (other than CET1), i.e. additional Tier 1 instruments, Tier 2 instruments and eligible liabilities (https://bfg.pl/wp-content/uploads/2024-02-05-metodyka-mrel-2024-ang.pdf).

Although the return on remained clearly above the estimated cost of equity of listed banks already for some time (see Figure 2.62), which could be conducive to raising capital by issuing shares, such an action seems unlikely in the near term in the absence of structural capital shortages and high market volatility.

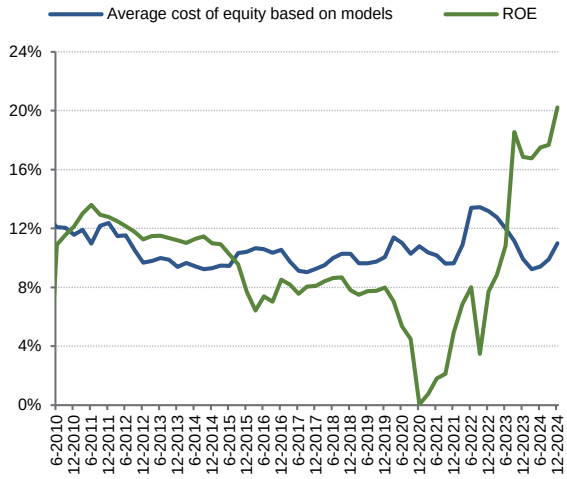
Figure 2.61. Eligible liabilities and MREL-RCA coverage



Note: Excluding BGK.

Source: NBP estimates based on NBP, BFG data and banks' current reports.

Figure 2.62. Estimated cost of equity of GPW-listed banks against profitability



Source: NBP estimates based on NBP data, Bloomberg and Refinitiv.

2.8. Stress tests

Top-down stress tests were conducted to assess the resilience of domestic commercial banks[56] to the impact of adverse macroeconomic and market shocks and the costs of legal risk of FX housing loans. Two scenarios of economic developments over the period from the first quarter of 2025 to the end of 2027 were considered. The stress tests and other analyses described in this chapter aim at identifying and assessing sensitive areas of banking sector activity. Therefore, the results of the stress tests conducted should not be treated as a forecast of the situation of the banking sector.

Main assumptions adopted in the stress tests

The analysis was carried out for two scenarios – the **reference** scenario and the **adverse** scenario. The central path of the NBP macroeconomic projection from the "Inflation Report, March 2025" was used as the **reference scenario**. The **adverse scenario** was developed on the basis of the model used for the NBP macroeconomic projections and the historical developments of macroeconomic variables for

[56] Domestic commercial banks operating at the end of 2024, excluding BGK. The analysis covered 28 entities with a combined share of 80% in the banking sector's assets at the end of 2024 (excluding flow funds of BGK).

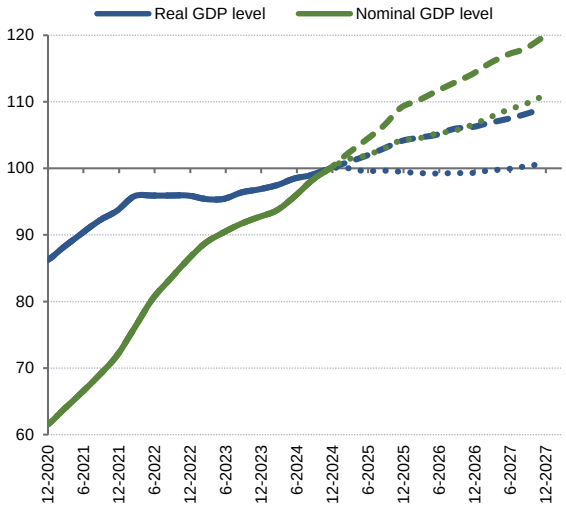
periods of financial downturns in other countries. The course of selected macroeconomic variables in both scenarios is presented in Table 2.1. and Figure 2.63. The adverse scenario includes the stagnation of real GDP and falling market interest rates (the reference scenario – moderate real GDP growth with interest rates assumed to be constant). In addition, the adverse scenario assumes that an increase in risk aversion could result in: (i) a lasting depreciation of the zloty by 30% and (ii) an immediate increase in the credit spread of Treasury bonds by 300 bps (gradually decreasing in subsequent quarters of the simulation to 120 basis points at the end of 2027).

Table 2.1. Major economic indicators under the macroeconomic scenarios considered

Scenario	2024	2025	2026	2027
GDP (y/y, %)				
Reference	2.9	3.7	2.9	2.3
Adverse	2.9	1.0	-0.4	0.9
CPI (y/y, %)				
Reference	3.6	4.9	3.4	2.5
Adverse	3.6	4.8	3.2	2.7
Employment (y/y, %)				
Reference	-0.4	0.0	-0.3	-0.5
Adverse	-0.4	-0.5	-1.2	-0.5
Real wages (y/y, %)				
Reference	9.6	3.9	3.4	2.7
Adverse	9.6	3.2	1.8	1.7
WIBOR 3M (%)				
Reference	5.9	5.9	5.9	5.9
Adverse	5.9	5.2	3.1	1.9

Source: NBP estimates based on Statistics Poland, IMF, OECD and Reuters data.

Figure 2.63. The level of nominal and real GDP under the macroeconomic scenarios considered



Notes: The dashed line indicates the GDP level in the reference scenario and the dotted line – in the adverse scenario.

Source: NBP estimates based on Statistics Poland, IMF, OECD and Reuters data.

Projections from the VECM model[57], performed under a reference or adverse scenario, were used to determine the paths of possible lending growth for each bank. The possible growth rate of other assets was determined as half the nominal GDP growth rate. It has been assumed that the bank can expand lending and increase other portfolios of assets only until its capital holdings allow it to cover the Pillar I and II capital requirements, the MREL-RCA requirement[58] (less the value of eligible liabilities issued

[57] A possibility of a decrease in the value of the loan portfolio was also admitted, if indicated by the projection from the VECM model. The model is described in Annex to Chapter 6 of "Rozwój system finansowego w Polsce w 2020 r." [Financial System in Poland 2020], NBP, Warsaw, 2021 (https://nbp.pl/wp-content/uploads/2022/09/rozwoj2020.pdf).
[58] Excluding the MREL RCA in banks with the SPE strategy.

before the end of 2024[59]) and the combined buffer requirement (CBR-M) increased by the countercyclical buffer target resulting from Resolution 74/2024 of the Financial Stability Committee.[60] Undistributed profits and new profits generated in the period of analysis were assumed to increase own funds after payment of the dividend determined on the basis of criteria formulated in *the KNF Position on dividend policy in 2025*.[61]

The future legal risk burden of FX housing loans in the reference scenario was determined by assuming that a judicial declaration of contract invalidity would occur in the case of:

- all customers still repaying housing loans in Swiss francs, who have yet neither entered into litigation with a bank nor concluded a settlement agreement,
- 50% of repaid loans in Swiss franc,
- 50% of all euro housing loans (active and repaid).

It was also assumed that in 50% of the court cases the customers will be awarded interest for the bank's arrears. The adverse scenario assumed an additional increase in the value of these provisions due to the depreciation of the Polish zloty and an increase in the percentage of agreements subject to litigation (up to 90% in the case of repaid Swiss franc loans and euro loans) and an increase in the share of cases involving interest for arrears to 90%.

In addition, only the adverse scenario includes the costs of hypothetical customer claims for the so-called free credit sanctions, estimated assuming a significant increase in these claims and the percentage of court cases lost by the banks.

The legal risk costs included in both stress test scenarios should not be considered as a forecast or as the most likely option, but only as an assumption for simulation (more on the legal risk, see Chapters 2.4 and 4.1.1).

Stress test results

The materialisation of the assumed adverse scenario would negatively affect the situation of the banks analysed primarily through the high legal risk costs, but also through a decrease in earnings before risk charges and taxes (primarily interest earnings) and rising credit losses (see Figure 2.64). Charges to provisions for legal risk would amount to 72 billion zlotys and would be almost 4 times higher than in the reference scenario (but lower per annum than in 2024). Banks would have to:

[59] In compliance with the law, banks may cover the MREL-RCA requirement with available surplus own funds, with retained earnings, by increasing own funds with funds raised from investors (including by issuing subordinated debt instruments) or by raising additional eligible liabilities.

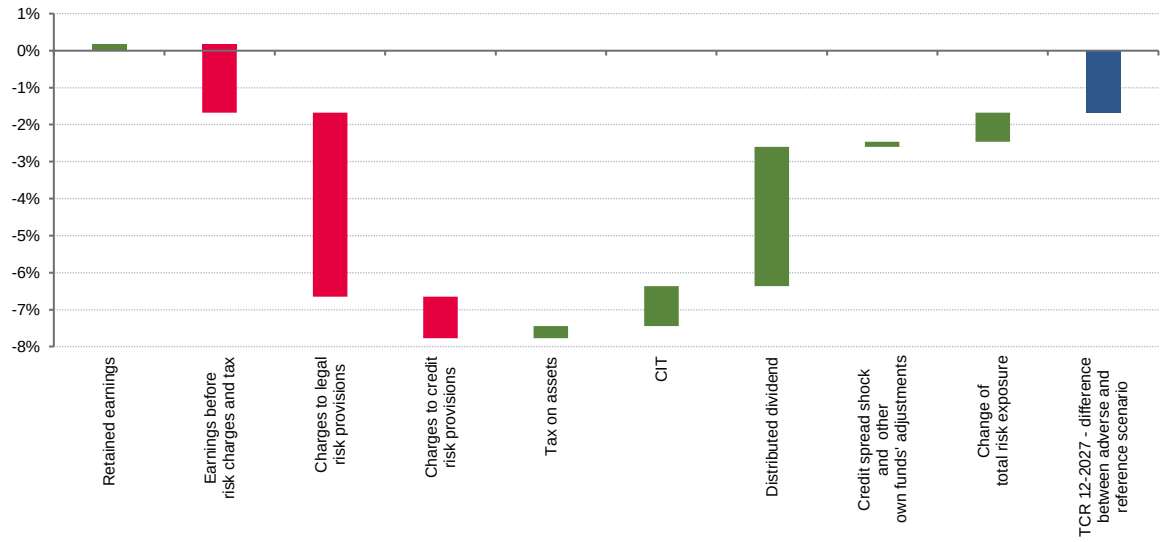
[60] https://nbp.pl/wp-content/uploads/2024/06/Uchwala-74-ws.-BA_06.2024_do-publikacji.pdf

[61] Excluding the BION assessment factor. See https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_dot_polityki_dywidendowej_w_2025_roku_91718.pdf

- increase provisions for legal risk of FX housing loans by approx. 40 billion zlotys (i.e. by 75% compared to the stock at the end of 2024)
- create additional provisions for the risk of customer claims relating to free credit sanctions (32 billion zlotys).

Net interest income would be 8% lower than in the reference scenario, primarily as a result of falling interest rates. On the other hand, credit losses – due to the economic slowdown assumed in the adverse scenario – would amount to 44 billion zlotys and be almost three times higher per annum than in 2024. However, the burden of credit losses on banks' earnings would be lower than in the past. The lower sensitivity of banks to the effects of the materialisation of credit risk results from changes in the asset structure in recent years – an increase in the share of debt securities issued and guaranteed by the State Treasury concurrently with a decrease in the importance of loans to the non-financial sector. Such a change in balance sheet structure improves banks' resilience to credit risk, but may make them more vulnerable to other risks and carry adverse consequences for economic development (see Chapter 4.1.2).

Figure 2.64. The difference in the total capital ratio of the analysed group of banks at the end of the adverse and reference scenario, and decomposition of this difference



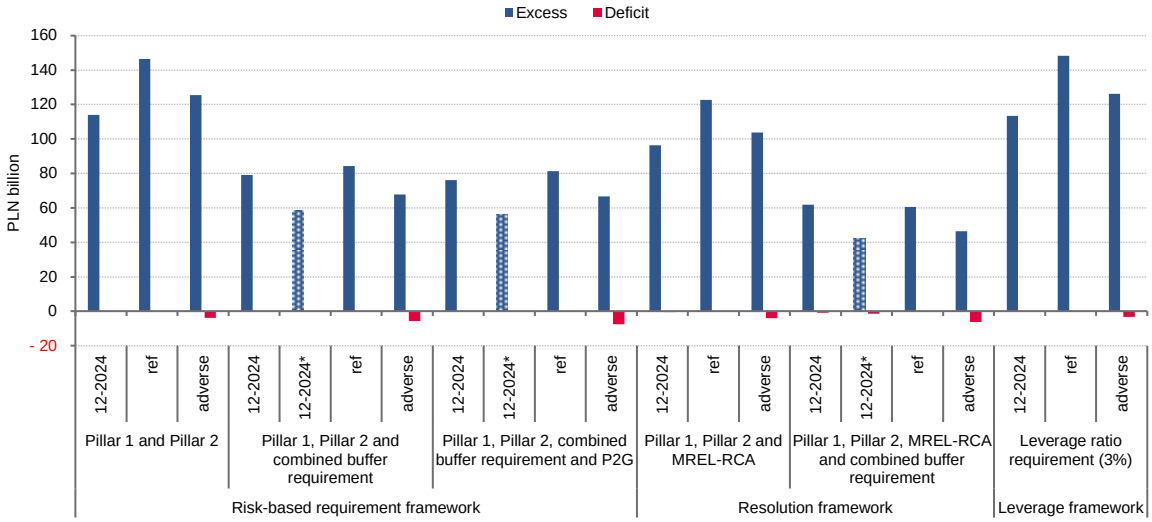
Notes: The blue bar indicates the difference between the total capital ratio of 28 banks analysed at the end of the adverse and reference scenarios. Green bars indicate factors increasing the average total capital ratio (TCR) in the adverse scenario compared to the reference scenario, while red bars mark factors affecting the TCR decrease. The impact of these factors is presented in percentage points. "Retained earnings " is an increase in banks' capital by the undistributed profit (as of the end of 2024) generated before the simulation period, arising from the adopted assumptions. "Earnings before risk charges and tax" is equivalent to net income from banking activity, less, among others, operating costs. "Tax on assets" is the estimated amount of the tax on certain financial institutions that banks would pay during the simulation period. It is assumed that a bank that records a loss in two consecutive quarters shall be subject to the recovery plan, which relieves it from paying tax for the rest of the projection period. The "Change of total risk exposure" mainly results from changes in the balance sheet total and structure of assets (including granting new loans and changes in the value of FX housing loans).

Source: NBP.

The vast majority of banks would generate positive net earnings even in the event of a shock (albeit many times lower than in the reference scenario), and retaining part of profits would strengthen banks' capital. The average annual earnings of the analysed banks in the adverse scenario would be more than 60% lower than in 2024 (and than in the reference scenario) and ROA would fall to 0.5% compared to 1.6%. Assuming that the rules resulting from *the KNF Position on dividend policy in 2025* are applied throughout the simulation period, 35% of the undistributed profit generated before the analysis period and almost half of the profit from the simulation period would be allocated to increasing regulatory funds.

The entry into force of the increased countercyclical capital buffer rate during the period of analysis will "freeze" some of the banks' existing capital excess, however, the vast majority of the banks analysed have sufficient capital surpluses to meet this requirement. Should the reference scenario materialise, the banks analysed would be able to rebuild excess capital over the simulation horizon to a level close to that before the countercyclical capital buffer was raised (see Figure 2.65). On the other hand, in the adverse scenario, these surpluses would be much lower than in 2024.

Figure 2.65. Total excess and deficit of Common Equity Tier 1 capital of the analysed group of banks at the end of 2024 and at the end of the simulation period (2027) after meeting the requirements applicable in different prudential regulation frameworks



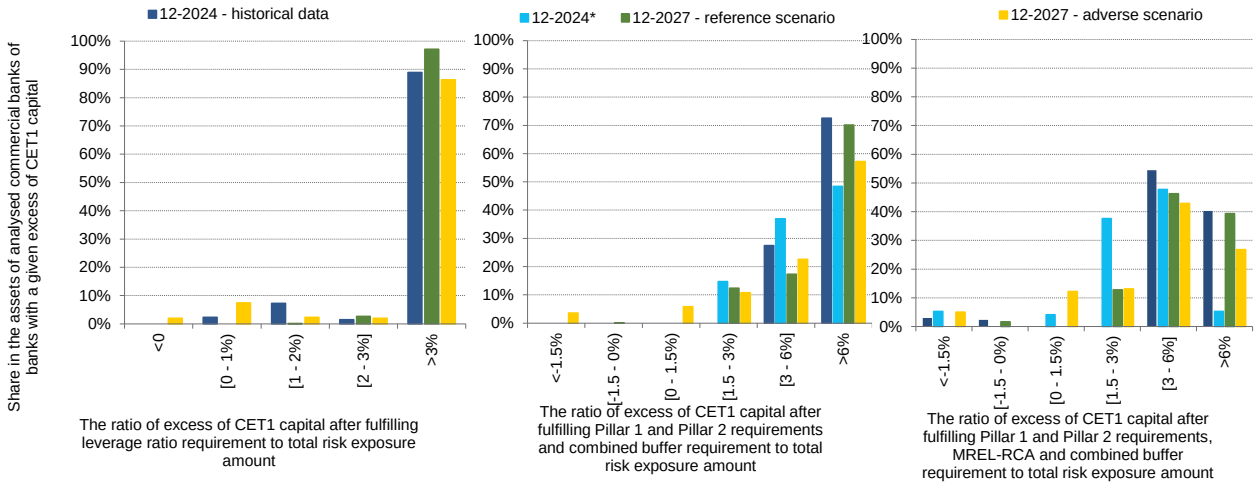
Notes: Excess capital and deficits for 28 banks analysed. For the MREL-RCA requirement (calculated on stand-alone data), the coverage of this requirement by capital alone was assumed (with the exception of eligible liabilities already issued). Only in the case of subsidiary banks owned by groups applying the SPE resolution strategy, the MREL-RCA requirement was allowed to be covered by new issues of eligible liabilities. The combined buffer requirement in the reference and adverse scenarios takes into account the countercyclical buffer target resulting from Resolution 74/2024 of the Financial Stability Committee. The hypothetical impact of including the level of the countercyclical buffer target in the combined buffer requirement at the end of 2024 is shown as 12-2024* and marked by a pattern.

Source: NBP.

A relatively small increase in total risk exposure (TREA) would also be a factor conducive to maintaining capital surpluses. Portfolio-specific lending projections indicate that in the adverse scenario corporate loan debt would only significantly increase over the analysis horizon despite the excess of

capital available at banks, while the growth in loans for consumption and zloty housing loans would be moderate. In the reference scenario, household loan portfolios would grow at a rate similar to the adverse scenario – the negative impact of the economic downturn on lending in the adverse scenario would be mitigated by a fall in interest rates. On the other hand, for corporate loans, growth in the adverse scenario would be twice as slow as in the reference scenario. The risk exposure in both scenarios would be reduced by the removal of FX housing loans from the balance sheet as a result of the assumed invalidity of all previously active contracts.

Figure 2.66. Distribution of assets of the analysed commercial banks according to excess CET1 capital after meeting the requirements applicable in different prudential regulation frameworks



Notes: See Figure 2.65.

Source: NBP.

If the adverse scenario materialized, few banks would fail to meet the capital requirements at the end of the analysis horizon[62] as a result of incurring losses that reduce own funds. However, the amounts of capital deficit on a sector-wide basis would be insignificant. On the other hand, in the reference scenario, capital shortfalls would be negligible (less than 0.1 billion zlotys). In particular, in the adverse scenario at the end of 2027 (see Figure 2.65 and Figure 2.66):

- banks with a share of 2% in the sector's assets[63] would fail to meet the leverage requirement, while the associated CET 1 capital shortfall for that reason would amount to 3.3 billion zlotys,
- the Pillar I and Pillar II capital requirements would not be met by banks with a 3% share in the sector's assets, and the CET1 capital deficit would amount to 3.7 billion zlotys.

[62] In the first quarters of the simulation period, the share of non-compliant banks would have been higher, as would the amount of deficit (inter alia, as a result of the bond credit spread shock, which partially expires over time).
[63] Shares calculated relative to sector assets excluding flow funds of BGK.

- commercial banks with a share of 3% in the sector's assets would fail to meet jointly the Pillar 1 and Pillar 2 capital requirements and the CBR and the total CET 1 capital deficit would amount to 5.7 billion zlotys,
- commercial banks with a share of 4% in the sector's assets would fail to meet jointly the Pillar 1 and Pillar 2 capital standards, the MREL-RCA requirement and the CBR, with the total CET 1 capital deficit amounting to 6.2 billion zlotys.

The simulation results indicate that the increasing use of eligible debt instruments to cover the MREL-RCA requirement improves the long-term lending outlook. The lack of new issuance of eligible instruments assumed in the simulation results in the reduction in the excess of capital due to the need to cover the MREL-RCA requirement with capital. During the period under analysis, this would not have a major impact on financial stability due to low loan demand. On the other hand, over a longer horizon, in the event of faster economic recovery and an increased loan demand, low excess capital after meeting the MREL-RCA requirement and the combined buffer requirement could become a constraint for lending expansion.

2.9. Market assessment of banks

The main factors influencing the market valuation of banks were the better-than-expected profitability of the Polish banking sector and the situation in global financial markets. The achievement of higher earnings than expected for the third and fourth quarters of 2024 by the majority of Polish listed banks and the announcement of dividend payments stimulated an increase in the listing of their shares and an increase in the advantage of their market valuation (measured by the P/BV ratio) relative to other European banks. On the other hand, the downward movement in bank share prices since the beginning of April was affected by increased expectations of falling interest rates.

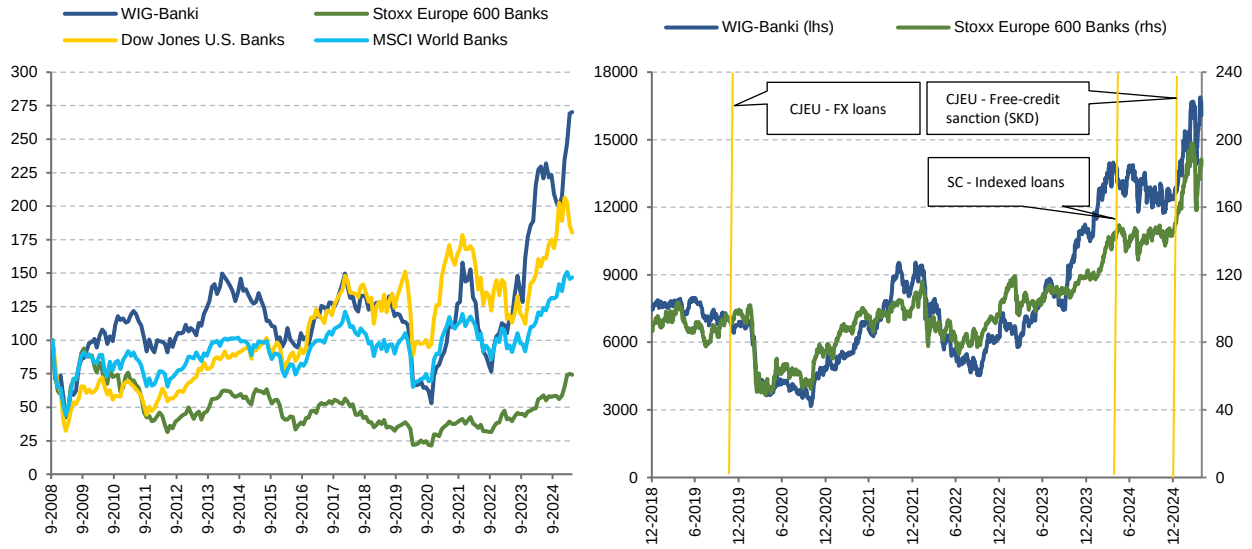
The CJEU rulings in cases related to FX housing loans and consumer loans had relatively limited impact on the market valuation of banks in the period under analysis (see Figure 2.67, right-hand panel).

The listings of banks on the Warsaw Stock Exchange also respond to changes in global market prices (see Figure 2.67 and Figure 2.68), among others, due to the large share of foreign investors in the Polish stock market.[64] The announcement of the deregulation of the US banking sector and a sense of decreasing geopolitical risk in the first few months of this year contributed to a strong increase in the prices of global shares and, consequently, also of Polish banks. However, since March 2025, the US administration tariff policy decisions have already resulted in sharp negative market responses. The introduction of increased tariffs on US imports from 4 March 2025 and the following day's suspension of some of these tariffs resulted in several per cent falls and then rises on the global stock exchanges. On the other hand, deeper declines of several per cent were caused by the announcement on 2 April of

[64] In 2024, the share of foreign investors in trading on the GPW Main Market increased to 68% − Press release of the GPW in Warsaw of 2 April 2025, available at https://www.gpw.pl.

increased tariffs on products imported from almost all countries of the world. The 9 April 2025 decision to pause these rates for 90 days had the effect of making up for most of the losses to investors and, consequently, significantly increasing the valuation of Polish banks.

Figure 2.67. Prices of stock indices of selected groups of banks after the outbreak of the global financial crisis (left-hand panel) and since the end of 2018 (right-hand panel)



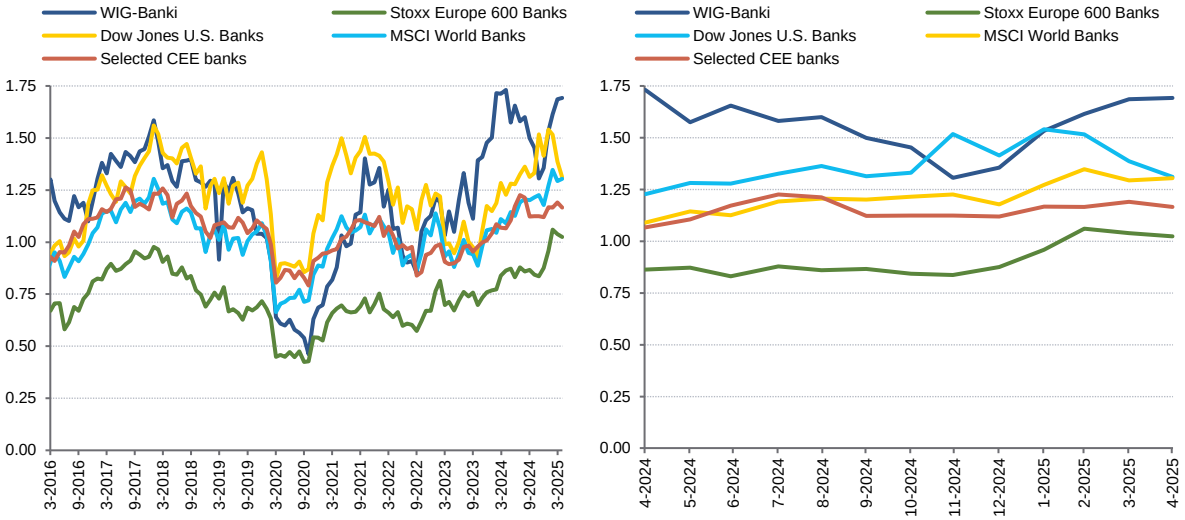
Note: Index rates scaled to 100 as of 15 September 2008 (left-hand panel); CJEU – FX loans, Supreme Court of the Republic of Poland – Index-linked loans and CJEU free-credit sanction (SKD) refer to, respectively, the CJEU Judgement of 3 October 2019 in the case of Mr and Mrs Dziubak, the resolution of the Civil Chamber of the Supreme Court of the Republic of Poland of 25 April 2024 in the case concerning loans indexed to a foreign currency (so-called Swiss franc loans) and the CJEU Judgement of 13 February 2025 in the case concerning the free-credit sanction (right-hand panel).

Source: NBP calculations based on Refinitiv data.

The rating agencies assessing banks active in Poland have upgraded or affirmed their individual ratings and, with regard to the situation of the sector as a whole, have emphasised its good outlook. The rating agencies positively assessed the profitability, liquidity and quality of the loan portfolio of the banks surveyed.[65] They pointed out that maintaining high – in their opinion - interest rates and access to low-cost domestic deposits and a possibility to obtain capital support of the parent bank allow banks to generate high interest margins and net profits, providing an opportunity to improve their capital endowment. In assessing the Polish banking sector, the Fitch agency stressed that more improvements in banks' performance in 2025 would be supported by, among others, stabilising the issue of the FX loan portfolio, recovering economic growth and a resilient labour market.

[65] Agencies upgraded the long-term rating: Fitch for Santander Bank Polska and Alior Bank to A and BB+ respectively, Moody's for mBank and Bank Millennium to A3 and Baa2, respectively and S&P Global Ratings for mBank to BBB+. The long-term rating was affirmed by the following agencies: Moody's for PKO BP and Fitch for BNP Paribas Bank Polska.

Figure 2.68. The "price-to-book-value" ratio for selected groups of banks since 31 March 2016 (left-hand panel) and in the last 12 months (right-hand panel)



Note: Selected CEE banks – the arithmetic mean of the "price-to-book-value" ratio for the ten largest listed banks in CEE countries, excluding Poland.

Source: NBP calculations based on Bloomberg data.

2.10. Selected indicators describing the situation of the banking sector

Table 2.2. Banking Sector

in %	12-2023	3-2024	6-2024	9-2024	12-2024
Return on assets (ROA) *	1.07	1.10	1.18	1.37	1.43
Return on Tier 1 capital (RORC) *	14.0	14.6	15.6	18.2	19.6
Return on accounting capital (ROE) *	12.9	13.0	13.8	16.0	17.1
Net interest margin (NIM) *	3.66	3.69	3.73	3.75	3.76
The share of net interest income in net income from banking activity *	79.3	80.1	80.3	80.8	80.6
The share of net noninterest income in net income from banking activity *	20.7	19.9	19.7	19.2	19.4
Operating costs to net income from banking activity (CTI) *	42.4	42.5	42.7	42.8	42.9
Net charges to credit risk provisions to net income from banking activity *	5.9	5.6	5.1	5.3	4.8
Loan grow th rates (y/y)					
- nonfinancial sector	0.3	2.0	3.1	4.4	4.6
- households	0.3	2.9	4.3	4.8	4.2
- loans for consumption	4.1	5.7	6.6	7.1	7.2
- housing loans	-1.0	2.7	4.4	5.4	4.1
- enterprises	0.5	0.5	0.8	3.6	5.4
Impaired loan ratios					
- nonfinancial sector	5.5	5.3	5.1	5.3	5.0
- households	5.1	5.0	4.5	4.4	4.0
- loans for consumption	8.1	8.1	7.4	7.1	6.4
- housing loans	2.2	2.1	1.7	1.7	1.6
- enterprises	6.2	5.9	6.0	6.8	6.8
Net charges to credit risk provisions to net value of loans *					
- nonfinancial sector	0.61	0.61	0.58	0.62	0.55
- households	0.64	0.60	0.55	0.51	0.37
- loans for consumption	1.61	1.54	1.31	1.26	1.04
- housing loans	0.04	0.02	0.05	0.07	-0.02
- enterprises	0.57	0.63	0.65	0.82	0.88
Funding gap	-27.5	-27.9	-28.7	-29.0	-30.0
Total capital ratio	20.5	19.9	20.3	20.3	20.0
Tier 1 capital ratio	18.7	18.3	18.8	18.9	18.6
Core Equity Tier 1 capital ratio	18.7	18.2	18.8	18.8	18.3
Financial leverage (multiple)	12.8	12.9	12.5	12.4	12.8
Leverage ratio according to CRDIV/CRR	7.8	7.7	7.8	7.9	7.7

Note: Annualised data are marked with an asterisk. Capital ratios and returns on equity calculated for domestic banks excluding BGK. ROA, NIM indicators excluding flow funds of BGK. The growth rate of loans calculated using only transactional changes.

Source: NBP, BGK website.

Table 2.3. Domestic commercial banks

in %	12-2023	3-2024	6-2024	9-2024	12-2024
Return on assets (ROA) *	1.04	1.08	1.16	1.36	1.46
Return on Tier 1 capital (RORC) *	12.5	13.2	14.5	17.4	19.0
Return on accounting capital (ROE) *	11.7	11.9	13.0	15.4	16.7
Net interest margin (NIM) *	3.58	3.62	3.66	3.70	3.71
The share of net interest income in net income from banking activity *	78.9	79.7	80.0	80.5	80.2
The share of net noninterest income in net income from banking activity *	21.1	20.3	20.0	19.5	19.8
Operating costs to net income from banking activity (CTI) *	38.6	38.4	38.4	38.5	38.4
Net charges to credit risk provisions to net income from banking activity *	6.0	5.8	5.2	5.4	4.9
Loan grow th rates (y/y)					
- nonfinancial sector	-1.3	0.6	1.2	2.7	4.1
- households	-2.5	-0.3	0.9	1.9	3.2
- loans for consumption	1.6	3.2	4.1	4.4	5.6
- housing loans	-2.6	1.1	2.7	3.8	4.3
- enterprises	1.4	2.5	2.0	4.6	6.1
Impaired loan ratios					
- nonfinancial sector	5.5	5.3	5.0	5.3	5.0
- households	5.1	5.0	4.5	4.4	4.0
- loans for consumption	8.4	8.4	7.8	7.4	6.7
- housing loans	2.2	2.0	1.7	1.6	1.5
- enterprises	6.2	5.8	6.0	6.9	7.0
Net charges to credit risk provisions to net value of loans *					
- nonfinancial sector	0.61	0.61	0.59	0.63	0.57
- households	0.67	0.62	0.57	0.52	0.37
- loans for consumption	1.67	1.60	1.36	1.30	1.08
- housing loans	0.07	0.04	0.08	0.08	-0.02
- enterprises	0.51	0.60	0.63	0.83	0.93
Funding gap	-26.1	-26.4	-27.1	-27.3	-27.9
LCR	233.0	228.0	227.8	234.9	243.0
Total capital ratio	20.5	19.8	19.9	19.9	19.6
Tier 1 capital ratio	18.6	18.1	18.3	18.4	18.2
Core Equity Tier 1 capital ratio	18.5	18.1	18.2	18.3	17.9
Financial leverage (multiple)	12.8	12.9	12.7	12.6	12.9
Leverage ratio according to CRDIV/CRR	7.6	7.5	7.5	7.6	7.5

Note: Annualised data are marked with an asterisk. Capital ratios and return on equity calculated for domestic commercial banks excluding BGK, LCR additionally excluding the associating banks. ROA, NIM indicators excluding flow funds of BGK. The growth rate of loans after adjusting for FX rate changes.

Source: NBP, BGK website.

Table 2.4. Cooperative banks

in %	12-2023	3-2024	6-2024	9-2024	12-2024
Return on assets (ROA) *	2.46	2.37	2.27	2.21	2.20
Return on Tier 1 capital (RORC) *	31.0	29.5	26.8	25.8	25.3
Return on accounting capital (ROE) *	24.6	23.1	21.6	20.8	20.4
Net interest margin (NIM) *	5.53	5.36	5.21	5.10	4.99
The share of net interest income in net income from banking activity *	89.9	90.0	90.1	90.2	90.4
The share of net noninterest income in net income from banking activity *	10.1	10.0	9.9	9.8	9.6
Operating costs to net income from banking activity (CTI) *	41.3	42.5	43.8	44.6	45.4
Net charges to credit risk provisions to net income from banking activity *	7.1	6.3	5.7	5.2	4.5
Loan grow th rates (y/y)					
- nonfinancial sector	5.4	6.3	9.0	6.7	4.4
- households	7.7	9.3	12.3	8.3	4.1
- loans for consumption	3.7	7.0	8.0	9.1	11.2
- housing loans	-2.7	-0.5	0.9	2.2	3.2
- enterprises	-0.2	-1.1	0.8	2.9	5.3
Impaired loan ratios					
- nonfinancial sector	7.3	7.1	6.8	6.7	6.6
- households	4.7	4.7	4.6	4.6	4.5
- loans for consumption	4.5	4.4	4.1	4.0	3.9
- housing loans	1.3	1.4	1.4	1.5	1.5
- enterprises	14.3	13.7	12.9	12.5	12.3
Net charges to credit risk provisions to net value of loans *					
- nonfinancial sector	1.23	1.06	0.95	0.86	0.72
- households	0.76	0.72	0.65	0.59	0.46
- loans for consumption	0.78	0.71	0.61	0.62	0.65
- housing loans	0.27	0.32	0.30	0.28	0.19
- enterprises					
Funding gap	-85.3	-89.7	-89.8	-90.5	-99.6
Unconsolidated LCR	457.5	462.3	473.0	496.5	496.9
Consolidated LCR	356.2	381.7	381.2	377.5	364.3
Total capital ratio	20.6	20.6	25.5	25.1	23.6
Tier 1 capital ratio	20.2	20.2	25.1	24.7	23.3
Core Equity Tier 1 capital ratio	20.2	20.2	25.1	24.7	23.3
Financial leverage (multiple)	12.7	12.9	10.5	10.7	11.5
Leverage ratio according to CRDIV/CRR	9.6	9.4	11.6	11.3	10.7

Note: Annualised data are marked with an asterisk. Unconsolidated LCR – data for cooperative banks which must comply with the LCR standard on an unconsolidated basis. Consolidated LCR – data for cooperative banks that were permitted to comply with the LCR standard on a consolidated basis and for the associating banks.

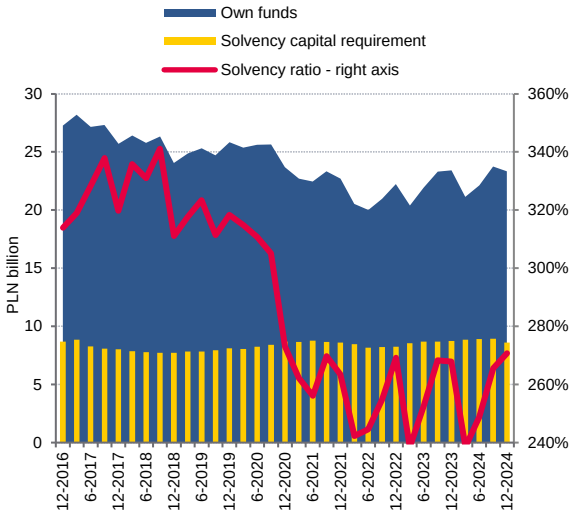
Source: NBP.

3. Non-banking sector situation

3.1. Insurance companies

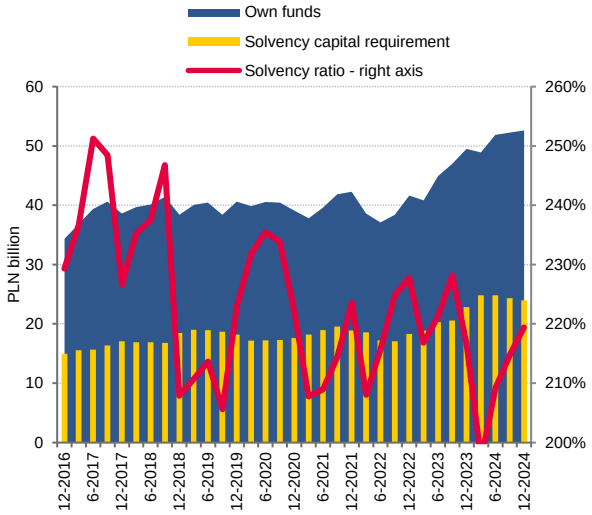
The insurance sector's solvency ratios at the end of 2024 returned to the levels recorded a year earlier. In life insurance, the ratio was 271% (see Figure 3.1) and in non-life insurance – to 219% (see Figure 3.2). The sector-wide ratio reached a level of 233% and was still below the EEA average (244%).[66] Insurance companies showed high surpluses above capital requirements. All entities had own funds above the Solvency Capital Requirement and the Minimum Capital Requirement. Only four non-life insurance companies recorded SCR coverage ratios below 150%. However, the sector's high solvency ratios were mainly earned by the largest entities. In life insurance and non-life insurance, the weighted average value of this indicator was 40 percentage points higher than the median.

Figure 3.1. Own funds, SCR and solvency ratio – life insurance



Source: UKNF.

Figure 3.2. Own funds, SCR and solvency ratio – non-life insurance



Source: UKNF.

The gap between own funds of life insurance and non-life insurance was steadily increasing. At the end of 2024, it increased to almost 30 billion zlotys, compared to only 7 billion zlotys in 2016. The increasing predominance of non-life insurance confirms the lack of development of life insurance in Poland, which makes the domestic sector lagging farther behind more developed markets where this type of insurance prevails. The increase of funds in 2024 in non-life insurance resulted from lower dividend

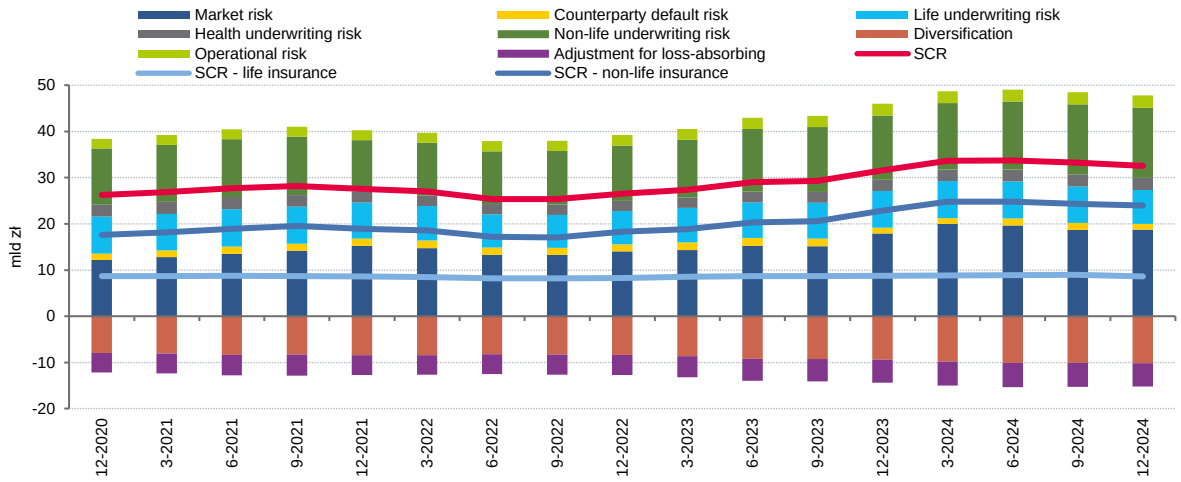
[66] EIOPA data as at the end of the fourth quarter of 2024. However, this gap narrowed in 2024. At the end of 2023, it was 27 percentage points.

charges and from asset valuation. Life insurance and non-life insurance saw major fluctuations in own funds throughout the year as a result of the new legislation.[67]

Despite a similar level of SCR in life insurance, its structure has changed. The underwriting risk in life insurance continued to generate the highest capital requirement, however, as a result of reinsurance its value slightly decreased. On the other hand, market risk increased. At the end of 2024, the capital requirement in the underwriting module represented 79% of the SCR (86% at the end of 2023) and for market risk it increased from 41% to 45%.[68] Moreover, the requirement in health insurance increased in proportion to the scale of the business. However, capital charges due to potential lapses of agreements decreased. The loss of profits on future premiums continued to be the most acute risk factor for life insurance entities, much more significant than mortality, morbidity or longevity.

Underwriting risk was the most significant module of the capital requirement in non-life insurance companies. The increase of the requirement in this area was higher than for market risk, which was no longer the prevailing component of the SCR (see Figure 3.3). The significant increase in the capital charge resulted from catastrophe risk and, to a lesser extent, from the increase in the scale of the business. Since 2022, the requirement on this account has almost doubled, which is linked to the reduction of reinsurance cover by some entities. The high solvency ratios, as well as the profits achieved, led companies to reduce this risk transfer method.

Figure 3.3. Structure of the Solvency Capital Requirement



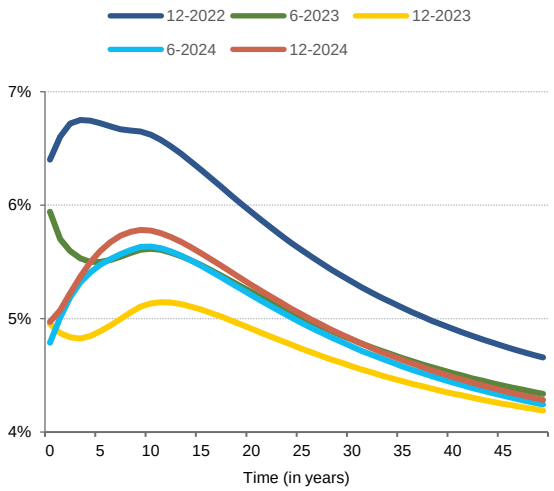
Source: UKNF.

In the second half of 2024, the term structure of the risk-free interest rate stabilised, after rising in the first half of the year (see Figure 3.4). Higher interest rates, as well as an increase in the excess of

[67] The changes require that own funds should be reduced by future dividends from expected profits in the current year. Previously, only profits actually achieved were taken into account.
[68] Due to the diversification effect, the sum of the individual module shares exceeds 100% of the SCR.

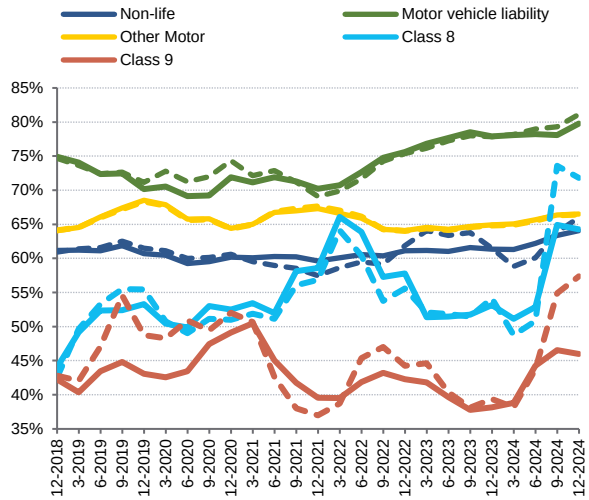
assets over liabilities, largely sensitive to changes in interest rates, affected the higher capital requirement due to market risk in both life insurance and non-life insurance. Insurance companies demonstrated a higher sensitivity to interest rate increases than to their decreases. In addition, the higher level of interest rates affected the lower valuation of technical provisions in life insurance.

Figure 3.4. Term structure of the risk-free rate



Source: EIOPA.

Figure 3.5. Loss ratio in selected business lines of non-life insurance



Note: The solid line marks the indicators on a net basis while the dashed line shows indicators on a gross basis.

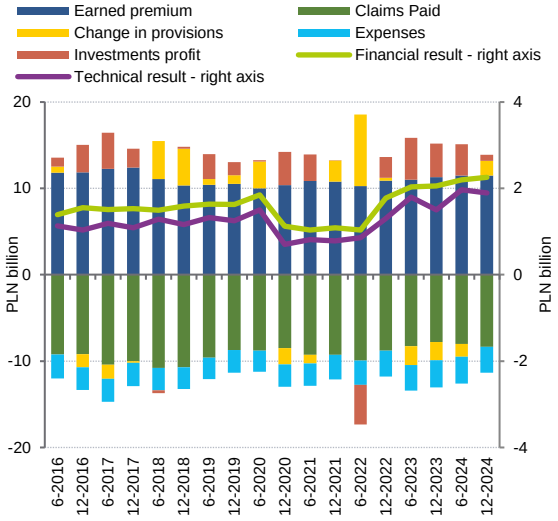
Source: UKNF.

In 2024, the insurance sector generated a record profit of 10 billion zlotys. The improvement in the financial result by 0.7 billion zlotys was definitely driven by life insurance companies which increased it by 0.6 billion zlotys to 3.9 billion zlotys. At the same time, non-life insurance companies earned 6.2 billion zlotys, or 0.1 billion zlotys more than in 2023. The lower increase in the financial result of non-life insurance companies was due to lower results from insurance activity. At the same time, they recorded an increase in profit from investment activities, mainly due to dividends received from subsidiaries. All life insurance companies closed the year 2024 with a positive financial result, while in the non-life insurance sector only four entities recorded a loss, the total value of which did not exceed 0.2 billion zlotys. The above-average results of life insurance and non-life insurance continued to be generated by the largest institutions. Their share in the sector's net profit considerably exceeded the share in the premium. This mainly reflected the cost efficiency of these entities, which however did not translate into lower insurance prices. This illustrates the low level of competition in the sector, where the largest entities can set insurance prices. Strong results, especially in life insurance, translated into record Return on Equity. The ROE in life insurance increased to 33.7%. This is more than three times the average ROE for European life insurance companies in the years 2010-2022. On the other hand, despite similar earnings, profitability in non-life insurance fell to 16.3%, due to higher equity.

Lower provisions in life insurance improved the technical result of life insurance. In 2024, the technical profit amounted to 4.5 billion zlotys, or 0.4 billion zlotys more than in 2023 (see Figure 3.6). Like benefits, premiums from insurance other than unit-linked insurance increased by 0.6 billion zlotys, while changes in provisions were lower by 0.7 billion zlotys. Life and endowment insurance (group 1) had the largest contribution to the increase in earnings. Moreover, an increase in profit (to 2.1 billion zlotys) was recorded in the most profitable class 5 (sickness and accident insurance supplementary to life insurance contracts). Moreover, revenue from investments, which make part of the technical account of life insurers, fell slightly. On the other hand, unit-linked insurance earned almost 0.6 billion zlotys, as in the previous year.

The profit generated by life insurance companies was not a source of capital for the undertakings, consequently, it did not improve their financial stability. Since 2007, the equity of life insurers has only changed by 0.6 billion zlotys. During this period, insurance undertakings generated a profit of 47 billion zlotys, of which more than 95% was paid out to their shareholders. Offering of low value for the customer generated high results of life insurance. However, the profits were not allocated for the expansion of these entities.

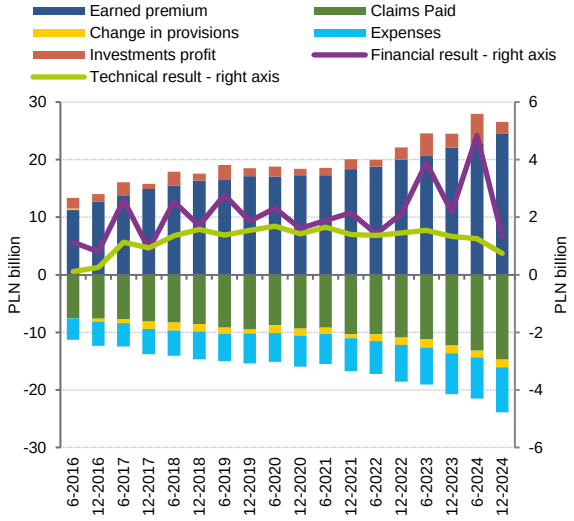
Figure 3.6. Selected items of the income statement in the half year – life insurance



Note: Data according to statutory reporting.

Source: UKNF.

Figure 3.7. Selected items of the income statement in the half year – non-life insurance



Note: Data according to statutory reporting.

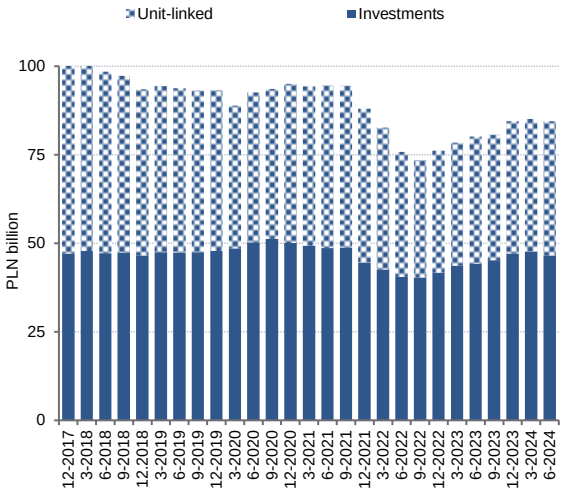
Source: UKNF.

Despite the costs incurred due to the effects of the flood, the technical result of non-life insurance companies remained at a safe level. In 2024, it amounted to 2 billion zlotys, 0.9 billion zlotys more than in 2023 (see Figure 3.7). The decline in profit on insurance activity resulted from increased payouts related to flood damage, as well as a worsening loss in motor third-party liability insurance. Claims of 1.3 billion were paid out in connection with the floods. In addition, insurance companies created provisions for flood-related payments amounting to 0.8 billion zlotys. In insurance against damages caused by natural disasters and other property damage (classes 8 and 9), the technical result decreased by 0.6

billion zlotys, with class 8 falling below zero (-0.25 billion zlotys). Moreover, motor third-party liability insurance was steadily declining. In 2024, the loss in mandatory motor insurance increased to 0.6 billion zlotys (compared to 0.1 billion zlotys in 2023), despite a rising premium charged on policyholders. On the other hand, motor AC insurance maintained the previous year's result, generating the profit of 0.9 billion zlotys to the companies, thus effectively compensating for losses in mandatory motor insurance.

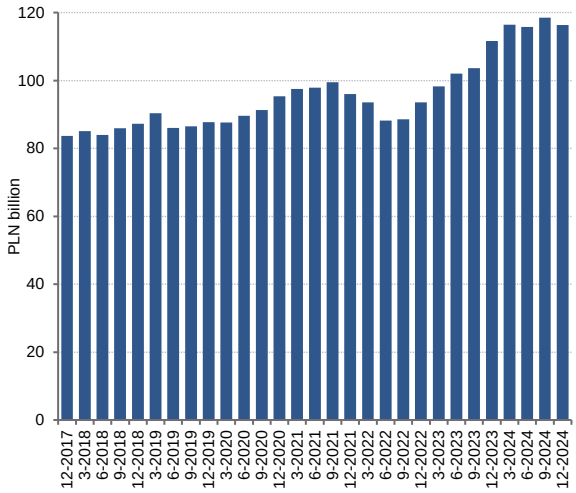
Challenging the amount of claims by flood victims can lead to litigation with insurers. The relatively low claims payments (10 thousand zlotys on average) prompted some policyholders to lodge a complaint with the Office of Competition and Consumer Protection and the Financial Ombudsman concerning the amount of payments due. At the same time, many people were refused claims' payments due to the exclusion of flood risk in the general terms and conditions of the contract. Even 'all-risks' insurance[69] included exclusions related to flooding, which could have been misleading to many customers. In addition, claims were calculated at a replacement cost or actual cash value (less wear and tear). Consequently, a payment set at a actual cash value may not have been sufficient to restore the property to the situation that existed prior to the occurrence of the damage. It is worth pointing out that it is the responsibility of the insurance company to exercise due care in informing customers on the scope of the insurance to enable them to tailor the services to their needs.

Figure 3.8. Investments and unit-linked assets – life insurance



Source: UKNF.

Figure 3.9. Investments – non-life insurance



Source: UKNF.

Despite flood-related claims, mandatory motor insurance remained the business line with the highest loss ratio. The (gross) loss ratio in this class increased by 2 percentage points in the last six months, to 81% (see Figure 3.5). Motor third-party liability insurance premiums were still not sufficient to cover claims and costs. Voluntary auto casco (AC) insurance also saw an increase in loss ratio (to 66.4%). The

[69] Press release of the Office for Competition and Consumer Protection of 25 March 2025. All-risks property insurance – preliminary investigation.

occurrence of flood in September 2024 triggered a nearly 20 percentage point increase in gross loss ratio in insurance of damages caused by natural disasters (class 8) (up to 72%), however, due to adequate reinsurance protection, the loss ratio at the end of 2024 remained at a safe level of 64.3% − similar to non-life insurance as a whole. In the second half of 2024, the COR for non-life insurance, which measures the ratio of claims paid and expenses to premium earned, increased by 1.6 percentage points to 96.6%. Nevertheless, the efficiency of non-life insurance companies remained at a safe level.

Debt securities issued or guaranteed by the State Treasury represented the largest category of investment of the insurance sector, and their value increased in the second half of 2024. Non-life insurance companies increased this exposure by 1.9 billion zlotys, while life insurance entities (excluding unit-linked investments) recorded a slight decline (see Figure 3.8 and Figure 3.9). Domestic Treasury securities accounted for nearly 93% of Treasury debt instruments. The sector's exposure to Treasury-guaranteed bonds issued by PFR and BGK in the second half of 2024 remained at 25.5 billion zlotys.

The scale of interconnections between the insurance sector and domestic investment funds was significant (approx. 20% of investments). The value of insurance institutions' exposure to investment funds' shares at the end of 2024 amounted to 41.9 billion zlotys, of which 63% were insurance unit-linked (UFK) assets. Unit-linked insurance exposure to domestic investment funds was dominated by participation units of UCITS and open-ended AIFs, while the exposure to shares of closed-end funds decreased. However, a significant part of unit-linked insurance assets was invested in the participation units of only one investment fund, which applied the investment policy of a closed-end fund. This way of investing the assets was at odds with the risk mitigation rules established for undertakings for collective investments. Thus, the practice of domestic undertakings with regard to unit-linked investments did not interact with both the concentration limits and the catalogue of investments provided by European regulations for UCITs, causing the level of customer protection to be lower in some products than in other institutions dedicated to non-professional investors. In the case of other insurance sector investments (excluding unit-linked assets), units of open-ended AIFs and shares of closed-ended funds prevailed in domestic investment funds.

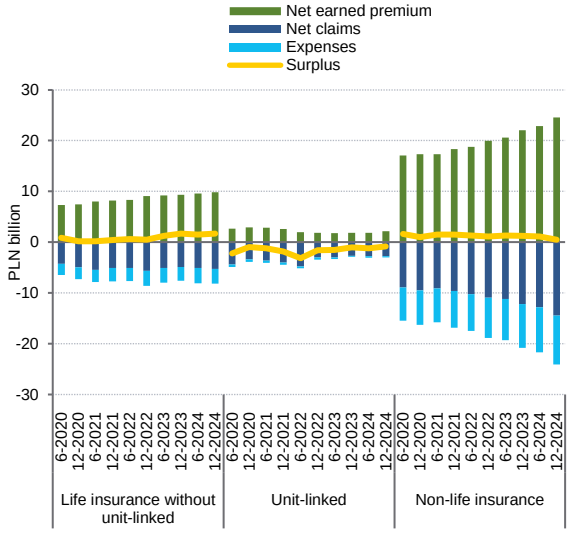
The highest level of surplus of premiums over claims and costs in the sector was demonstrated by life insurance companies (excluding unit-linked insurance), which owed their good liquidity position in the second half of 2024 to maintaining premium growth. Since 2023, life insurance companies (excluding UFK) have retained this surplus at a level of 3 billion zlotys – almost three times higher than in previous years (see Figure 3.10). Moreover, life insurance investments showed the highest liquidity ratio in the sector[70], which stood at 44% at the end of December 2024 (see Figure 3.11). Unit-linked investments were the least liquid, with the ratio increasing to 14%. Its increase by 4 percentage points

[70] The liquidity ratio measures the share of high quality liquid assets in total assets. The following assets have been classified as high-quality liquid assets: deposits and cash, securities issued by the central government, debt securities of central banks and shares listed on organised markets (excluding shares of financial institutions) recognised at half of their value.

was the result of a rise in the exposure of unit-linked assets to Treasury securities. However, this was not due to a shift in investment policy, but only to the reclassification of certain products within insurance classes. In non-life insurance, the value of surplus at the end of 2024 was significantly lower (by 1 billion zlotys) than at the end of 2023 and fell to 1.5 billion zlotys.[71] The ratio of liquid assets in non-life insurance at the end of the second half of 2024 increased by 2 percentage points to 30%, as a result of the companies' increased exposure to Treasury securities.

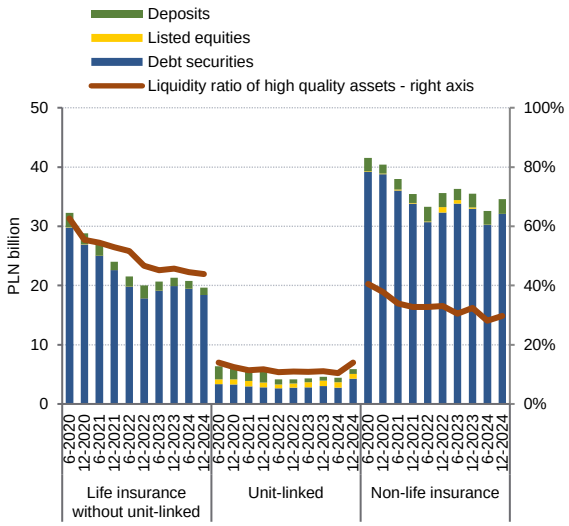
In life insurance, an increasingly smaller part of the premium returned to policyholders in the form of a benefit. While in 2016, the claim-to-premium ratio was 65% (excluding unit-linked insurance), it decreased to 55% in 2024. In this period, premiums collected by life insurance companies increased by 42%, while benefits increased by only 22%. On the other hand, the technical result rose by 45%. This raises doubts concerning the extent to which life insurance fulfils its core functions.

Figure 3.10. Premium earned, claims, costs and surplus funds in the half-year period



Source: UKNF.

Figure 3.11. Structure of high quality liquid assets of the insurance sector



Notes: The methodology of determining the liquidity ratios is described in the footnote earlier in this chapter.

Source: UKNF.

In unit-linked life insurance, net outflows of funds decreased compared to 2023 and was at their lowest level in the last five years. This was possible due to the increase in premiums and the maintenance of claims and costs at the same level as in 2023. The structure of outflows from unit-linked insurance remained unchanged. Surrenders prevailed among payouts, while the benefits due to endowment or other contractual insurance event did not exceed 10%. The assets of unit-linked insurance continued to be heavily dominated by products withdrawn from the market as a result of the product intervention

[71] At the same time, the surplus decreased 3-fold in H2 2024 compared to the previous corresponding period.

carried out by the UKNF in 2021[72]. Funds continued to flow into these products, despite the fact that they demonstrated high levels of fees and costs incurred by policyholders. These products were the source of the high and stable technical result in this insurance group.

The assessment of the solvency of the domestic insurance sector can be disrupted by the high share of expected profits included in future premiums (EPIFP) in own funds. EPIFP in life insurance at the end of 2024 amounted to 11.6 billion zlotys, representing a half of own funds. The capital raised by the inclusion of profits on future premiums has a limited loss coverage capacity as it may only absorb the effects of materialisation of the risk of insurance agreement lapses, despite its classification in the highest category of own funds. In the years 2018-2023, the European life insurance recorded the average ratio of EPIFP to own funds of 3.8%, compared to as much as 32% among domestic entities and a weighted average of 51%. EPIFP is the accumulated value of future margins. Such a high share of EPIFP in the Polish sector shows that domestic players make greater use of their advantage towards the individual customer in their pricing policy than their foreign counterparts. Moreover, the stability of the insurance sector is excessively based on future uncertain margins rather than on shareholders' paid-in capital and retained earnings. Failure to include EPIFP in own funds would result in a significant decline in the solvency ratio of life insurance (from 271% to 185%).

Solvency ratios of non-life insurance may incorrectly reflect the resilience of entities due to the lack of a regulatory restriction on double gearing. At the end of 2024, non-life insurance companies held participations in insurance companies and banks with the value of 26.6 billion zlotys. This led to the double gearing of capital to cover the risks arising from the parent company's activities as well as those of the subsidiary. Deducting the participations from non-life insurance own funds would reduce the SCR coverage from 219% to 152%. When put together, the elimination of EPIFP and double gearing would reduce the solvency ratio of the domestic sector from 233% to 161%.

3.2. Investment funds

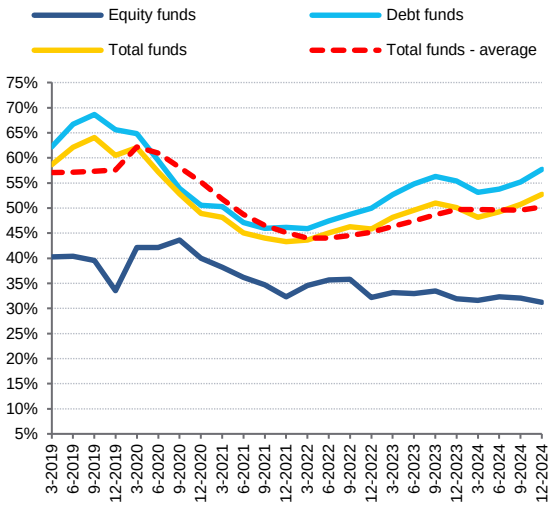
In the second half of 2024 investment funds[73] continued to see significant inflows, which in annual terms exhibited one of the highest levels ever reported. Liquidity ratios in the sector also slightly

[72] The KNF announcement regarding prohibitions on the marketing, distribution and sale of insurance investment products – life insurance contracts if linked to insurance assets: https://www.knf.gov.pl/knf/pl/komponenty/img/Komunikat_KNF_dot_interwencji_produktowej_UFK.pdf.

[73] Unless otherwise indicated, the analysis in this chapter was carried out on financial data reported by investment funds to NBP.

improved.[74] During the year, net inflows to the funds amounted to 41.8 billion zlotys, i.e. twice as much as in the entire 2023. Investors continued to purchase mainly units of open-ended funds[75] [76], with debt funds being the most popular (see Figure 3.14). In connection with the strong demand for their units[77], these entities expanded their portfolios, primarily increasing their investments in Treasury bonds which make up their liquid assets. Consequently, their liquidity ratios improved (see Figure 3.12 and Figure 3.13), which also had a positive impact on the liquidity of the entire open-ended funds sector. The continued inflow of funds to these entities and the stagnation in the value of closed-ended fund assets[78] resulted in an increase in the share of open-ended entities in the sector's net assets (64% at the end of 2024). From the point of view of the stability of investment funds, this also meant an increase in the part that can represent a potential source of liquidity risk.

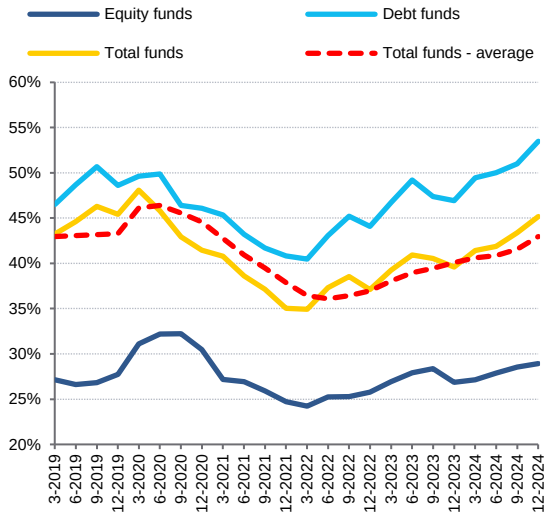
Figure 3.12. Liquidity coverage ratio in UCITS



Note: The average shown in the figure is a moving average of four preceding quarters.

Source: NBP

Figure 3.13. Liquidity coverage ratio in open-ended AIFs



Note: The average shown in the figure is a moving average of four preceding quarters.

Source: NBP

[74] The liquidity ratio measures the share of high quality liquid assets in the total assets of the funds. The following assets have been classified as high-quality liquid assets: bank deposits, debt securities issued by the central government and central banks and shares listed on organised markets (excluding shares of financial institutions) recognised at half of their value.

[75] Open-ended funds include UCITS and open-ended alternative investment funds (AIFs).

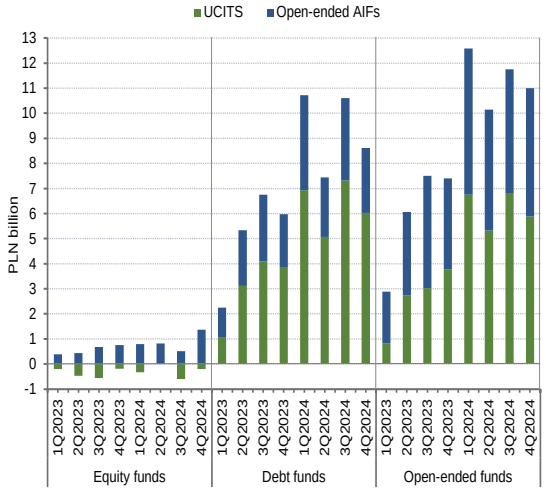
[76] In net terms, 45.5 billion zlotys flowed into open-ended funds. On the other hand, closed-ended funds recorded a negative inflow balance of -3.7 billion zlotys.

[77] This phenomenon was also observed in other EU countries. This was influenced, among others, by the macroeconomic and geopolitical situation.

[78] Over the past five years, the net assets of UCITS have increased by almost 56 billion zlotys, AIFs – by 64 billion zlotys and closed-ended investment funds by less than 5 billion zlotys.

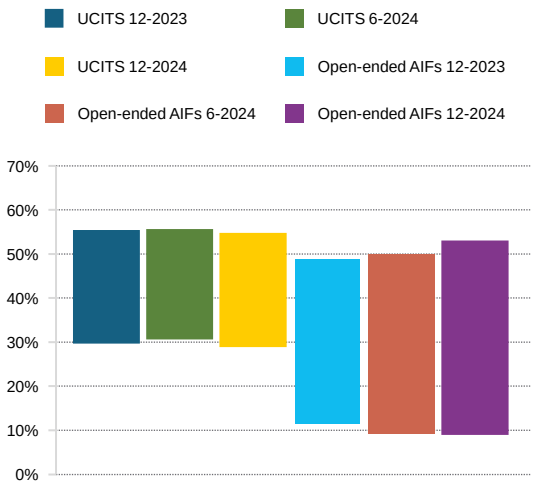
More than a half of open-ended funds recorded an increase in the level of the liquidity ratio. The significant diversification between UCITS and open-ended AIFs continued (see Figure 3.15), despite the fact that the median ratio for open-ended AIFs has recently moved significantly closer to the level occurring in UCITS. However, still relatively more entities with the lowest values of this parameter were found in open-ended AIFs. This group mainly included funds focusing on investment in foreign investment funds.[79] Liquidity risk in these entities was additionally related to the high concentration of such investments and their declared capacity to repurchase the units at the participant's request. On the other hand, these funds often offered pension products which, in turn, reduced the risk of redemptions on a significant scale.

Figure 3.14. Balance of inflows to open-ended funds



Source: NBP.

Figure 3.15. Distribution of the liquidity ratio for open-ended funds



Notes: The edges of the box mark the first and the third quartile. The method of determining the liquidity ratio is described in the footnote earlier in this chapter.

Source: NBP.

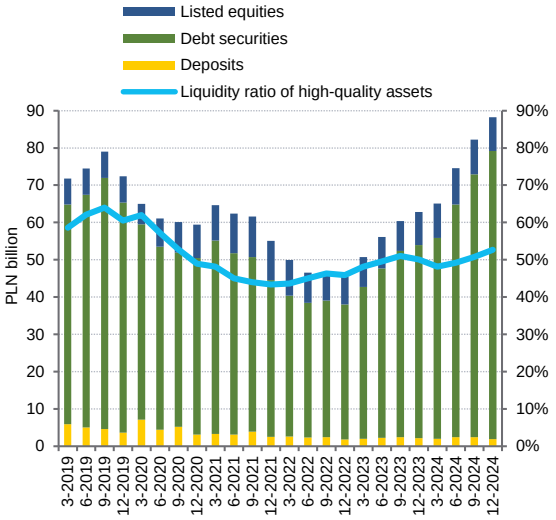
Buffers of the most liquid assets of open-ended funds in the form of cash in bank deposits continued to decline. The lowest level of the cash-to-assets ratio was in UCITS (1.1% at the end of 2024, compared to 1.7% a year earlier), including debt funds managing the largest share of investors' funds. In the open-ended AIF sector, the ratio was 1.7% (compared to 2% at the end of 2023). Amid the historically highest balance of inflows to open-ended funds, the value of their bank deposits in nominal terms fell by 0.1 billion zlotys.

In 2024, investment funds purchased almost three times more domestic Treasury bonds as in 2023. Demand for these instruments originated exclusively from open-ended funds which had to allocate funds accordingly due to capital inflows from investors. Their annual balance of transactions in these

[79] In accordance with the methodology adopted in this chapter, investment fund shares are not included in the category of high-quality liquid assets.

securities amounted to 33 billion zlotys[80], while the value of the portfolio of this asset class under their management at the end of December 2024 reached its highest level to date of over 100 billion zlotys (see Figure 3.16 and Figure 3.17). The size of purchases of fixed- and floating-coupon instruments was similar. In addition, the funds remained interested in inflation-indexed bonds (in the second half of 2024, they purchased these instruments on a net basis for the amount of approx. 4 billion zlotys). The duration of the fixed-coupon part of the Treasury portfolio amounted to 4.8 and remained close to that observed at the end of 2023.

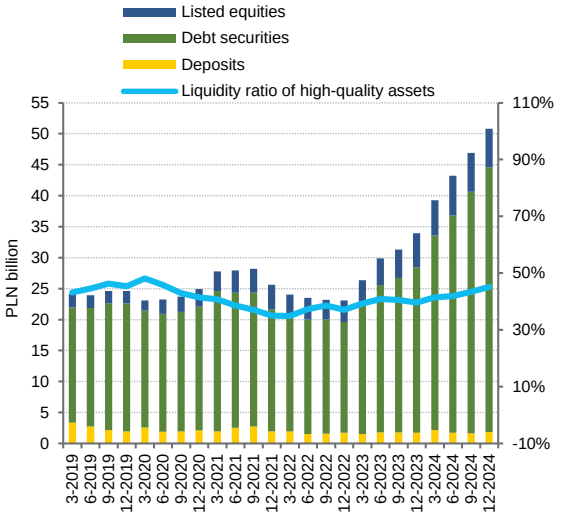
Figure 3.16. Structure of high quality liquid assets of UCITS



Notes: The method of determining the liquidity ratio is described in the footnote earlier in this chapter.

Source: NBP.

Figure 3.17. Structure of high quality liquid assets of open-ended AIFs



Notes: The method of determining the liquidity ratio is described in the footnote earlier in this chapter.

Source: NBP.

The return of investment funds as buyers to the State-Treasury guaranteed bond market was only observed in the first half of 2024[81]. The annual balance of transactions in these instruments amounted to approx. 3 billion zlotys, however, between June and December the funds were net sellers of such instruments. At the end of the year, the value of this asset class in their portfolio in relation to the value of domestic Treasury bonds represented nearly 1/4. BGK bonds for the COVID-19 Response Fund, including securities issued in foreign currencies, continued to see the highest demand from the funds.[82] Open-ended funds remained the main buyers of such instruments, which also held the largest portfolio

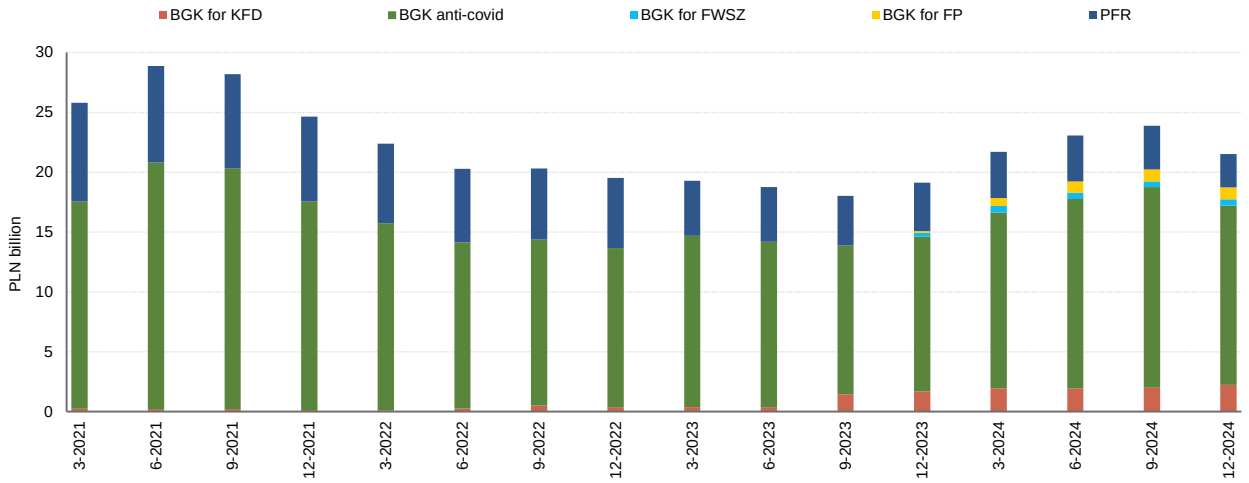
[80] In the case of closed-ended funds, the balance of transactions in these instruments was negative and amounted to -1.7 billion zlotys.

[81] I.e. BGK bonds issued to: the National Road Fund (KFD), the Armed Forces Support Fund (FWSZ), the Aid Fund (FP) as well as the PFR and BGK bonds for the COVID-19 Prevention (anti-covid) Fund.

[82] The balance of transactions in other categories of instruments issued by BGK and guaranteed by the State Treasury (i.e. KFD, FWSZ, FP) was also positive.

of these securities (see Figure 3.18). 2024 was another year when investment funds reported a negative balance of sales of PFR bonds issued under the financial shields.

Figure 3.18. Exposure of open-ended investment funds to State Treasury-guaranteed bonds



Note: BGK for KFD – BGK bonds issued for the National Road Fund, BGK for FWSZ – BGK bonds for the Armed Forces Support Fund, BGK for FP – BGK bonds for the Aid Fund, BGK anti-covid – BGK bonds for the COVID-19 Response Fund and PFR – PFR bonds issued under the so-called financial shields.

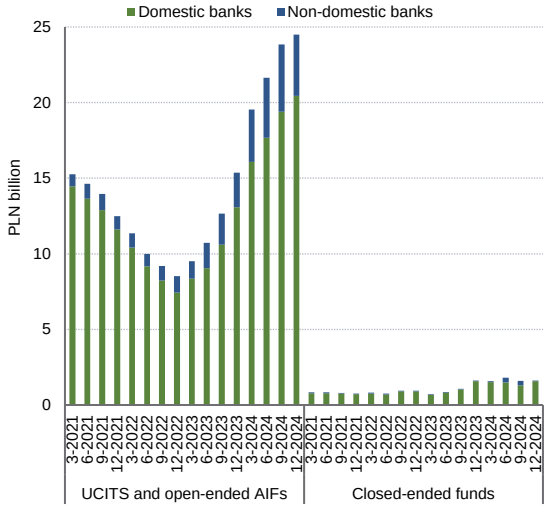
Source: NBP.

In 2024, the value of domestic banks' debt instruments in the open-ended funds' portfolio increased by nearly 60%. Throughout the year, they purchased such instruments (on a net basis) for the amount of approx. 7 billion zlotys, while their outstanding amount increased significantly (see Figure 3.19) to amount to 20% at the end of the year in relation to their domestic Treasury bond holdings. The instruments purchased were predominantly securities issued to meet MREL requirement (5.6 billion zlotys) by banks. At the end of the year, their share in the structure of this part of the funds' debt portfolio amounted to approx. 50%. On the other hand, the interlinkages between closed-end investment funds with the domestic banking sector resulted mainly from purchased receivables and deposits (they accounted for approximately 70% of their total exposure to the banking sector).

In the domestic investment fund sector, investment fund management companies (IFMC) with capital links to banks play an important role. This is due to both the scale of their operations and the associated advantage in terms of their ability to distribute funds (use of bank branches) and the cost efficiency related to, among others, the use of bank IT solutions. In 2024, the share of entities with capital links to banks in the net financial result of the IFMC sector[83] amounted to approx. 60%. These entities also displayed a high share in the value of funds contributed by investors (in net terms) to the funds (i.e. 70%).

[83] The net financial result of the IFMC sector in 2024 amounted to 1.0 billion zlotys. The primary source of income for IFMCs is management fees, which depend on the size of their assets. In 2024, the sector's ROE was close to 43%.

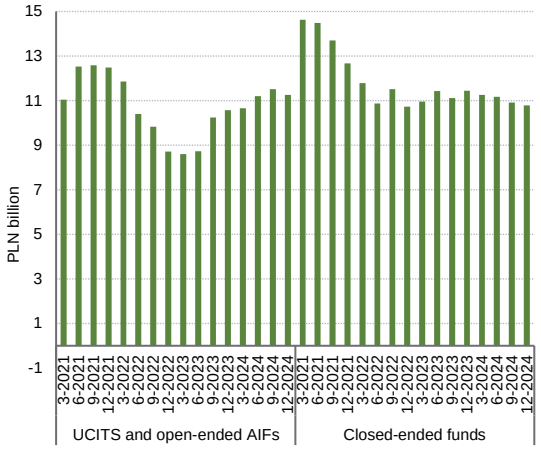
Figure 3.19. Exposure of investment funds to banks' debt instruments



Note: Treasury-guaranteed BGK bonds were excluded from the category of "bank debt securities".

Source: NBP.

Figure 3.20. Exposure of investment funds to debt instruments of domestic non-financial corporations



Source: NBP.

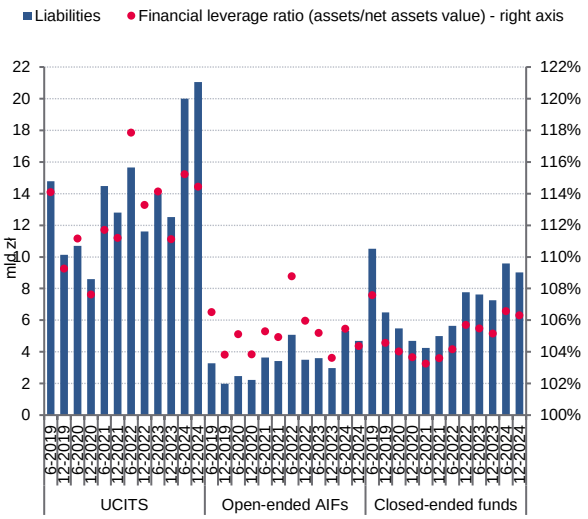
No significant changes occurred in the funds' holdings of domestic corporate debt instruments. Their sales (in net terms) continued to prevail in closed-ended investment funds, while open-ended funds recorded a minor positive balance of transactions. As a consequence, the value of these securities in the balance sheets of UCITS and open-ended AIFs slightly exceeded the value in closed-ended funds (see Figure 3.20). On the other hand, in the second half of the year the portfolio of foreign corporate debt instruments managed by closed-ended investment funds decreased significantly.

The leverage ratio of investment funds, as measured by the ratio of assets to net assets, decreased and remained at a relatively low level. The increase in liabilities was observed only in UCITS which, however, did not translate into an increase in the level of leverage ratio in the group of entities analysed. At the same time, a decline in leverage was observed in other fund types, i.e. open-ended AIFs and closed-ended funds (see Figure 3.21). Repo and sell-buy-back transactions were most significant in the structure of the sector's liabilities. [84] In particular, these operations were used by the debt funds most

[84] The report on the system-wide exploratory scenario exercise (SWES) published by the Bank of England in November 2024 highlighted the vulnerabilities associated with the liquidity risk of non-bank financial institutions, including investment funds and the related consequences for financial stability. The authors of the report highlighted the special role of repo transactions in the event of financial market shocks. During the exercise, entities reported their willingness to use repurchase transactions to cope with increased redemptions and ongoing liquidity management. However, an inconsistency was observed between the reported expectations of non-bank financial institutions to use this type of financing during market stresses and the willingness of banks to extend repos or to roll maturing repo.

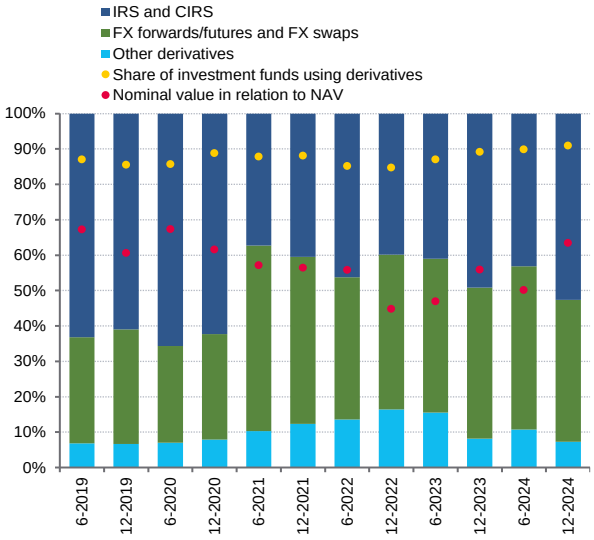
popular among households, which increased the scale of their exposure and raised the expected rate of return and risk for their participants. The total net assets of the entities with the highest leverage ratios[85] did not exceed 5% of the total net assets value of the open-ended funds. At the same time, open-ended funds with the highest levels of asset-to-net-asset ratios tended to have higher liquidity ratios (see Figure 3.23 and Figure 3.24). This resulted from their investment strategies of investing in debt securities, primarily in Polish Treasury bonds which accounted, on average, for more than 50% of their portfolio. These entities also invested in foreign Treasury bonds as well as BGK and PFR State Treasury-guaranteed bonds[86], which, however, accounted for a significantly smaller share of their assets.

Figure 3.21. Value of liabilities and leverage in the sector of investment funds



Source: NBP

Figure 3.22. Structure of derivatives used by open-ended investment funds, by nominal value



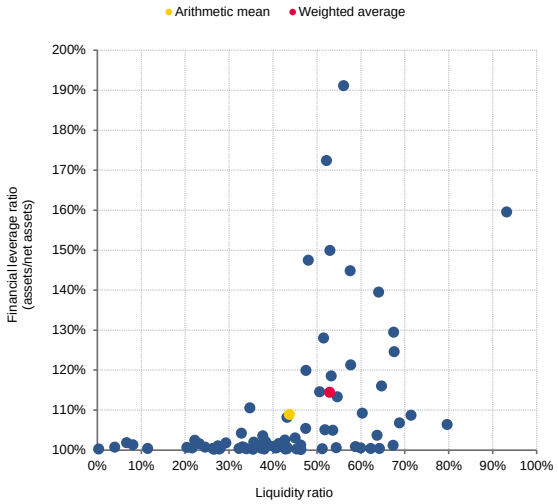
Source: NBP

Investment funds increased their exposure to derivatives. At the end of 2024, the ratio of the nominal value of derivatives to net assets of investment funds was 9 percentage points higher compared to the end of the first half of 2024. This increase resulted from greater activity of open-ended funds in this market. In order to mitigate the risk[87] of interest rates, they concluded IRS and CIRS transactions. Open-ended funds also used exchange rate forward contracts to hedge their FX positions (see Figure 3.22).

[85] This group of entities includes those for which the ratio of total assets to net assets exceeded 150%.
[86] In accordance with the methodology adopted in this chapter, bonds issued by BGK and PFR and guaranteed by the State Treasury are not included in the category of high-quality liquid assets.
[87] In addition to the objective of limiting investment risk, the provisions of the Act on Investment Funds and Alternative Investment Fund Management also allow open-ended investment funds to invest in derivative instruments for the purpose of efficient investment portfolio management. Some of the transactions carried out by open-ended funds in the derivatives market fulfilled this objective.

Such transactions were primarily concluded with domestic banks. The use of derivatives was sometimes associated with a high level of risk as measured by the SRI[88], which meant high volatility in the valuation of investment fund shares share pricing. Some of these funds were passively managed. However, due to the relatively small scale of their activities, their impact on financial stability remained limited.

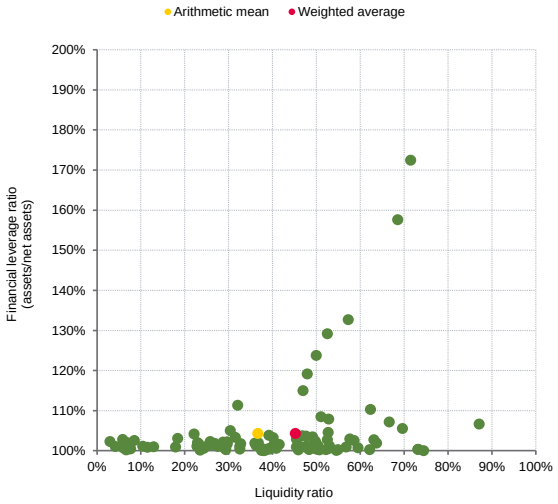
Figure 3.23. Distribution of the liquidity and leverage ratio in UCITS at the end of December 2024



Note: The entities are divided into groups by the leverage ratio, in descending order. Each blue dot represents the average value of the leverage ratio and the liquidity ratio for a given group (averages weighted by the net asset value of the entities included in each group).

Source: NBP.

Figure 3.24. Distribution of the liquidity and leverage ratio in open-ended AIFs at the end of December 2024



Note: The entities are divided into groups by the leverage ratio, in descending order. Each green dot represents the average value of the leverage ratio and the liquidity ratio for a given group (averages weighted by the net asset value of the entities included in each group).

Source: NBP.

[88] Summary Risk Indicator (SRI) is the overall risk indicator presented in the *Key Information Document* (KID) informing about the level of risk associated with investing in a given product. This indicator assumes values on a scale of 1 to 7, where 1 represents the lowest and 7 – the highest risk. Its calculation methodology is based on two parameters, i.e. (1) market risk as measured by Value at Risk and (2) credit risk assessment of the issuers of financial instruments in the fund's portfolio.

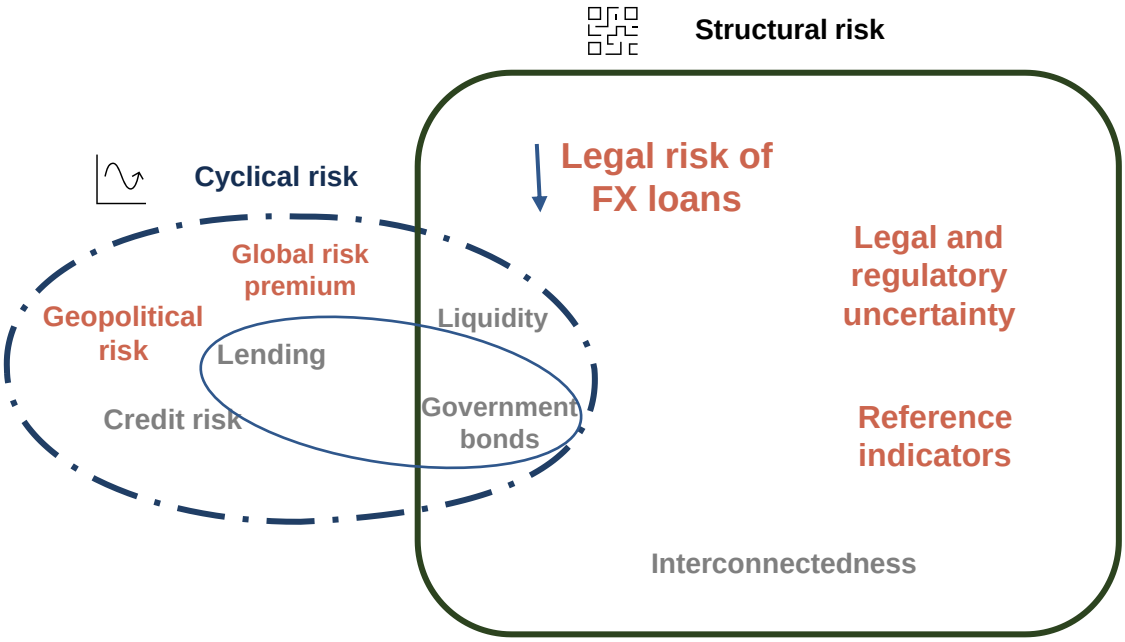
4. Systemic risk assessment

The assessment of systemic risk in this Report takes into account two aspects of that risk – ***cyclical and structural. Cyclical risk*** *stems from periodical changes in its intensity throughout the financial cycle and it is largely tied to the risk of excessive debt growth and excessive leverage and instability of the funding model.* ***The structural aspect*** *results from interconnectedness across institutions, exposure concentration and from the structure of the financial system's incentives that affect how participants in this system behave.*

Poland's banking sector remains resilient to the effects of materialisation of hypothetical shocks assumed in the stress testing exercise. Banks demonstrate a high capacity to absorb losses due to high capitals and profits.

Legal uncertainty and its costs remain a key challenge to domestic financial stability. The disproportion of sanctions and burdens imposed on banks, observed in recent years, in connection with the support and protection of borrowers as financial service consumers, may negatively affect this segment of the credit market. Uncertainty related to the attempts to challenge credit agreements persists and also affects loans denominated in the zloty. This may negatively affect banking sector activity and, consequently, limit the available credit, especially to households.

Chart 4.1. Systemic risk areas in Poland



Notes: The issues that represent risks or challenges to financial stability are marked in red. The areas that do not generate such risks are marked in grey.

Source: NBP.

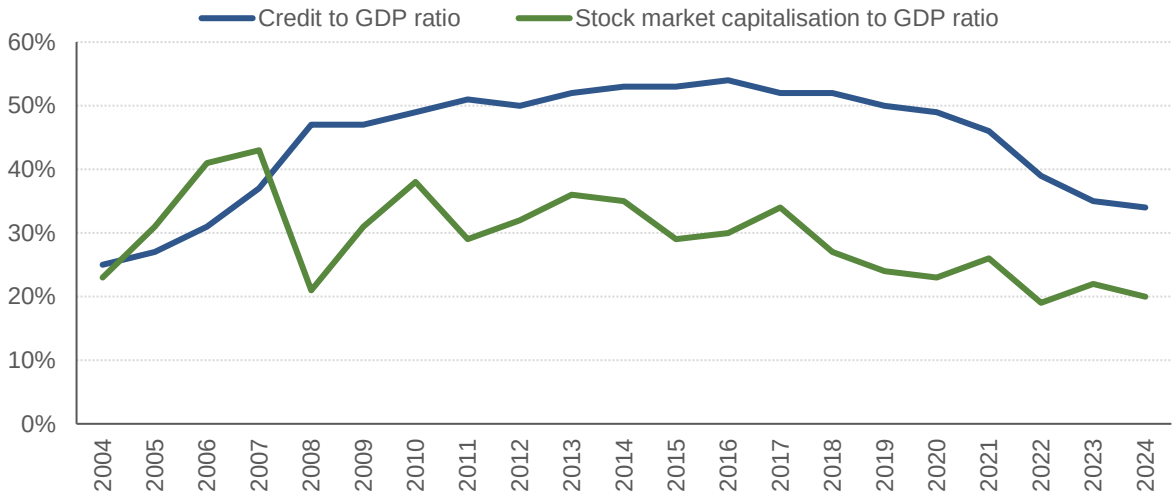
Traditional bank risks, i.e. credit risk, market risk and interest rate risk, pose no threats to domestic financial stability (see Chart 4.1). Two types of exposures with the largest share in banks' assets in

Poland, namely, (i) the portfolio of Treasury bonds and bonds guaranteed by the State Treasury, and (ii) exposures to the residential real estate market, have to be monitored but do not generate any systemic risks.

Liquidity risk is limited, which stems not only from a high share of liquid assets in bank portfolios, but primarily from low concentration and stability of deposits in the Polish banking system. Due to the specific preferences of depositors (safety, liquidity) and a limited supply of domestic alternative products to bank deposit holders, the risk of funds flowing out of the banking sector is low.

Contagion risk in the Polish financial system is also low. Stress tests do not identify banks with significant weaknesses and at the same time – given their size and interlinkages – that could negatively affect other banks. Financial interlinkages between the banking sector and non-bank financial institutions also remain moderate. Risk in the sector of non-bank financial institutions is not systemic but only sectoral.

Figure 4.1. Credit to GDP and stock market capitalisation to GDP ratios in Poland



Notes: credit to private non-financial sector granted by banks. For credit to GDP ratio, NBP estimates for 2024. Stock market capitalisation covers domestic corporations listed on WSE.

Sources: Bank for International Settlements, NBP, own calculations based on WSE and Eurostat data.

A low risk level in the financial system is generally desirable, however, this should not be accompanied by limitations of the main functions of the financial system and its efficiency. The definition of financial stability needs to be recalled in this context as it encompass also the efficient performance of the financial system functions. There was a strong decline in the financing of the real economy by the banking sector in recent years. At the same time, the development of the capital and financial markets has remained low (see Figure 4.1). As the importance of the banking system decreases to the real economy, the threats it poses for it also declines. At the same time, this happens at the cost of diminishing the role of the banking system as a catalyst for the country's economic development.

Banks report no capital or liquidity constraints for lending growth. The growth of excess capital arising from high nominal profits creates room for lending expansion even in pessimistic macrofinancial scenarios as long as there is demand from the real economy.

The recent fall in loan demand results, among others, from (i) higher macroeconomic uncertainty, (ii) substitution of bank credit with public aid funds received by enterprises during the pandemic (iii) and higher costs of funding resulting from interest rate levels. On the supply side, the introduction of a tax on certain financial institutions in 2016 increased the attractiveness of Treasury bonds for banks, as the bonds were excluded from the tax base.

4.1. Structural risk: *elevated but poses no risk to financial stability*

The structural dimension of systemic risk has been the main challenge to Poland's financial stability for a considerable time. Its major component remains legal risk associated with FX housing loans. However, legal risk gains broader meaning in recent years. It concerns also broadly understood regulatory instability, including related to consumer protection in the financial system.

4.1.1. Legal risk: *high uncertainty*

The uncertainty of the legal environment of banking sector operations remains a significant challenge to the functioning of Poland's financial system. It was reflected in the high costs of legal risk of FX housing loans, which temporarily lowered banking sector resilience. This uncertainty is shifting towards the banks' portfolio of loans denominated in the zloty, i.e. both towards consumer loans due to the free credit sanction and towards housing loans due to borrowers' attempts to challenge floating interest rate credit agreements. The limited predictability of the legal and financial consequences of a substantial part of the credit agreements creates an environment that is not conducive to credit availability for households.

4.1.1.1. Legal risk of FX housing loans: *effectively managed by banks and representing an increasingly smaller financial burden*

The banking sector's toughest period related to the legal risk of FX housing loans is over. By the end of 2024, total costs due to legal risk amounted to around 90 billion zlotys. The size of future risk provisions will remain significant, but will be substantially lower than in the past. Should legal risk provisions be fully created over the next two years, the sector concerned will continue to hold excess capital even amid adverse macrofinancial conditions (see Chapter 2.8).

4.1.1.2. Consumer protection on the financial market: *lack of proportionality enhances risk in the system*

Regulatory instability, uncertainty related to the interpretation of the consumer protection law and court jurisprudence on the matter are becoming an increasingly bigger challenge to Poland's financial stability. The hard-to-predict direction of legal and regulatory developments makes it difficult to build long-term business growth strategies due to the possibility of additional, unpredictable costs.

They arise, among others, from publicly made opinions on introducing more loan repayment holidays or a windfall tax in addition to the existing tax on financial institutions assets. This may translate into higher loan margins, hamper bank's technological development and discourage banks from tapping into new markets.

The lack of an appropriate balance between potential breaches of consumer protection rules and the severity of sanctions imposed on banks, with particular reference to so-called free credit sanction, is a challenge. This translates into impediments to estimating the financial impact of credit agreements, risk assessment and assessment of specific credit product profitability. As a result, this may reduce the range of financial services offered to retail clients. The court decisions to date, albeit few, indicate that in the majority of cases the courts rule in favour of the banks. However, the rising number of claims and the lack of jurisprudence line (the Supreme Court of the Republic of Poland and the Court of Justice of the European Union have not answered questions in this matter yet) show that costs of the risk are highly uncertain.

4.1.1.3. Benchmark reform on the Polish financial market: *determination to implement the next stages of the reform is essential*

Uncertainty associated with the benchmark reform has been reduced after the Steering Committee of the National Working Group chose in December 2024 the proposal for POLSTR[89] index as the target benchmark to replace WIBOR. In March 2025, the Steering Committee of the National Working group approved an updated roadmap[90] for replacing WIBOR and WIBID benchmarks. In line with the adopted timetable, 2025 should see the formal adoption of the entire documentation required by the BMR[91] as well as the launch of POLSTR. The first issuance of POLSTR-referenced Treasury bonds is scheduled for December 2025. The final transition to the new benchmark is due to take place at the end of 2027. WIBOR remains the critical benchmark on the domestic financial market until the completion of the reform and it may be used within the meaning of the BMR.[92] According to the modified roadmap,

[89] POLSTR will be based on unsecured overnight (O/N) deposits made by credit institutions and selected non-monetary financial institutions.

[90] https://www.knf.gov.pl/en/?articleId=93321&p_id=19

[91] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171 29.6.2016, p.1, as amended).

[92] In December 2020, the Polish Financial Supervision Authority authorised GPW Benchmark to carry on as an administrator of the critical interest rate benchmark, thus confirming that GPW Benchmark's methodology of determining the WIBOR is compliant with the BMW and ensures that this benchmark is robust and reliable. Moreover, in June 2023, the supervisory authority released a communication on the assessment of the capacity of the WIBOR critical benchmark to

it is assumed that there will be readiness to discontinue the determination and publication of WIBOR and WIBID reference rates at the end of 2027.

Box 4.1. Attempts to challenge agreements with the WIBOR benchmark

Attempts have been recently made to dispute agreements for PLN-denominated housing loans referencing the WIBOR benchmark. Claims made by the borrowers are varied and often do not relate to WIBOR as such, but e.g. to a failure by the bank to fulfil its information obligations. Moreover, there have been isolated cases of first-instance judgments in which courts agreed with the objections to the method of determining the benchmark, despite the lack of substantive justification for some of the arguments presented.[93]

The FSC-M[94] has issued statements indicating that there are no legal or economic grounds to refute the validity of the determination of the WIBOR benchmark. The requirements of the BMR to be met by the WIBOR administrator and the banks providing the data necessary to compute the benchmark provide protection against possible abuse. Also, no manipulation of the WIBOR benchmark was observed in the period before the said regulation entered into force.

The method of computing WIBOR prior to the BMR also included mechanisms to prevent the possibility of individual agents manipulating the benchmark. Calculated in compliance with the methodology then in place, WIBOR was determined as the arithmetic mean of the offer quotes provided by the fixing participants (after removing the two highest and two lowest values). Some quotes of individual fixing participants were by their very nature below, and some above the benchmark calculated on their basis, as individual banks have different liquidity needs. In this context, it is unfounded to attempt to question the method of calculating WIBOR at that time exclusively on the grounds that the banks' quotes departed from the average calculated on their basis. It is also fallacious to draw far-reaching conclusions on the basis of out-of-context phrases extracted from individual analyses, disregarding the subject matter and purpose of those analyses.

measure the underlying market and economic reality for which purpose it has been designated. According to the KNF's assessment, the WIBOR benchmark properly responds to changes in liquidity conditions, the central bank's interest rates, and economic reality.

[93] On 22 January 2025, the District Court in Suwałki issued a first instant judgment annulling a mortgage loan agreement in which the WIBOR benchmark was used. In the justification of the judgment, the court pointed to two aspects: the reasonableness of the use of WIBOR in floating interest rate clauses and the bank's failure to fulfil its information obligations. The judgment and justification are available at https://orzeczenia.suwalki.so.gov.pl/content/wibor/150520000000503_I_C_000332_2024_Uz_2025-01-22_002.

[94] See FSC-M press releases of December 2022, March 2023 and September 2024.

It is also inappropriate to quote examples of other -IBOR type benchmarks found to have been manipulated in attempts to challenge WIBOR's credibility. This is especially the case of LIBOR, for which a lack of due precision and integrity in the process of its determination has been identified. Even before the BMR became applicable, the methodology of determining WIBOR had included a range of procedures to limit the susceptibility of the benchmark to manipulation, among them the above-mentioned two-tailed trimming of extreme quotes or procedures not used in the calculation of LIBOR, such as the two-way nature of the benchmark (WIBOR was linked with WIBID by a fixed spread) or the binding character of fixing participants' quotes (i.e. the obligation to enter into transactions within 15 minutes of the publication of the benchmark).

Recent attempts to undermine WIBOR are adding to the legal uncertainty across the financial system. Indeed, not only is the benchmark used in consumer agreements but also in many products for corporates and in numerous financial instruments, including bonds and derivatives.

At the same time, it needs to be emphasised that credit institutions are obliged to comply with the applicable legislation governing the granting of loans, including regulations on consumer protection. In particular, these institutions should fulfil their information obligations, concerning those involving the provision of accurate information on the risk related to changes in the WIBOR-linked interest rates on loans, exercising due care particularly in relations with non-professional clients.

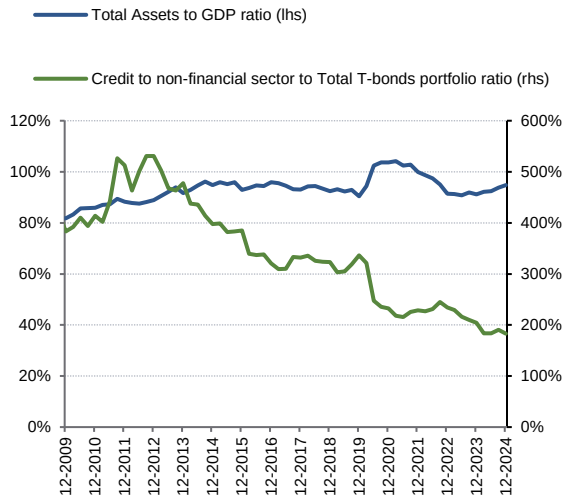
4.1.2. Treasury bond portfolio: *share in banks' assets is increasing but sensitivity remains limited*

The ratio of loans in the economy to the value of the Treasury bond portfolio in the banking sector remains at an all-time low. The ratio of the value of the banking loan portfolio to the Treasury bond portfolio decreased to 180% (see Figure 4.2), while the ratio of banking sector assets to GDP has recently shown an opposite trend – in 2024, it rose from 91% to 95%. This trend has been driven by both limited demand for credit in an environment of high interest rates and high supply of bonds in view of the substantial borrowing needs of the State. The tax on certain financial institutions, to which bank loans and not Treasury bonds are subject, is also conducive to higher exposure to Treasury bonds relative to loans. All in, this means that as far as the importance of banks in the economy remains on a relatively stable level, their role in funding the economy is shifting from lending to the real economy towards financing the public sector.

The growing value of the portfolio of Treasury bonds is continuously increasing the sensitivity of the banking sector to interest rate risk. However, this risk remains limited. Banks' sensitivity to a hypothetical shock to bond yields (a 300 pb rise) rose to around 7.5% of their own funds at the end of 2024, which represented the highest level since 2022 (see Figure 4.3). In the past two years, this increase was mainly influenced by an increase in the total portfolio's book value, and in the last quarter of 2024 – an increase to 2.1 of the duration of the Treasury bonds portfolio. Factors limiting the banks' sensitivity to an interest rate shock include: (i) the fact that the portfolio value was increasing mainly in the

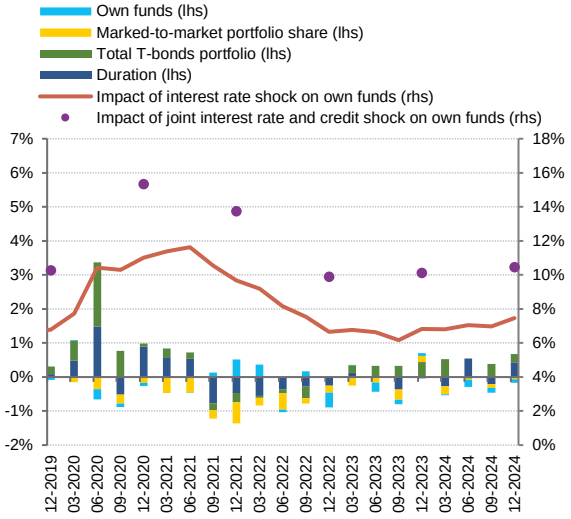
part measured at amortised cost, which is insensitive to current market conditions, and (ii) an increase in banks' own funds.

Figure 4.2. Credit and Treasury bonds in banks' assets



Source: NBP.

Figure 4.3. Sensitivity of banks' own funds to Treasury securities valuation risk



Notes: The effect of a 300 bp interest rate shock on fixed coupon bonds (brown line) or of a 300 bp credit shock on floating coupon bonds (purple dots) on banks' own funds – rhs. Bars show the decomposition of a change of banks' own funds to a 300 bp interest rate shock for a Treasury securities portfolio of banks (lhs, %). A positive value of the bar implies a rise in sensitivity of own funds.

Source: NBP.

The risk of changes in the valuation of the bond portfolio may also be impacted by a rise in the perception of country credit risk. This applies to a relatively large (approx. 1/3 of all bonds purchased by banks) portfolio of floating-coupon bonds, which is not sensitive to changes in interest rate level itself. Unlike interest rate risk, hedging against credit risk is difficult, as the liquidity of the market for hedging instruments is low. The hypothetical credit shock in Treasury bond valuation increased the sensitivity of banks' own funds by around 3 percentage points to 10.5% (see Figure 4.3) at the end of 2024.

Risk associated with the portfolio of bonds not marked to market, arising from the potential need to sell them before the maturity date remains insignificant. The overwhelming majority of banks more than comply with the LCR requirement via marked-to-market bonds and other instruments, e.g. NBP bills and funds in accounts with NBP. The potential need to satisfy liquidity needs through the sale of such instruments will therefore not impact the level of banks' equity. On the other hand, in the case of banks with a higher share of securities that are not marked to market, potential losses from the sale of such instruments would not put sector stability at risk because of the insignificant size of the potential required sale of the Treasury bonds not marked to market. Moreover, Treasury bonds –

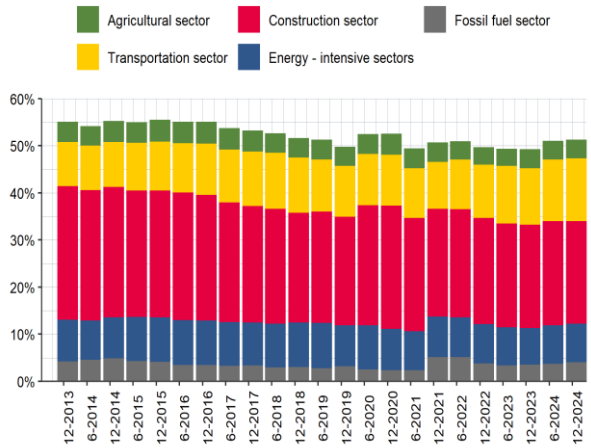
irrespective of their accounting and valuation methods – may serve as collateral in repo and SBB operations on the market or with the central bank, which reduces the need to sell them and mitigates the risk of bank losses should they have increased liquidity needs.

4.1.3. Other structural risks

Banks' exposure to climate change risk remains stable. In 2013-2024, commercial bank exposure to climate policy relevant sectors, CPRS) accounted for more than half of the loan portfolio for the enterprise sector. Construction (approx. 22%) and transport (approx. 13%) prevailed in the exposure structure. The share of sectors with elevated levels of CPRS3 risk relating to the energy-intensive sector, electricity sector and utilities sector and the sector of fossil fuels was at a stable level of approx. 15% (see Figure 4.4). According to ECB/ESRB 2024 estimates for EU27 countries, the share of exposures in sectors that substantially contribute to climate change in Poland's banking sector was comparable to the EU average.[95] Moreover, due to the short time to maturity of most of these exposures, the capacity of banks to manage the risk is considerable.

The average weighted carbon intensity indicator of the loan portfolio towards enterprises is relatively stable. In 2024, the average carbon intensity of the loan portfolio amounted to around 8%, which corresponds to the average for the years 2013-2024, despite fluctuations within the range of 6-11%. This indicator differed among banks, which is evidenced by the interquartile range or the difference between the 75th and 25th percentile (grey range), which amounted to around 10% (see Figure 4.5).

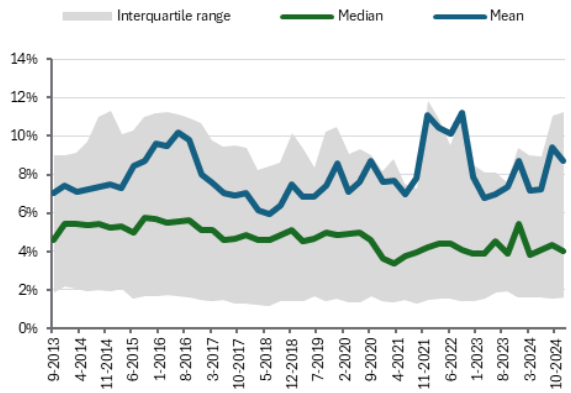
Figure 4.4. Commercial banks' credit exposure to climate policy relevant sectors



Note: For calculation methodology, see "Financial Stability Report. December 2024".

Source: NBP.

Figure 4.5. Average weighted carbon intensity indicator of loan portfolio towards enterprises



Note: For calculation methodology, see "Financial Stability Report. December 2024".

Source: NBP and Eurostat.

[95] ESRB (2024), Climate-related risks and accounting April 2024, https://www.esrb.europa.eu/pub/pdf/reports/esrb.report202404_climaterelatedrisks~2311dfaee2.en.pdf?0aab709cd36109c9d446b152084291ef

4.2. Cyclical risk: *remains moderate amid high uncertainty*

Cyclical risk remains at a moderate level and does not pose a threat to financial stability in Poland. In the second half of 2024, the intensity of cyclical risk declined, and its level remains within the range defined as the standard level of risk[96] (see Figure 4.6).

The increase in risk pricing on the global financial market and changes in real estate market indicators were the two factors that contributed most to the decrease in cyclical risk in the second half of 2024 (see Figure 4.7). The increase in risk valuation on the global financial market is interpreted as a signal of reduced threat of imbalances arising from its undervaluation. The second half of 2024 saw real estate price growth halted, with particular emphasis on price decline relative to average wages. In historical terms, periods of growing imbalances on the real estate market were related to price growth which significantly exceeded wage growth. The opposite situation can be interpreted as a signal of decreasing imbalances resulting in a lower assessment of cyclical risk.

The financial sector's share in value added and a recovery in the credit market were the two most significant factors behind the increase in cyclical risk in the second half of 2024 (see Figure 4.7). The increase of these two factors, especially a sudden increase, could point to excessive risk-taking by economic operators. However, the situation under observation does not shows signs of sudden changes which could potential indicate that cyclical risk is building up.

The introduction of the neutral rate for the countercyclical capital buffer (nCCyB) in 2024 is aimed at increasing banking sector resilience. The new capital requirement[97], the applicable rate of which will be 1% from September 2025, is implemented when banks' capital resources are high and is not an excessive burden to them. The introduction of the nCCyB was taken into account in the KNF position

[96] A standard risk level is defined as a range such that only periods of more than average turmoil in the domestic financial market or its immediate environment fall outside it. The following are outside the range of a standard risk level: (i) a rise in cyclical risk intensity readings in view of a forthcoming global financial crisis, (ii) a fall in cyclical risk intensity read-ings in view of the consequences of a global financial crisis, (iii) a fall in cyclical risk intensity readings in view of the euro area sovereign debt crisis, (iv) a fall in cyclical risk intensity readings in view of the COVID-19 pandemic, (v) a fall in cy-clical risk intensity readings following the outbreak of war in Ukraine. As a result, within the standard range of risk, the central measure of cyclical risk intensity $\in \langle 8.1\%; 9.9\% \rangle$.

[97] The introduction of the target neutral rate for the countercyclical capital buffer (nCCyB) at of 2% was recommended in Resolution 74/2024 of the Financial Stability Committee of 14 June 2024. The recommendation was implemented by the Minister of Finance (See Journal of Laws 2024, item 1400). The statement of the reasons for the regulation is available in Bulletin of Public Information of the Government Legislation Centre: https://legislacja.gov.pl/docs//502/12387200/13070192/dokument684975.pdf

on dividend policy[98] in December 2024, according to which profit for 2024 can only be distributed by the banks that comply with the combined buffer requirement taking into account the target countercyclical capital buffer rate of 2%, which is not yet in force, but has already been announced by the Financial Stability Committee. According to end of 4th quarter 2024 data, all banks active in Poland held capital surplus over the combined buffer requirement, not smaller than 2% of TREA.

Figure 4.6. Cyclical risk intensity

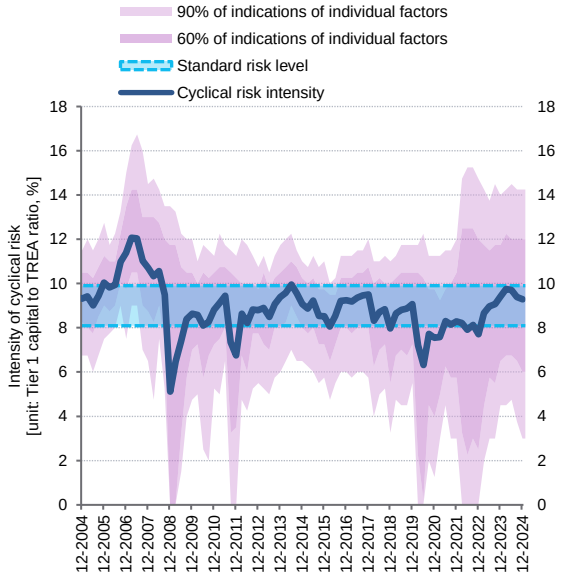
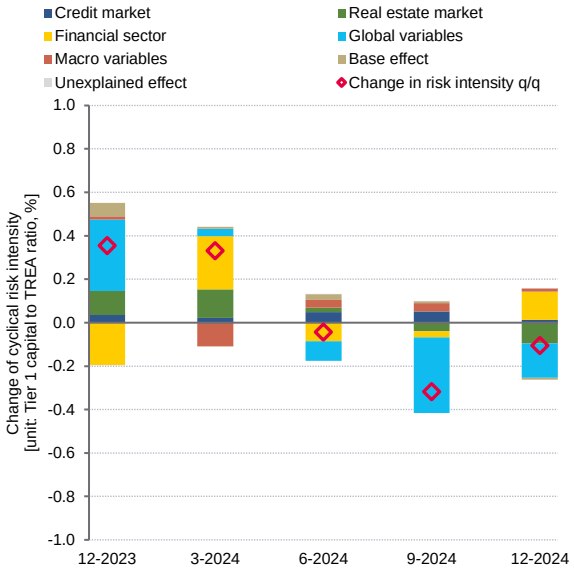


Figure 4.7. Decomposition of changes in cyclical risk intensity readings



Notes (left-hand panel, Figure 4.6): Measurement of cyclical risk intensity reflects simultaneously the current reading of cyclical risk intensity and the adequate minimum level of the capital ratio from the point of view of macroeconomic measures. As cyclical risk intensity grows, the value of capital that the banking sector needs to absorb losses related to a potential materialisation of cyclical risk rises. Therefore, an increase in an adequate capital ratio should be understood as an increase in cyclical risk intensity. For more information, see "Methodology for setting the countercyclical capital buffer", Financial Stability Committee, March 2024 (https://nbp.pl/wp-content/uploads/2024/05/Metodyka-kalibracji-bufora-antycyklicznego_EN.pdf). Purple ribbons, marked 60% and 90%, denote the ranges in which there are, respectively, 60% and 90% of indications of specific indicators. The broader the ribbons, the greater uncertainty related to the reading of the central measure of cyclical risk intensity.

Notes (right-hand panel, Figure 4.7): The figure shows the impact of specific variables on the changes in the level of the reading of the central measure of cyclical risk intensity presented in Figure 4.6.
The list of indicators which make up each of the categories shown in the figure: (I) credit market – broad credit aggregate for the private non-financial sector, broad credit aggregate to GDP, narrow credit aggregate for the private non-financial sector, narrow credit aggregate to GDP, DSR for the private non-financial sector, broad credit aggregate for households, broad credit aggregate for NFCs, (ii) real estate market – real estate prices to rental cost, real estate price index, real estate prices to income, value added of the real estate market to the value of value added in a given year, (iii) base effect – value of the Tier 1 capital ratio to TREA in the last year, (iv) financial sector – value added of the financial market to the sum of value added, (v) global variables – VIX (Volatility Index of the Chicago Board Options Exchange), (vi) macro variables – the balance of current account to GDP, GDP, broad money aggregate, M3 money aggregate, government debt to GDP, value added of the public sector to the sum of value added in a given year.

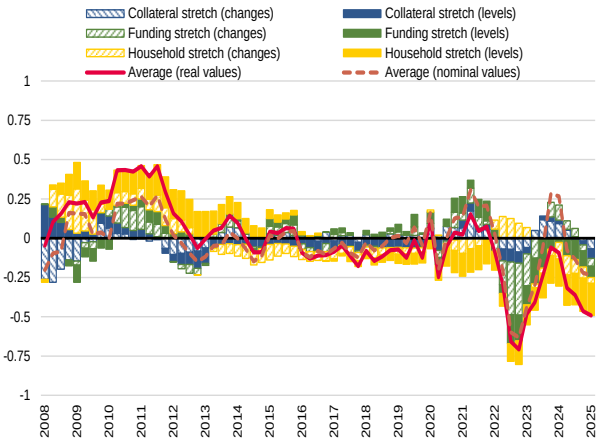
Source: NBP.

[98] The text of the position is available on the KNF website: https://www.knf.gov.pl/knf/pl/komponenty/img/Stanowisko_KNF_dot_polityki_dywidendowej_w_2025_roku_91718.pdf

4.2.1. Risk associated with residential real estate funding: *low*

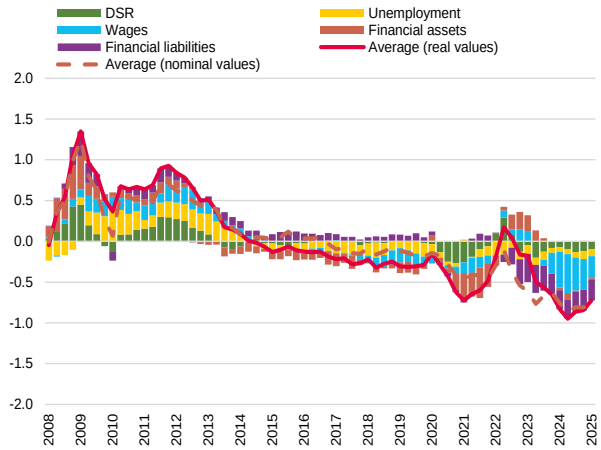
Banks' exposures to the RRE market account for the highest share in the loan portfolio of banks, but systemic risk associated with the exposures remains limited (see Figure 4.8). In all the three areas, (RRE, RRE funding, the condition of households), the indicators ran below their long-term average levels, which means that risk is lower than the historical average. This is supported by the condition of households, in particular – a robust labour market and rising real wages (see Figure 4.9). The increase in income was accompanied by an increase in nominal and real housing prices, which resulted in lower credit availability of housing.

Figure 4.8. Tensions associated with residential real estate funding



Source: NBP, own study. For explanations to this figure, see Financial Stability Report, December 2024.

Figure 4.9. Household tensions



Source: NBP, own study. For explanations to this figure, see Financial Stability Report, December 2024.

Lending associated with RRE funding remains moderate. The prudential parameters of new lending have not changed significantly recently (see Figure 2.18 and Figure 2.19) are remain at safe levels, which reflects banks' conservative lending policy. Loans with high DSTI at origination are still a significant part of new lending, but risk related to these loans is limited, as they are granted to upper-income households, and also in a still high interest rate environment (see Box 4.3 in Financial Stability Report. December 2024).

Glossary

Annualised data – in the case of data on flows – the value of flow in the preceding 12 months; in the case of data on balance (stock) – the average value of stock in the preceding 12 months.

Auto casco (AC) insurance – comprehensive auto insurance of land vehicles, excluding track vehicles, covering damage in automobiles or land vehicles lacking own drive – class 3 of the non-life insurance sector according to the Act on Insurance Activity.

Banking sector – all domestically incorporated commercial banks and cooperative banks as well as branches of foreign credit institutions active in Poland.

Ceteris paribus – a way of analysing economic phenomena by studying the isolated impact of a selected factor when other factors remain unchanged.

Combined Operating Ratio (COR) – the ratio of claims paid, costs and expenses to premium earned.

Commercial banks – domestic commercial banks and branches of credit institutions.

Loans for consumption – loans granted to natural persons for personal use in the consumption of goods and services (including overdrafts and credit card loans).

Credit losses – in banks applying IFRS – the balance of provisions created or (-) released for expected credit losses (until the end of 2017, charges to provisions for impaired loans); in banks applying the Polish Accounting Standards – the balance of specific provisions created or released. Credit losses also include net income on write-down of a financial asset in the amount of the difference between the value of the financial assets written down and the value of provision/specific provision as well as recovery of assets written down earlier.

Debt Service Ratio (DSR) – the portion of household's income earmarked for debt servicing.

Debt service to income (DSTI) – the ratio of the monthly value of all loan instalments to the net monthly income of a household.

Domestic commercial banks – domestically incorporated banks in the legal form of a joint-stock company or a state bank.

Expected profits included in future premiums – the difference between the technical provisions without a risk margin and the technical provisions without a risk margin under the assumption that the premiums relating to existing insurance and reinsurance contracts that are expected to be received in the future are not received for any reasons other than the insured event occurred, regardless of the legal or contractual rights of the policyholder to discontinue the policy.

Flow funds of BGK – funds with no legal personality, created under separate legislation and administered by BGK to perform public policy tasks, such as the COVID-19 Response Fund, the National Road Fund and the Armed Forces Support Fund.

Housing loans – loans on residential real estate for households.

Institutional Protection Scheme (IPS) – an agreement of associating and cooperative banks associated with them (IPS-CB) established under the Act of 7 December 2000 on the Functioning of Cooperative Banks, their Associations and Associating Banks (i.e. Journal of Laws of 2022, item 456, as amended). The functioning of IPSs is aimed at providing liquidity and solvency to all participants in an IPS on terms laid down in the said act and IPS agreements, in particular by granting loans, loan guarantees and sureties.

Interquartile range – the difference between the value of the third quartile and the value of the first quartile in the distribution of a variable.

Large enterprises – enterprises employing at least 250 persons.

Loan-to-Income (LTI) – the ratio of the value of a housing loan at origination to the borrower's net total annual income.

Loan-to-Value (LTV) – the ratio of the value of a housing loan granted to the value of property.

Loss ratio – the ratio of claims and benefits paid, increased by changes in the amount of provisions, to premium earned.

Minimum Capital Requirement (MCR) – corresponds to the Value-at-Risk of the basic own funds of an insurance or re-insurance undertaking to a confidence level of 85% over a one-year period.

Motor third party liability insurance – third party liability insurance for land vehicles with own drive – class 10 of non-life insurance according to the act on Insurance Activity.

Net income from banking activity – the sum of net interest income and net non-interest income.

Net interest margin – the ratio of net interest income over a given period to the average balance sheet total in that period.

Neutral rate for the countercyclical capital buffer (nCCyB) – the rate of the countercyclical buffer, which is prudential in nature, and is binding for banks also at a standard risk level, i.e. for most of the financial cycle.

Non-interest income – the sum of fee and commission income, revenue from dividends and net trading income (income on valuation of instruments measured at fair value through profit and loss, gains/losses from the derecognition of financial instruments other than instruments measured at fair value through profit and loss, and foreign exchange rate differences).

Operating costs – the sum of a bank's administrative expenses and depreciation.

Own funds of insurance undertaking – the sum of basic own funds which include the excess of assets over liabilities and subordinated liabilities, and ancillary own funds which comprise unpaid share capital or initial fund that has not been called up, letter of credit and guarantees and also other legally binding commitments received by insurance undertakings (or reinsurance undertakings).

Repo – a transaction in which one party sells certain securities (transferring their ownership) at an agreed sale price and at the same time undertakes to repurchase, at a later date, equivalent securities at a pre-determined price (so-called repurchase price). In economic terms, entering into such a transaction is equivalent to taking out a loan collateralised with securities. In a repo transaction, rewards incidental to ownership of securities derived during the transaction are transferred by the temporary holder of securities to the party that has undertaken to repurchase them. For the counterparty that purchases securities and at the same time undertakes to resell them, the transaction is defined as a reverse repo.

Return on Equity (ROE) – the ratio of net profit to equity.

Solvency ratio of insurance undertakings – the ratio of own funds and the SCR.

Sell-buy-back (SBB) – a transaction in which one party sells certain securities (transferring their ownership) at a sale price and at the same time undertakes to repurchase, at a later date, equivalent securities at a pre-determined price (so-called repurchase price). In economic terms, entering into such a transaction is equivalent to taking out a loan collateralized with securities. In an SBB transaction, rewards incidental to ownership of securities derived during the transaction are retained by the temporary holder of securities, and the value of the rewards is factored in the repurchase price. For the counterparty that purchases securities and at the same time undertakes to resell them, the transaction is defined as a buy-sell-back (BSB).

Small and medium-sized enterprises – enterprises that employ fewer than 250 persons.

Solvency Capital Requirement (SCR) – corresponds to the Value-at-Risk of the basic own funds of an insurance or reinsurance undertaking to a confidence level of 99.5% over a one-year period.

SRISK (systemic risk) – market-based estimate of undercapitalisation which measures the expected capital shortfall of a bank should a shock scenario materialise – a fall in the broad equity market below a certain level. SRISK may be interpreted as a market-based stress test.

Systemic risk – the risk of disruptions in the functioning of the financial system, which if materialised, interferes with the functioning of the financial system and the national economy as a whole (Article 4(15) of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management.

Technical provisions – the amount of liabilities arising from insurance contracts.

Technical result – the difference between income from premiums, other technical income and claims and benefits paid and changes in technical provisions, including the share of re-insurers, and expenses on operating activities and other technical costs. Income and expenses on investment activities of life insurance are also shown in the technical result.

Top-down – stress tests are performed from "behind the desk", without the involvement of the entities analysed.

Vector Error Correction Model (VECM) – the model which belongs to multi-dimensional time series models, used to identify long-term relationships that occur in variables and indicators observed over time.

Abbreviations

2%SF	2% Safe Mortgage
AIF	Alternative Investment Fund
BFG	Bank Guarantee Fund
BGK	Bank Gospodarstwa Krajowego
BIK	Credit Information Bureau
CBR	Combined Bufer Requirement
CBR-M	Combined Buffer Requirement in addition to MREL
CEE	Central and Eastern Europe
CET1	Common Equity Tier I
CHF	Swiss franc
CIRS	Cross-currency Interest Rate Swap
CIT	Corporate Income Tax
CJEU	Court of Justice of the European Union
COR	Combined ratio
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
DSTI	Debt service to income
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority

EPIFP	Expected profits included in future premiums
EPU	Economic Policy Uncertainty Index
EUR	Euro
EU	European Union
EVE	Economic Value of Equity
FWK	Borrower Support Fund
GDP	Gross Domestic Product
GPR	Geopolitical Risk Index
FIZ	Closed-ended fund
GPW	Warsaw Stock Exchange
GUS	Statistics Poland
HH	Households
IFMC	Investment fund management company
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPS	Institutional Protection Scheme
IRS	Interest Rate Swap
KNF	Polish Financial Supervision Authority
LCR	Liquidity Coverage Ratio
LTI	Loan to Income
LTV	Loan to Value
MCR	Minimum Capital Requirement
MREL	Minimum Requirement for Own Funds and Eligible Liabilities

MREL-RCA	MREL Recapitalisation Amount
MREL-TREA	MREL calibrated on TREA
NAV	Net Asset Value
NBP	Narodowy Bank Polski
NFC	Non-financial corporations
NFI	Non-bank financial institution
NIK	Supreme Audit Office
NIM	Net Interest Margin
NSFR	Net Stable Funding Ratio
P2G	Pillar 2 Guidance (expected level of own funds)
PAS	Polish Accounting Standards
PFR	Polish Development Fund
PM	Primary market
POLSTR	Polish Short Term Rate
PTE	Pension fund management company
ROA	Return on Assets
ROE	Return on Equity
RORC	Return on regulatory capital
SCR	Solvency Capital Requirement
SKD	Free-credit sanction
SM	Secondary market
SME	Small and medium-sized enterprise
SN	Supreme Court of the Republic of Poland

SPE	Single Point of Entry
SSM	Single Supervisory Mechanism
ST	State Treasury
TCR	Total Capital Ratio
TEM	Total Exposure Measure
TPU	Trade Policy Uncertainty Index
TREA	Total Risk Exposure Amount
TS	Treasury securities
UCITS	Undertaking for Collective Investment in Transferable Securities
UFK	Unit-linked insurance
UKNF	Office of the Polish Financial Supervision Authority
USA	The United States of America
VECM	Vector Error Correction Model
WFD	Long-term Funding Ratio
WIRF	Warsaw Financial Market Index
ZU	Insurance company

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