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December 2025

Financial Stability Report

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Financial Stability Department
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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 edition of the report is based on data available up to the cut-off date of 31 October 2025. The report was approved by the Management Board of Narodowy Bank Polski on 18 December 2025.

This Report is a translation of NBP's *Raport o stabilności finansowej. Grudzień 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 more pessimistic stress test scenarios than in the previous edition of the Report.

The uncertainty of the legal environment still affects the functioning of the banking system. This uncertainty has two dimensions: (i) the costs of legal risk and (ii) the limited predictability of national regulations. The banks bore most of the costs of the legal risk related to FX housing loans, but new risks related to the interpretation of the consumer protection laws for zloty loans surfaced. This applies to both consumer loans subject to the free credit sanction and housing loans where borrowers' attempt to challenge agreements with floating interest rates. Yet at this stage there are no grounds to claim that the potential costs of legal risk threaten the financial systems stability. Unstable regulations, in turn, make it difficult to build long-term strategies for expanding financial services offering as unexpected costs may arise. These costs may originate from new taxes on banks or new regulations which cause additional uncertainty about the conditions of consumer protection in the financial market.

The risk of the high and growing share of Treasury bonds and the State Treasury-guaranteed bonds in the banks' balance sheets takes on a new dimension. The significant increase in public debt in the coming years assumed by the Ministry of Finance will mean greater borrowing needs of the State and a larger supply of Treasury securities in the market. This increases the risk of a decline in bond valuations. Banks' vulnerability for this risk is mitigated by a considerable portion of Treasury securities held to maturity by them and relatively short duration. At the same time, the portfolio of marked-to-market Treasury securities is sufficient to cover the effects of the materialisation of large-scale liquidity risk.

The cost of credit risk remains moderate and should not increase significantly. This is due, among other things, to: (i) the robust labour market, (ii) the high capacity of enterprises to service their liabilities and (iii) the prudential lending policy of banks.

Liquidity risk in the domestic banking sector remains low. This is because, among other things: (i) the significant share of retail deposit funding, (ii) the low deposit concentration, (iii) the high share of guaranteed deposits and (iv) the large portfolio of liquid assets.

Although lending growth is gradually recovering, its pace will not be high enough for the bank loan-to-GDP ratio to increase markedly. While the share of credit in the economy has been declining for about 10 years, in recent years the shocks caused by COVID-19 and the war in Ukraine have caused demand for credit to drop markedly and consequently the credit-to-GDP ratio has fallen sharply.

The benchmark reform is progressing, but its successful completion still requires several steps. In September 2025, POLSTR became a benchmark according to the BMR. However, WIBOR remains the critical benchmark on the domestic financial market until the completion of the reform. The roadmap

assumes readiness for cessation of the determination and publication of the WIBOR and WIBID benchmarks at the end of 2027.

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 high net inflows to the funds, they still held a low level of the most liquid assets.

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. Any proposals for significant changes to regulations should be communicated and consulted with the financial sector well in advance to enable financial institutions to adapt to them. Predictability of this environment facilitates risk assessment and has a favourable impact on access to credit and other financial services.

2. Proportional consumer protection

In the course of further work on the draft Act on consumer credit, every effort should be made to regulate the free-credit sanction in such a way that it is adequate and proportional to the scale of the violations. The new regulations should leave little room for potential abuse of the consumer protection legislation. In this context, the statement of the Financial Stability Committee should be given due consideration.[1]

3. Reform of interest rate benchmarks

Intensive work on the preparation of the conversion of WIBOR into the new POLSTR index on the Polish market continues, and so the stakeholders from the Polish financial market, especially domestic banks, need to remain committed to the process. A key to the success of the reform lies in the non-repudiation of input data for the POSTR index. In the process of benchmark replacement, priority should be given to ensure that the data provided by banks for the index calculation purposes are reliable and error-free.

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

Banks should effectively strive to ensure that the MREL-RCA requirement is fully covered by eligible debt instruments. Despite substantial progress, there is still room for improvement in this area. It is also necessary to systematically plan new issues aimed atensuring the seamless replacement of maturing liabilities. A suitable share of debt instruments ensures the feasibility of resolution processes

[1] https://nbp.pl/en/statement-of-the-financial-stability-committee-on-the-risk-associated-with-a-free-credit-sanction/.

while simultaneously limiting the risk of undesirable interactions between macroprudential policy and the MREL requirement.

5. Long-term Funding Ratio

It is recommended to review the Long-term Funding Ratio (WFD) to assess the advisability of its eventual implementation or appropriate modification. 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.

6. 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. Improving the quality of interest rate risk management should lead to reducing the sensitivity of 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.

7. Insurance companies

As insurance companies continue using double gearing and maintaining a high proportion of expected profits included in future premiums (EPIFP) in own funds, the assessment of their solvency should take into account the consequent risk. Own funds obtained from the inclusion of EPIFP have a limited capacity to cover losses, even though according to the regulations they belong to the highest quality category. 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 recommended that insurance companies strive to increase value for the customer in their contracts and add life annuities to their product range. A life annuity, which is standard insurance in other EU countries, allows policyholders to insure against longevity risk. Consistently good financial performance creates favourable conditions for insurance companies to allocate an appropriately high proportion of premiums paid by policyholders to the payment of claims and benefits. This ratio sector is much lower in the Polish insurance than the European average. If the value for the customer is too low, the insurance sector might be exposed to the risk that insurance companies fail to fulfil their primary role.

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 potential claim payment. Insurance policies

contain many clauses excluding the liability of an insurance company which policyholders are often unaware of, and the claim payment does not always cover the cost of the restoration of the insured property to the condition that existed prior to the damage. More transparent terms on the insurance cover provided would allow insurance companies to fulfil their primary role to a greater extent.

8. Investment funds

Investment Fund Management Companies should take particular care to maintain appropriate buffers of the most liquid assets. This gains particular importance in the face of inflow of money into debt-based funds, most popular with households, and increased geopolitical risk.

1. Macroeconomic and external factors

1.1. External factors

Geopolitical instability and tensions in global trade remain the main sources of risk to the global economy and the financial system,[2] adversely affecting the prospects for global economic growth. The global economy owes its relatively good performance in the first half of 2025 largely to one-off factors, such as increased purchases, investment and building up of inventory in anticipation of the tariffs announced by the US administration. However, in the longer term, global economic growth is forecast to decrease, while inflationary pressures are expected to resume in response to the imposition of different rates of tariffs. The IMF forecasts[3] a slight decrease in global GDP growth from 3.3% in 2024 to 3.2% in 2025 and 3.1% in 2026. Moreover, growing geopolitical risk leads to increased public spending on defence, what contributes to further growth of public debt and is an additional factor increasing the sensitivity of the fiscal situation of some countries.

The European banking sector is characterised by high resilience to shocks. The capital adequacy ratios of EEA-based banks remain high, mainly owing to the higher pace of growth of own funds than risk-weighted assets. Return on equity is also at a reasonable level, over 10%, although interest margin growth is visibly waning. Asset quality currently does not constitute a threat, given the record low non-performing loans ratio (1.8%). Nevertheless, the share of loans in Stage 2 has been gradually increasing over the past few years (reaching 9.4% in 2025 Q2), mainly because of the deteriorating quality of loans to households and to large enterprises, and loans secured by commercial real estate.

The negative consequences of trade wars may negatively impact the real economy more significantly in the coming quarters, weakening banks' asset quality and profitability. The standing of EU banks is also challenged by their growing sovereign exposures in recent years. The current and projected deterioration in the fiscal situation of many EU countries makes the banks more vulnerable to a repricing of government bonds, which, *ceteris paribus*, might increase banks' cost of market funding. However, the impact of these shocks on the banks depends on the valuation of their government bond portfolio, the importance of market funding, and the volume and structure of liquid assets.

1.2. Macroeconomic situation in Poland

Poland is experiencing a moderate economic recovery. After a 3.2% increase y/y in 2025 Q1, GDP went up to 3.3% y/y in 2025 Q2. In the first half of 2025, GDP growth was mainly supported by persistently elevated private consumption. It was driven to a smaller extent by investment in the first half of 2025, while the contribution from the change in inventories remained positive. At the same time, the

[2] The sources of geopolitical risk and the channels of its impact on the economy and the financial system are described in more detail in the previous editions of the Financial System Stability Report.

[3] World Economic Outlook, IMF, October 2025.

contribution of net exports to GDP growth was negative, amid a weak economic climate in the euro area and relatively strong domestic demand in Poland. Incoming data point to a continued recovery in economic activity in 2025 Q3, with steady growth in consumer demand.

CPI inflation dropped to 3.0% y/y in 2025 Q3, a level consistent with the inflation target (2.5% ± 1 p.p.). The decrease in inflation in 2025 Q3 was primarily due to the base effect connected with the complete unfreezing of natural gas tariffs and partial unfreezing of electricity and heating tariffs in July 2024. The decision of the President of the Energy Regulatory Office of May 2025 setting lower tariffs on natural gas for households with effect from 1 July 2025 had the same effect on inflation. However, the scale of the decrease in energy price growth was limited by the restoration of the capacity charge at the beginning of July 2025.

The economic recovery will peak in 2026 according to the November "Inflation and GDP projection". Faster GDP growth in Poland in next year will result from the culmination of the inflow of EU funds from the National Recovery and Resilience Plan (NRRP). Increased financial expenditure under the programme will have the greatest effect on the raising of the investment path. The improvement in the economic climate in this period will also be supported by a relatively high increase in household consumption, given the consistently good financial standing of households. Only to a small extent will GDP growth in Poland in the years 2026-2027 be supported by foreign demand, with only a limited recovery expected in the euro area. Economic activity growth will visibly decrease in 2027, when expenditure under the NRRP ends.

According to the November projection, CPI inflation will remain within the NBP inflation target tolerance band in 2026-2027. The disinflation process is expected to slow down temporarily in 2026. This will be a result of the forecasted faster economic growth in Poland and increased demand pressure. Elevated growth in excise goods and administered services is expected to continue next year. On the other hand, CPI growth will be dampened by the faltering wage growth and only moderate increase in import prices, resulting from the low inflation in the external environment of the Polish economy. In 2027, as economic activity growth slows down and the impact of the slowing pace of wage growth becomes stronger, CPI inflation will revert to the downward trend.

Future economic activity in Poland is largely dependent on the economic development of Poland's main partner. Incomplete absorption of NRRP funds poses a downside risk for Poland's next year GDP growth. At the same time, the course of implementation of the new CO_2 emissions trading scheme (EU ETS2) is an upside risk for CPI inflation in 2027.

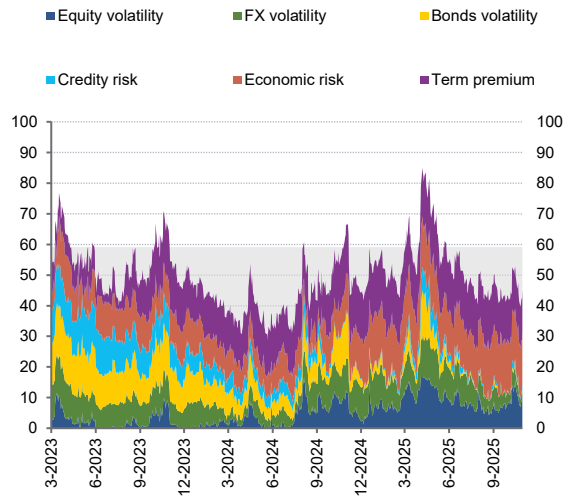
1.3. Financial markets

1.3.1. International environment

In spite of the high geopolitical uncertainty, financial markets have recently seen growing risk tolerance and falling risk pricing. This might imply asset overvaluation in certain markets. The global risk index decreased, especially due to a decrease in asset price volatility (see Figure 1.1). This

encouraged investors to increase risk exposure and financial leverage. At the same time, geopolitical risk had a limited effect on asset valuation. The increase in stock prices was higher than the increase in profitability of companies, especially in the Artificial Intelligence sector, where high optimism concerning its influence on future productivity of companies persists (see Figure 1.2). In the debt markets, a decrease in risk premiums compressed credit spreads, including on Treasury bonds of emerging economies and corporate bonds. In some cases, spreads reached the levels last recorded before the financial crisis of 2007. However, this was not accompanied by a decrease in the default rates of issuers of debt instruments, which might indicate the high risk-taking propensity of investors.

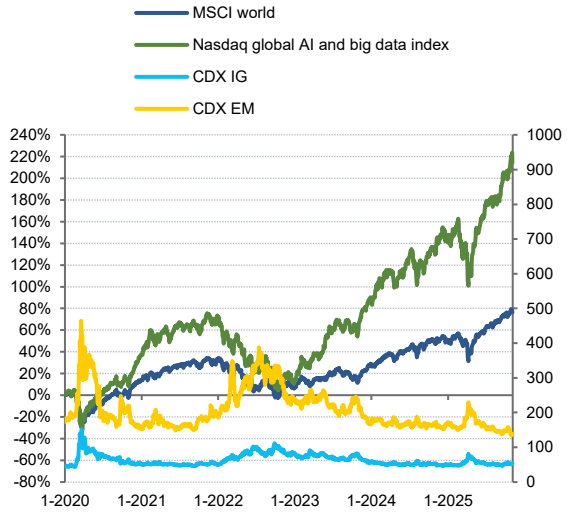
Figure 1.1. Risk index in the global financial markets



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.

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

Figure 1.2. Changes in global stock exchange indices and credit spreads



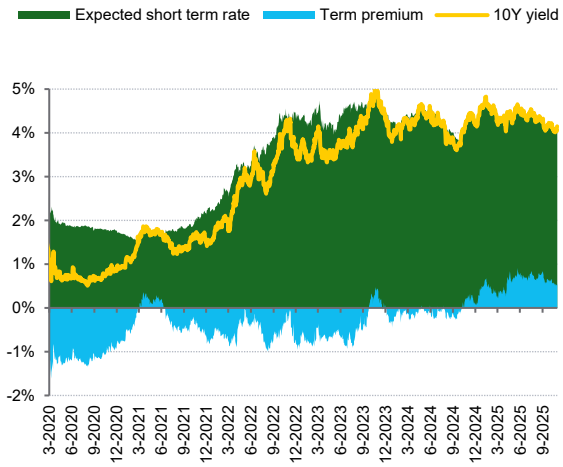
Note: left axis: MSCI World – a global equity index covering advanced and emerging economies, changes normalised to 0 at the beginning of 2020. Right axis – CDX EM (CDS spread for emerging markets) and CDX IG (CDS spread for US investment grade companies). Credit spreads are expressed in basis points.

Source: Bloomberg.

The US and euro area Treasury bond markets showed signs of increased concern about the fiscal situation, which was accompanied by an increase in term premiums. Despite interest rate cuts by the Fed and the ECB in recent months, yields on long-term US Treasury bonds and German Bunds tended to either stabilise or grow. This was partly due to the increase in risk appetite, resulting in the flow of capital from safer assets to riskier assets. However, the decomposition of the yields on long-term bonds indicates that pressure on yield growth is largely due to the term premium component, i.e. premium for holding long-term securities over the average expected level of interest rates (see Figure 1.3). Recently, it has been related primarily to the expected growth in debt and supply of Treasury bonds. As part of a new fiscal package, Germany adjusted budget expenditure on defence to the 5% threshold

required by NATO in 2035. In France, fiscal challenges (a high budget deficit and growing debt), coupled with political instability (frequent changes of government) and a lack of social consensus regarding fiscal reforms contributed to the downgrade of the country's credit rating and an increase of credit spread above the spread on Italian bonds, which had been the highest in the euro area since 2012 (see Figure 1.4).

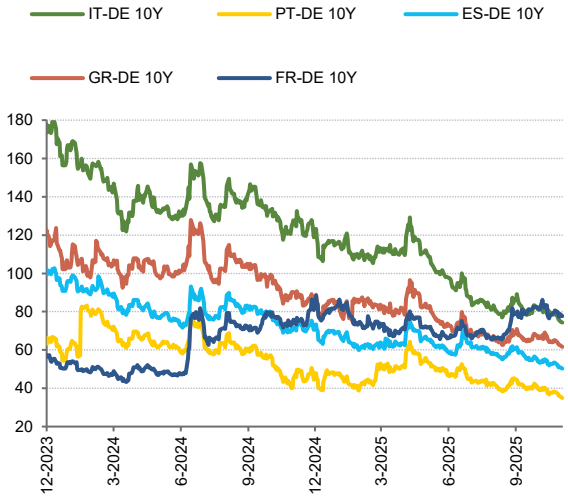
Figure 1.3. Decomposition of the yields on 10Y US Treasury bonds



Note: the decomposition of the yields on 10Y US Treasuries into the expected short-term interest rate and the term premium based on the model by Adrian, Crump, Moench (2013),

Source: New York Fed.

Figure 1.4. Spreads of 10Y Treasury bonds of selected euro area countries to German Bunds



Note: *Spreads expressed in basis points.*

Source: Bloomberg.

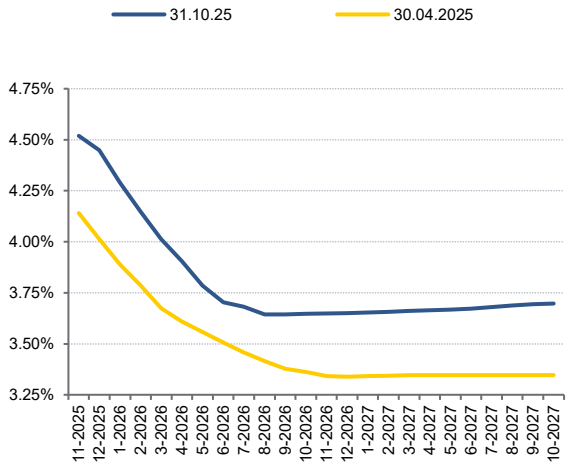
1.3.2. Financial market in Poland

Financial market participants expected NBP interest rate cuts to continue. The FRA rate curve discounted the target reference rate at the level of 3.50%–3.75%, which was to be attained by mid-2026 (see Figure 1.5).

The challenges faced by public finances in Poland were reflected in the steepening of the yield curve and the increase in the term premium in the Treasury bonds market. Yields on short-term bonds decreased, although less than NBP interest rates. However, yields on long-term bonds increased (see Figure 1.6). The pressure on higher yields on Polish Treasury bonds was connected with an increase in the term premium resulting from concerns about the expansive fiscal policy. These concerns were related to, among other things, the high budget deficit and the growing general government debt despite economic boom. This was reflected in the downgrading of Poland's credit rating prospects by Fitch and Moody's. In spite of the slight shrinking of the spread of Poland's 10-year eurobonds to German Bunds, the 10-year asset swap rate (the spread between the yields on Treasury securities and the IRS) widened, which suggests that some market segments are beginning to price in a higher credit risk of Treasury bonds (see Figure 1.6). The overall assessment of this risk by investors remains relatively low, which is

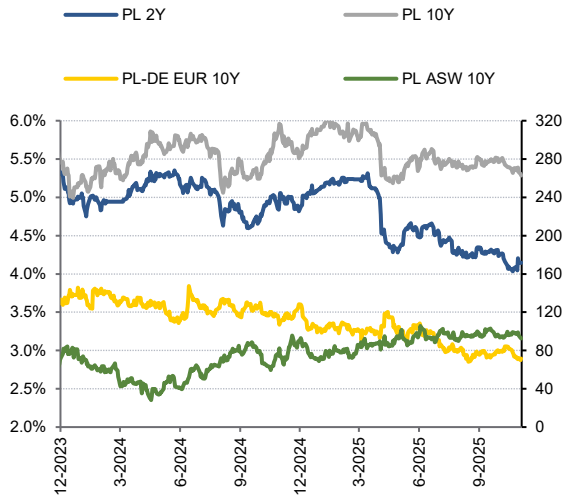
consistent with the low credit spreads all over the world. The exposure of foreign investors to the Polish Treasury securities market remained at 15%, amid a stable inflow of non-residents' capital.

Figure 1.5. FRA-implied expected WIBOR 1M rate



Source: Bloomberg, NBP calculations.

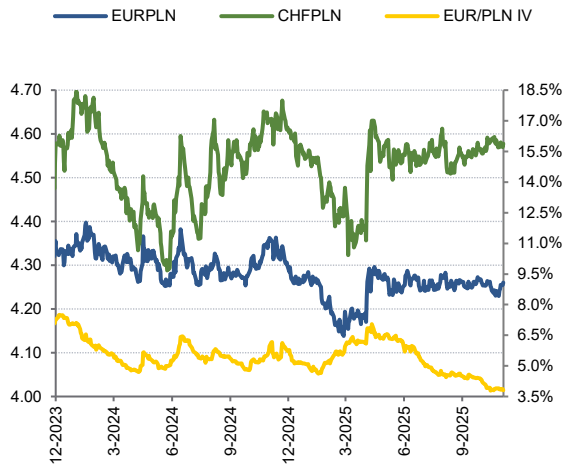
Figure 1.6. Yields and credit spreads on Treasury securities



Note: left axis: yields on Treasury securities (%), right axis: the spread of Poland's 10Y Eurobonds to German 10Y Bunds, asset swap spread (ASW) – Treasury bond yields to IRS rate (basis points).

Source: Bloomberg.

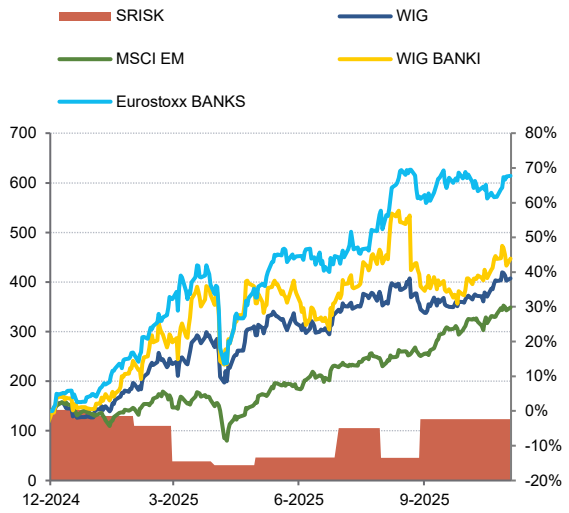
Figure 1.7. Zloty exchange rate against EUR and CHF and implied EUR/PLN volatility



Note: left axis: EUR/PLN and CHF/PLN exchange rates. Right axis: 3M option-implied volatility of EUR/PLN exchange rate

Source: Bloomberg.

Figure 1.8. Market assessment of undercapitalisation of Polish banks and stock exchange indices variations



Note: left axis – SRISK – market assessment of undercapitalisation of the largest banks (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 beginning of December 2024.

Source: Bloomberg.

The zloty did not change much relative to the euro. The EUR/PLN exchange rate moved within a narrow band of 4.23–4.29 (see Figure 1.7). This was reflected in a decrease in implied volatility of the EUR/PLN exchange rate. Monetary policy adjustments by NBP and the ECB did not cause any major changes in the currency market. The narrowing disparity of interest rates vis-a-vis the euro area as a result of deeper rate cuts by NBP than by the ECB (in principle unfavourable to the zloty) was offset by improved risk sentiment in the international markets.

Equity indices increased on the Warsaw Stock Exchange, although to a lesser extent than the regional and global indices. Valuations were supported by global conditions, namely increased risk sentiment. On the other hand, the announced increase in taxation of domestic banks adversely affected their share prices (for more about bank shares, see chapter 2.9). The low SRISK measure shows that according to the market assessment, the level of capital of the largest banks listed on the Warsaw Stock Exchange ensures appropriate resilience (see Figure 1.8).

1.4. Real estate market[4]

1.4.1. Housing market

Demand in the housing market continued to be low in the first half of 2025. Because the supply side adjustment to this situation was delayed, the stock of available housing increased.

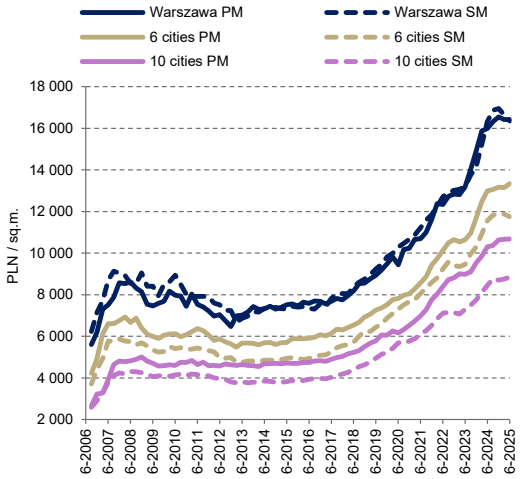
In 2025 Q2, nominal transaction prices in the housing markets of the 16 voivodeship capital cities were relatively stable (see Figure 1.9). Growth in transaction prices, adjusted for wages, was negative (see Figure 1.10). This means that the real cost for households to purchase a dwelling decreased, even though nominal prices remained at a similar level to the previous quarters.[5] Such a relationship between nominal prices and wages implies an improvement of housing affordability to the average buyer, which might be a result of wage growth as well as relaxed demand pressure in the market.

In 2025 Q2, average nominal transaction rents for 1 sq. m of housing remained in an upward trend. At the same time, rent to average gross wages (meaning rent adjusted for wages) is steadily decreasing. This means that despite the nominal growth, the real burden of rent is decreasing relatively, which translates into improved affordability of rented housing for the average tenant. The decrease in the relative cost of renting was primarily caused by the dynamic wage growth, which outpaced rent growth. As a result, the share of rent expenditure in the budget of working households is gradually decreasing, which may partly alleviate the cost pressure felt in previous years.

[4] More information about the current situation in Poland's real estate market can be found in "Information on home prices and the situation in the housing and commercial real estate market in Poland in 2025 Q2", available on the NBP website https://nbp.pl/en/publications/cyclical-materials/real-estate-market/quarterly-report/.

[5] See above.

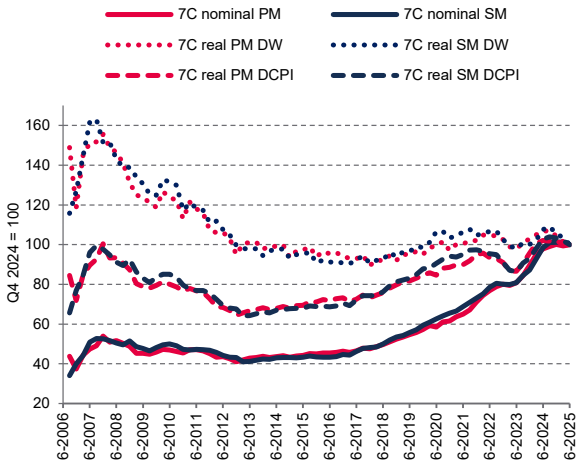
Figure 1.9. Nominal home transaction prices in the primary market (PM) and secondary market (SM) in Warsaw, 6 cities and 10 cities (PLN/sq. m)



Note: 6 cities includes 6 cities – Gdańsk, Gdynia, Kraków, Łódź, Poznań and Wrocław; and 10 cities includes – Białystok, Bydgoszcz, Katowice, Kielce, Lublin, Olsztyn, Opole, Rzeszów, Szczecin and Zielona Góra.

Source: NBP.

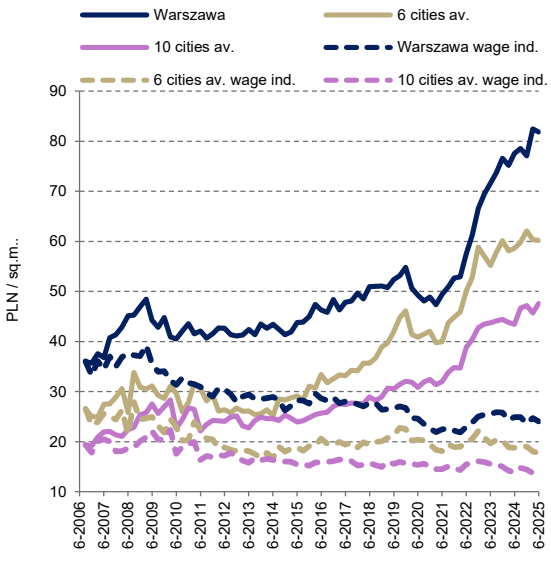
Figure 1.10. Index of transactional, nominal and CPI (DCPI) and wage (DW) deflated house prices in the primary (PM) and secondary (SM) markets in 7 cities (2025 Q2 =100)



Note: 7 cities includes Warsaw and 6 cities – Gdańsk, Gdynia, Kraków, Łódź, Poznań, and Wrocław; PM – primary market, SM – secondary market, DW – deflated by wages; DCPI – deflated by CPI.

Source: NBP.

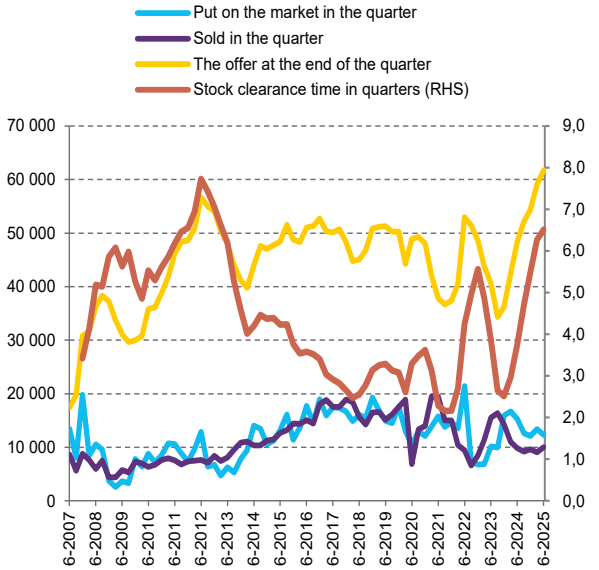
Figure 1.11. Average transaction rental rate in nominal and real terms compared to wages in selected groups of cities in Poland (PLN/sq. m)



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

Source: NBP.

Figure 1.12. 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



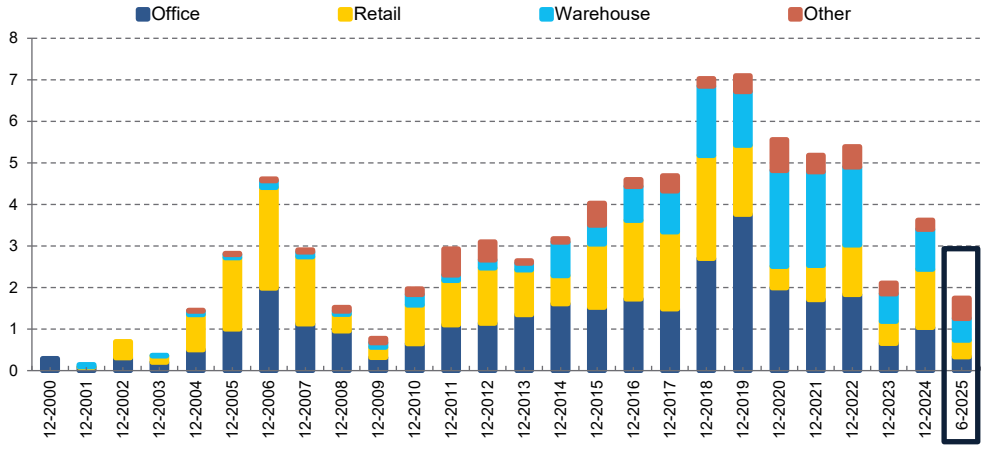
Note: the group of 6 markets includes: Kraków, Łódź, Poznań, Warsaw, Tri-City and Wrocław.

Source: Source: NB based on JLL.

1.4.2. Commercial real estate market

Demand for space to rent in commercial real estate gradually increased in the first half of 2025, which was reflected in growing rental rates. The decreasing euro interest rates[6] had a positive effect on the estimated return on investment in office space for rental. Consequently, losses made on investment in newly constructed office buildings, reflected in the negative estimated ROE given LTC of 80%, decreased (see Figure 1.14. and Figure 1.15.). However, the estimated ROE on such office buildings was adversely affected by the continuously growing construction costs. On the other hand, the estimated ROE on existing class B office buildings was again positive, given LTC of 80%. Maintenance costs are rising in office buildings, commercial buildings and warehouses. As in previous years, growth in office and retail space is slowing. The overall stock of office space decreased in Warsaw for the first time. This is because some older office buildings were either demolished or repurposed (usually for housing). Rents are still rising in the warehouse market, although the strong growth in new warehouse space observed in the wake of the COVID-19 pandemic has started to slow down.

Figure 1.13. Value of transactions involving investment in commercial real estate in particular years (EUR billion)



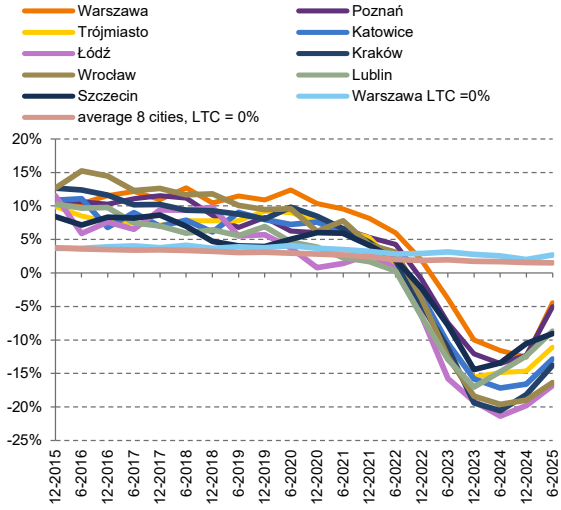
Source: Comparables.pl.

The domestic stock of commercial real estate is still relatively small and is financed largely from abroad.[7] The exposures of Polish banks to this sector remain small in relation to their assets and to loans for residential real estate. 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 69.4 billion at the end of 2025 Q2 (i.e. approx. 15% of total corporate credit). The exposure of Polish financial institutions, such as investment funds and insurance companies, in commercial real estate is still insignificant compared to their assets.

[6] A considerable part of real estate loans for enterprises is denominated in and carries interest in euro.

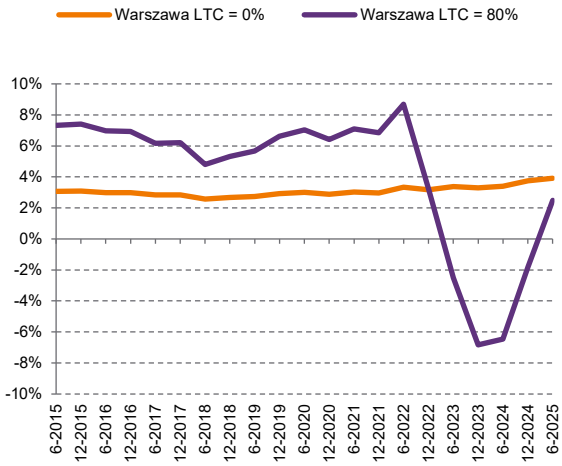
[7] The exposure of foreign investors in financing real estate activities (section L PKD) for 2024 amounted to PLN 119.4 billion, of which PLN 52.7 billion were equities and other forms of participation and PLN 66.7 billion were inter-company loans. See NBP http://nbp.pl/en/publications/cyclical-materials/foreign-direct-investment-in-poland/.

Figure 1.14. Estimated Return on Equity on an investment in the construction and commercialisation of a class A office building, LTC = 0% and 80%



Note: The ROE calculation method is described in footnote[8]. Differences in ROE between the cities arise from different levels of construction costs and different levels of effective rent, i.e. rents adjusted by the vacancy rate in the given market.
Source: NBP (rental rates and calculations), MF (yields on 10-year bonds), calculation of construction costs based on Sekocenbud data, BCO Bulletin of prices of construction facilities, part I – non-residential buildings, facility 1220-102.

Figure 1.15. Estimated Return on Equity on an investment in an existing class B office building, LTC = 0% and 80%



Note: The ROE calculation method is described in the footnote[9]. The same estimated costs of financing were applied to all the periods under analysis in the current edition of the Report as used in the analysis of the construction of a new class A office building.
Source: NBP, Comparables.pl, AMRON, NBP study.

[8] Assumptions: The office building construction cost (Sekocenbud) additionally includes 15% of the cost incurred by the developer on the project organisation and commercialisation of the building, as well as an expert estimate of the cost of land (based on publicly available data). A loan in euro for 25 years, equal instalments, payable 4 times a year. A building depreciation rate of 2.5%, standard for commercial real estate. The revenue side includes effective rent, meaning the average rent adjusted by the vacancy rate in the given market. The calculated capitalisation rate comprises depreciation of the building. CIT included. ROE means net profit/ equity employed.
Differences in ROE between the cities arise from different levels of construction costs and different levels of effective rent, i.e. rents adjusted by the vacancy rate in the class A office buildings in the given market.
A detailed description of the method can be found in "Box C. Analysis of profitability of investment in newly constructed office real estate and estimated rates of return at different leverage levels" in: NBP (2020) "Report on the situation in the residential and commercial real estate market in Poland in 2019."

[9] The analysis includes contractual rental rates for office space in class B office buildings, transaction prices, and appraisals of class B office buildings. As relatively few transaction prices and appraisals of class B office buildings are recorded in a given half-year period, a moving average was used, calculated based on the price from the given half-year period, as well as the preceding and the following period, with equal weights. The same assumptions as in footnote above.

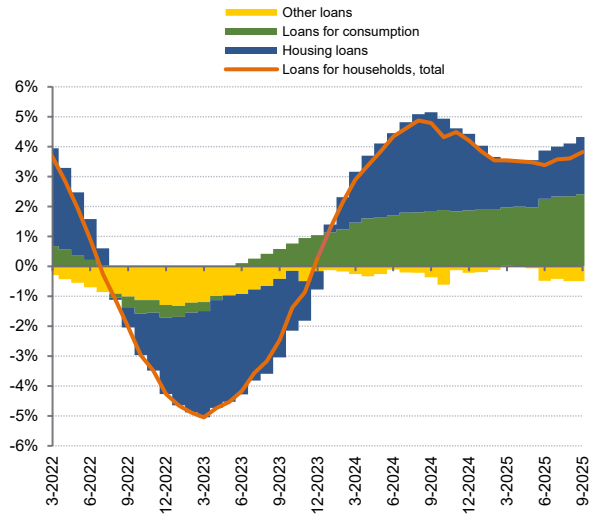
No significant tensions are observed in the domestic commercial real estate market. The indicator of loans in Stage 3, which either were stable or improved, may indicate a slow improvement of the investors' standing.

2. Banking sector situation

2.1. Lending

A recovery in lending is observed in 2025[10] (see **Figure 2.1 and Figure 2.2**). Decreasing inflation and interest rates on loans, as well as continued wage growth and a stable labour market were conducive to household borrowing. These conditions contributed to improved consumer sentiment and increased demand for loans. A slight improvement in the economic conditions perceived by enterprises was accompanied by a faster increase in their debt to banks.

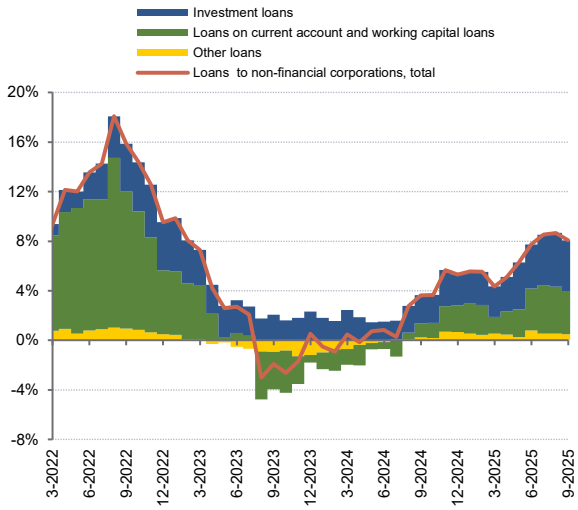
Figure 2.1. Growth rate of loans to households and contribution of its main components,[11] y/y



Note: The *Housing loans* item includes loans denominated in zloty and foreign currencies, mainly in euro, and *Other loans* includes loans to individual entrepreneurs and individual farmers.

Source: NBP.

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



Note: The *Investment loans* category includes investment loans and loan for the purchase of real estate. The *Other* category includes, among others, car loans, loans for the purchase of securities.

Source: NBP.

[10] The data on the growth/rate of change of loans presented in this chapter are based on a transactional approach, i.e. excluding changes due to exchange gains and losses between reporting periods, valuation changes, reclassifications and other adjustments, e.g. errors in reports submitted by banks.

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

Since the first quarter of 2025, growth in PLN-denominated housing loans has been gradually recovering, after a period of slowdown following the expiry of the "2% Safe Mortgage" programme[12] (see Figure 2.5). The value of newly granted PLN-denominated housing loans and the rate of debt growth have gradually increased. The moderate recovery in the housing loan market has been supported by rising wages and decreasing interest rates on housing loans. Over the recent quarters, nominal creditworthiness has reached record highs. However, the real affordability of loan-financed housing (expressed in terms of the number of square metres that can be purchased for a loan) remained lower than in the years 2014-2019. The decline in real affordability resulted primarily from interest rates, which remain higher than in the comparative period. The increase in transaction prices of dwellings was much less important, and it was almost entirely offset by the increase in wages.

Figure 2.3. Creditworthiness for various households (thousand PLN).

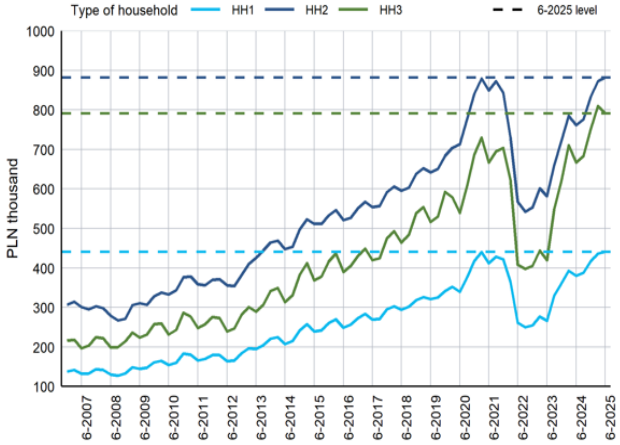
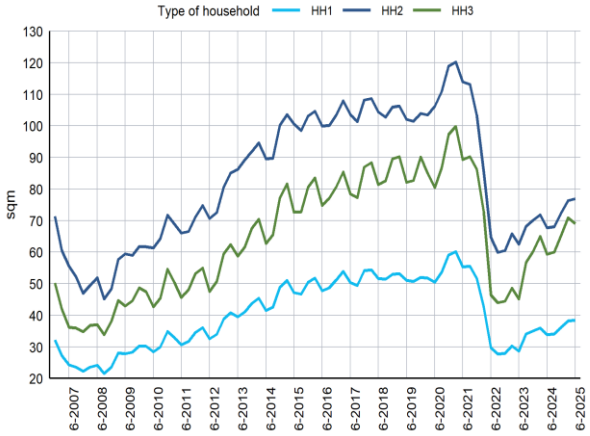


Figure 2.4. Affordability of loan-financed housing in the primary market for various households (square meters).



Note: HH1, HH2, HH3 denote 1-person, 2-person and 3-person households, respectively. The left-hand chart shows the maximum creditworthiness of a household, assuming that the adults are paid the average wage in the economy and that creditworthiness is calculated in accordance with the requirements of the KNF Recommendation S. The right-hand chart shows how many square metres can be purchased for the calculated loan amount and the required own contribution, assuming average prices on the primary market in seven cities in each period (Warszawa, Gdańsk, Gdynia, Kraków, Łódź, Poznań i Wrocław).

Source: NBP, Statistics Poland.

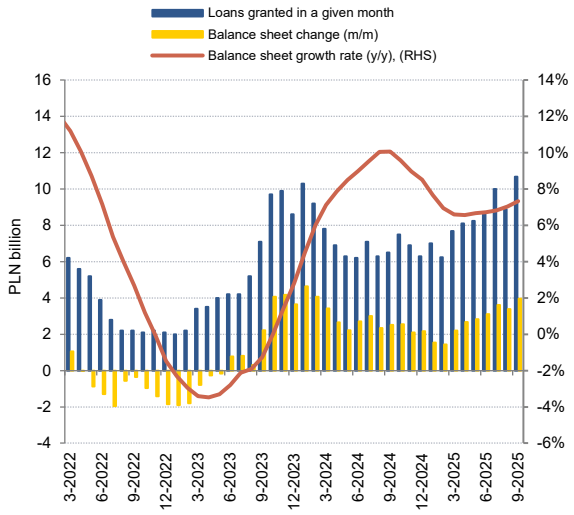
Overpayments and early repayments of loans are still seen (in the period from January to June 2025, equivalent to half of new lending), which contributes to lower increases in the amount of loans in bank's book than that resulting from new lending.

At the same time, the value of housing loans denominated in foreign currencies has been steadily declining as a result of repayments as well as court judgements and settlements with borrowers (see

[12] Numerous housing loan applications under the "2% Safe Mortgage" programme, submitted before the programme ended in 2023, were gradually processed in the first half of the first half of 2024, which inflated the comparative base for the y/y growth of loan in the first half of the first half of 2025.

Chapter 2.4). Due to different trends in PLN and FX loans, the growth in the entire housing loan segment was stable and stood at approx. 3.1% y/y.

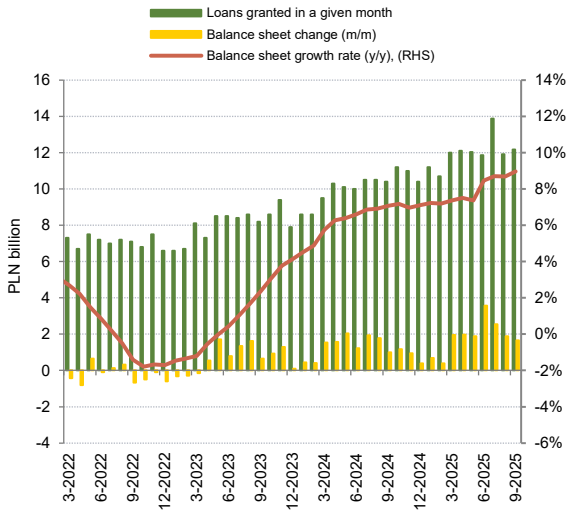
Figure 2.5. Housing loans (denominated in PLN)



Note: New loans granted based on BIK data.

Source: NBP and BIK.

Figure 2.6. Loans for consumption



Note: New loans granted based on BIK data, including cash and instalment loans.

Source: NBP and BIK.

In the first half of 2025, loans for consumption enjoyed growing interest and, in terms of value, accounted for the highest share in the volume of new loans granted to households (see Figure 2.6). Cash loans grew at a particularly fast pace, especially loans in high amounts (the value of new loans of over 100 thousand zlotys increased by 49% y/y[13]). The growth in this category can be attributable, among others, to customers taking out the so-called consolidation loans. At the same time, the reduced scale of purchases of deferred payment liabilities by banks (Buy Now, Pay Later, BNPL) contributed to lower growth in new instalment loans.[14] The total amounts of newly granted loans were reflected to a relatively small extent in the balance sheet changes (m/m) in loans for consumption. This resulted, among other things, from the high importance, in new lending, of consolidation loans used to pay off the original household debt.

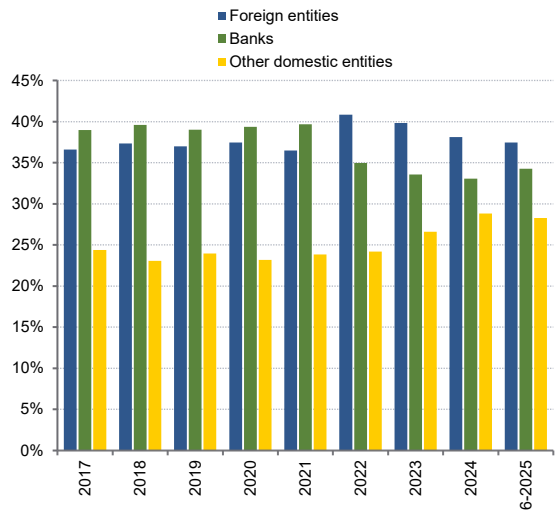
The growth in corporate loans has also increased, with increments dominated by investment loans (see Figure 2.2). The increase in indebtedness was supported by a slight improvement in economic

[13] See „Informacja prasowa – Pierwsze półrocze pod znakiem BNPL, pożyczek i kredytów gotówkowych – ożywienie w kredytach mieszkaniowych", BIK, 29.07.2025. ["Press release – First half of the year marked by BNPL, loans and cash credits – recovery in housing loans"], BIK, 29.07.2025. Material available at: www.bik.pl

[14] See „Rynek kredytów bankowych w sierpniu 2025 r." ["Bank lending market in August 2025"], BIK, 30.09.2025. Material available at: www.bik.pl

sentiment among entrepreneurs compared to the end of 2024.[15] The situation in this respect was the best in the Mazowieckie voivodship, where a significant part of borrowers (nearly 40%) come from, which may also have contributed to the acceleration in lending. However, the use of credit by businesses remains low, which mainly results from structural factors, i.e.[16]: (i) the financing of operations primarily with own funds, (ii) use of leasing, and (iii) external debt (see Figure 2.7).

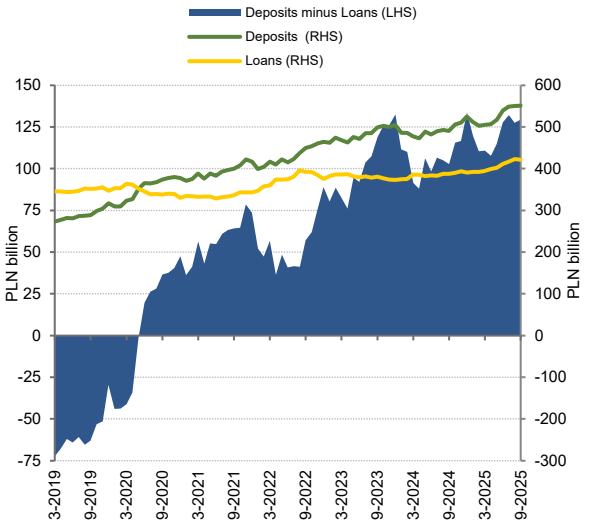
Figure 2.7. Structure of corporate debt by creditor, domestic and foreign



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

Source: NBP.

Figure 2.8. Comparison of the amounts of corporate deposits and loans



Source: NBP.

Banks endeavoured to increase credit availability by adjusting their lending policies. Lending terms were relaxed to the greatest extent in the case of housing loans.[17] Smaller adjustments were made to corporate loans, which can be attributed to higher credit risk in this loan segment. Banks also slightly reduced their requirements in terms of the criteria that a potential borrower must meet.

Forecasts

Forecasts indicate that the macroeconomic environment should be conducive to an increase in household demand for credit. The development of real wages and the reductions in interest rates expected by market participants should increase the creditworthiness of potential borrowers and thus

[15] See "Business tendency. Regional report (August 2025), Statistics Poland. Material available at: www.gus.gov.pl

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

[17] More information on loan demand and changes in banks' lending policies in NBP quarterly reports entitled "Senior loan officer opinion survey on bank lending practices and credit conditions". Reports available at: www.nbp.pl

support growth in lending. An increase in the growth of credit to households and at the same time a sustained propensity of households to save can be expected in the coming quarters.

As far as corporate loans are concerned, further growth in investment loans can be expected in connection with the financing of expenditure on defence, energy transition and other things envisaged in the financial perspective for 2021-2027 and the National Recovery and Resilience Plan. Some investment projects implemented with the use of EU funds require co-financing, which can drive demand for long-term loans. However, enterprises can partly satisfy the demand for additional funding by using funds held in bank accounts. Since the use of financial shields during the Covid-19 pandemic, the banking sector has been a net debtor to the corporate sector (in August 2025, in the amount of PLN 127 bn, i.e. approximately 30% of the value of corporate loans), (see Figure 2.8). The NBP's surveys show that, as in the past few years, only a small percentage of businesses intend to take out a loan from the bank. Among the total number of companies surveyed, the percentage of companies considering the uncertainty of their future economic situation as a high and significant barrier to growth is not decreasing.[18]

Box 2.1. The impact of demand and supply factors on credit growth and the decline in the credit-to-GDP ratio in 2019-2025

Since the COVID-19 pandemic, two waves of slowdown in credit growth in Poland have taken place. The first one occurred immediately after the pandemic and culminated in early 2021, and the second one came after Russia's invasion of Ukraine, culminating in mid-2023.[19] The slowdown in credit growth was accompanied by a substantial decline in the ratio of credit extended by banks to the private non-financial sector to GDP. It amounted to 15 percentage points in the period from the end of 2019 to 2025 Q2 (from 46% to 31% of GDP at 2004 exchange rates).[20] To explain these phenomena, two types of decomposition of changes in the credit-to-GDP ratio are presented – a statistical one

[18] See. „Szybki Monitoring NBP. Analiza sytuacji sektora przedsiębiorstw", ("NBP Quick Monitoring Survey.Economic climate in the enterprise sector. Summary"), NBP. Material available at: www.nbp.pl

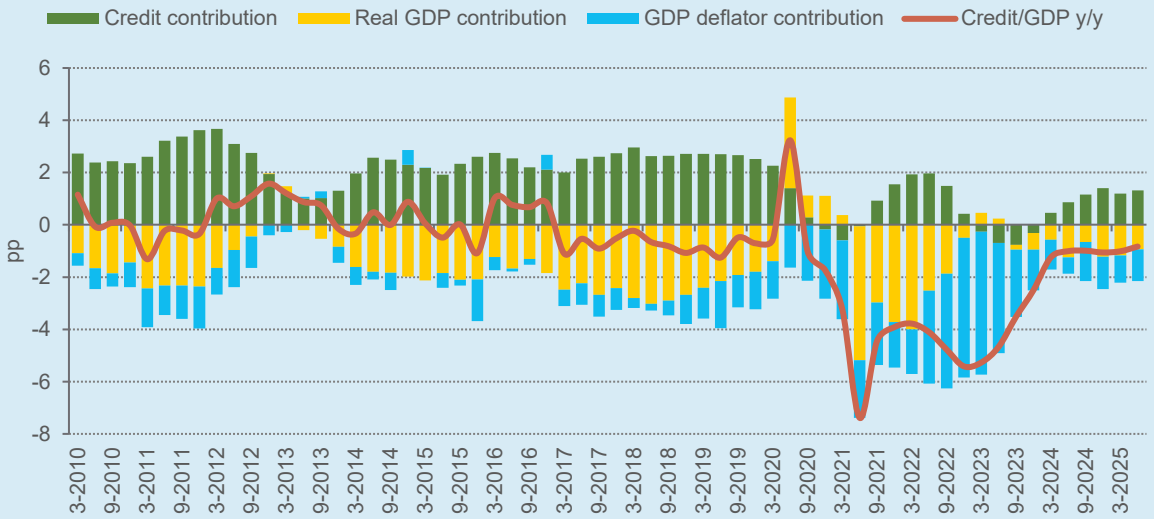
[19] The culmination points indicated refer to y/y growth. In the case of q/q growth, the culmination occurred earlier, in H2 of 2020 and 2022.

[20] All the calculations in this box refer to the loan cleared of the impact of exchange rate changes. In addition, the credit-to-GDP ratio was determined as a ratio of loans in a given quarter to the seasonally adjusted nominal GDP in the same quarter multiplied by four. By default, the ratio is determined by dividing the loan by the sum of nominal GDP for four preceding quarters. The cause of change is technical, while the conclusions can be generalised to the credit-to-GDP ratio determined by default.

and an economic one, based on a model. In the latter case, the focus was on separating the factors that mainly affect the demand for credit from credit supply.

The first method used to explain changes in the credit-to-GDP ratio is the statistical decomposition. In this case, it is important to note that the credit-to-GDP ratio has three main components – the value of credit (numerator), as well as the level of real GDP and the GDP deflator (denominator). Growing credit has an upward effect on the credit-to-GDP ratio, while growing real GDP and the GDP deflator have a downward effect. The statistical decomposition of the credit-to-GDP ratio into contributions of the above-mentioned three variables indicates that the decline in the credit-to-GDP ratio in the period since the COVID-19 pandemic resulted mainly from higher GDP deflator contributions than before the pandemic (increased inflation) and lower positive lending contributions than before (low credit growth). Real GDP contributions were similar to those observed in the pre-pandemic period.

Figure 2.9. Statistical decomposition of changes in the credit-to-GDP ratio



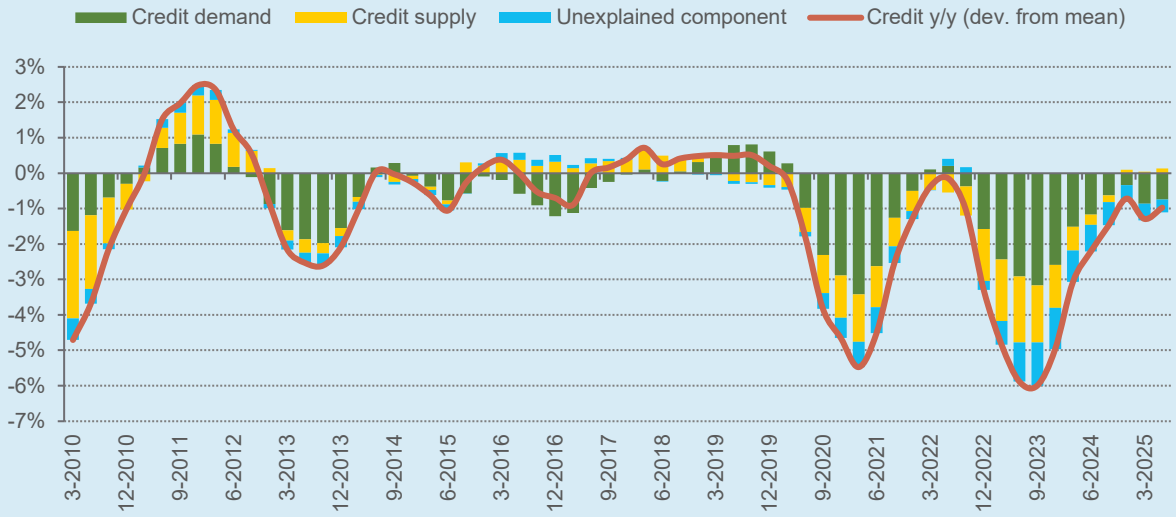
Source: Own elaboration based on NBP and Eurostat data.

Although the above-mentioned statistical decomposition seems to be a useful starting point, it does not answer the question what factors account for the increase in GDP deflator growth and the decrease in credit growth, with a minor change in average real GDP growth. **The econometric model was therefore used,[21] assuming that the dynamics of macro-financial variables – including credit,**

[21] The Bayesian vector autoregressive model with the identification of shocks based on impulse response sign restrictions and zero restrictions as well as stochastic volatility. The variables taken into account in the models include real GDP,

real GDP and the GDP deflator – are determined by shocks, which can be divided into: (i) shocks affecting the supply of loans, and (ii) shocks affecting the demand for loans.

Figure 2.10. General economic decomposition of credit growth



Source: NBP.

The first group **(credit supply)** includes credit margin shocks, reflected by changes in lending rates in relation to the marginal cost of funding and shocks to other bank lending policy tools (lending terms other than interest rate and lending criteria). The second group (**credit demand**) includes the remaining shocks: macroeconomic shocks affecting credit indirectly – supply (aggregate supply), demand (aggregate demand) and monetary policy shocks – as well as demand shocks specific to the credit market. In the case of housing loans, housing demand shocks reflected in dwelling prices were additionally included as shocks mainly affecting credit demand (corporate loans, housing loans and loans for consumption together with other loans for households were modelled separately).

The model-based analysis showed that both waves of slowdown in credit growth were dominated by the adverse impact of shocks mainly affecting credit demand. The above-mentioned shocks – once their impact on real GDP and the GDP deflator was also taken into account – were reflected in a lower credit-to-GDP ratio.

In cumulative terms, from the beginning of 2020 to 2025 Q2, shocks mainly affecting the demand for credit account for 64-70% of the part of the decline in the relationship explained by the shocks, while factors affecting credit supply account for the remaining 30-36%.

the GDP deflator, a measure of monetary policy that takes into consideration the effects of structural open market operations (*shadow rate*), the credit spread, credit, measures of loan demand and lending policy based on the results of the Senior loan officer opinion survey and, in the case of the model for housing loans, housing prices. Model parameters were estimated based on data from 2004 to 2025.

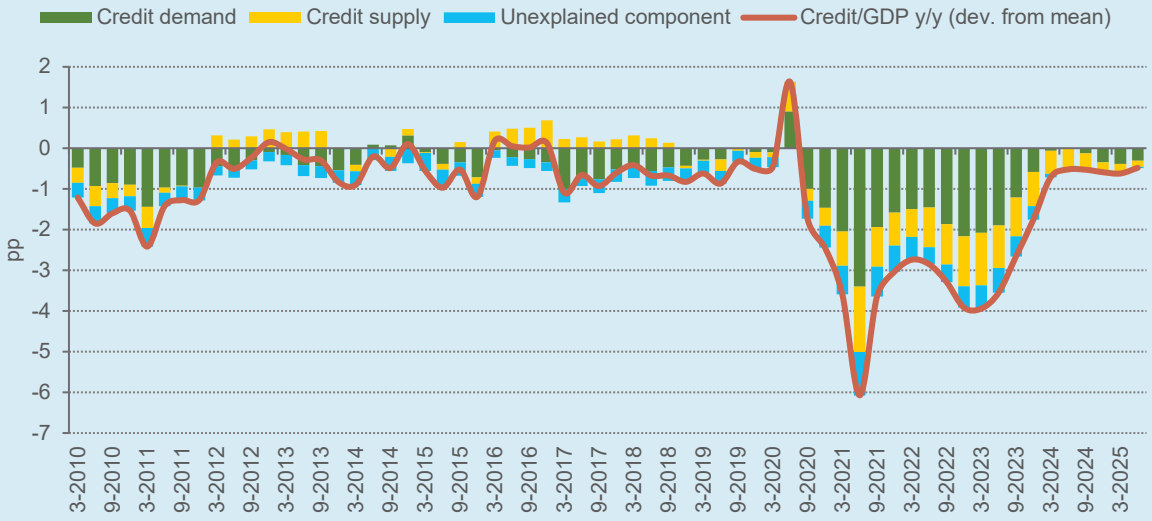
Table 2.1. Factors mainly affecting the demand and supply of loans

Shocks affecting the credit supply	Description (adverse shock)
Credit margin shock	Increase in credit margin, decrease in credit, real GDP and prices
Shock of other forms of lending policy	Decrease in the measure of credit supply based on *Senior loan officer opinion survey* (SLOOS) and credit
Shocks mainly affecting the credit demand	**Description (adverse shock)**
Macroeconomic supply shock	Decrease in real GDP, increase in prices
Macroeconomic demand shock	Decrease in real GDP and prices, monetary policy easing, decrease in credit*
Monetary policy shock	Decrease in real GDP and prices, monetary policy tightening, decrease in credit*
Housing demand shock	Decrease in housing prices
Demand shock specific to the credit market	Decrease in the measure of credit demand based on SLOOS and credit

Note: The description of the shocks takes into account sign restrictions on impulse responses. These were supplemented with zero restrictions, which enabled the shocks to be clearly separated from each other. The description has been formulated to refer to adverse shocks; corresponding favourable shocks are also included in the analysis (e.g. a shock involving GDP increase and a decrease in prices is also included as a macroeconomic supply shock). Shocks do not necessarily involve an unconditional increase or decrease in a given variable – they refer to acting on the variable upwards or downwards compared to the scenario without a shock. Asterisks indicate the restrictions that were imposed in two of the three model variants based on which the results were determined. They differ in terms of technical solutions (apart from imposing or not imposing restrictions to mark the response of credit to macroeconomic demand and monetary policy impulses, using a constant in the model or removing the mean before estimation).

Source: NBP.

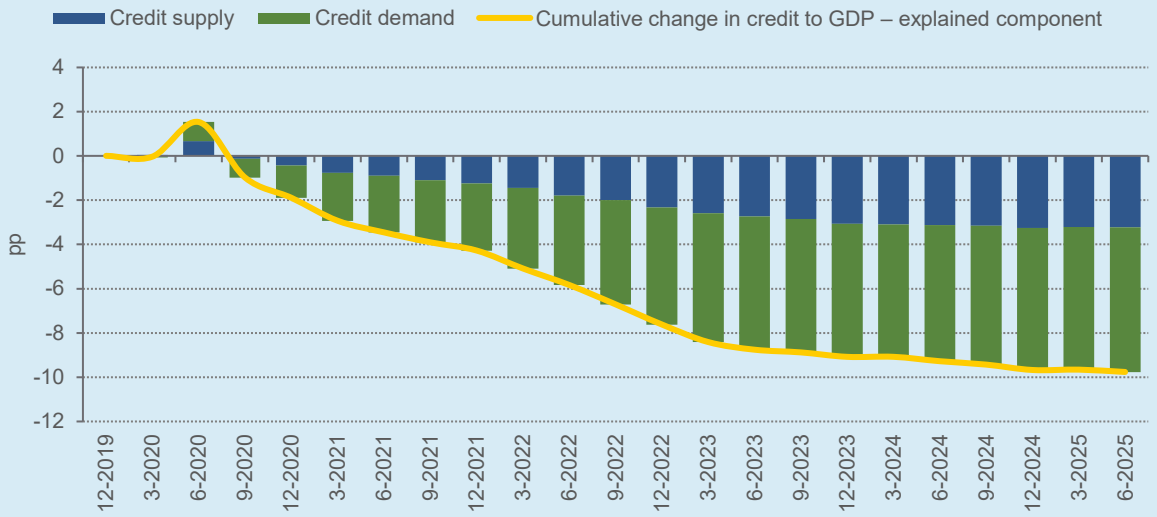
Figure 2.11. General economic decomposition of changes in the loan-to-GDP ratio



Source: NBP.

According to more detailed results, the COVID-19 pandemic was associated with a mix of macroeconomic supply and demand shocks, which jointly translated into a decline in credit demand. Subsequently, credit demand was positively affected by the post-pandemic recovery in macroeconomic demand, which was, however, quickly restricted by the macroeconomic supply shock associated with Russia's aggression against Ukraine – with an increase in inflation and a slowdown in GDP growth – and the tightening of monetary policy.

Figure 2.12. General, economic decomposition of cumulative change in credit-to-GDP ratio



Source: NBP.

Macroeconomic shocks were accompanied by credit supply shocks. These were first reflected in higher credit margins and then in the tightening of other lending policy parameters, including in connection with the tightening of creditworthiness examination standards in 2022 (interest rate buffer arising from the KNF recommendation). The decline in credit growth was temporarily limited by the launch of the 2% Safe Mortgage programme a year later.

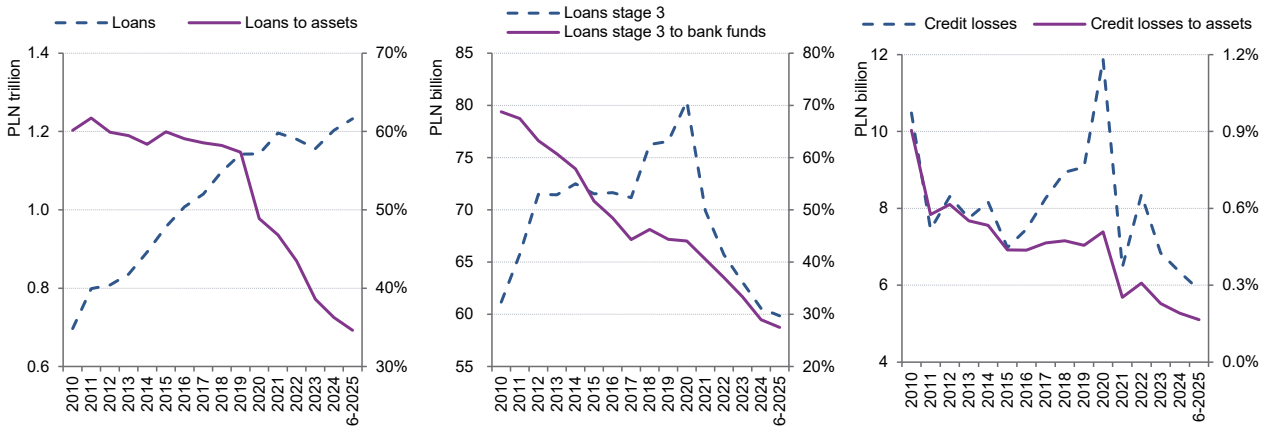
2.2. Credit risk

Credit risk has clearly decreased in recent years. After a temporary increase in the years 2017-2020, impaired loans and loan losses rapidly declined, among other things, due to favourable standing of borrowers and improvement in debt servicing (see Figure 2.13, right-hand panel). At the same time, the capacity to absorb loan losses by banks has increased significantly thanks to the continued growth of the banking sector's capital base (see Figure 2.13, middle panel). The share of total loans in the banking sector's assets also decreased markedly (see Figure 2.13, left-hand panel), reducing the exposure to credit risk in relation to the overall volume of banks' business.

The level of credit risk still varies between individual loan categories. Housing loans, which have the highest share in the portfolio of loans to non-financial sector, contribute to the category of impaired loans and to loan losses to a marginal extent (see Figure 2.14). In 2025 H1, the loan losses incurred by

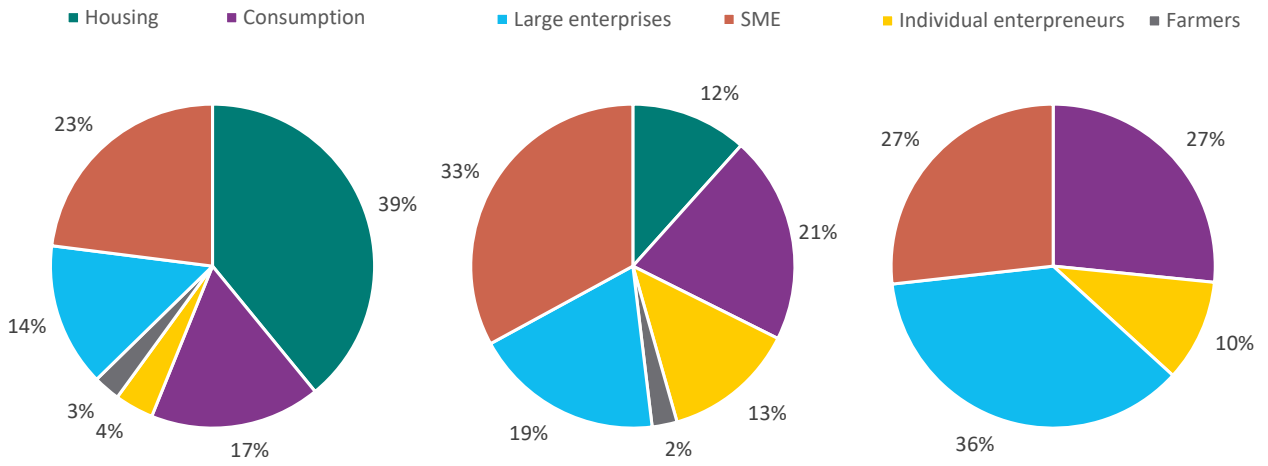
the banks mainly related to loans extended to large enterprises. This was mainly the result of an increase in the risk of exposure to one large borrower. Loans for consumption and loans for individual entrepreneurs also generated higher than average credit risk, however, loan losses in these loan categories are compensated by the relatively high margins obtained on these products.

Figure 2.13. Loan portfolio for non-financial sector compared to banking sector assets (left-hand panel), impaired loans compared to banks' own funds (middle panel) and loan losses compared to bank assets (right-hand panel)



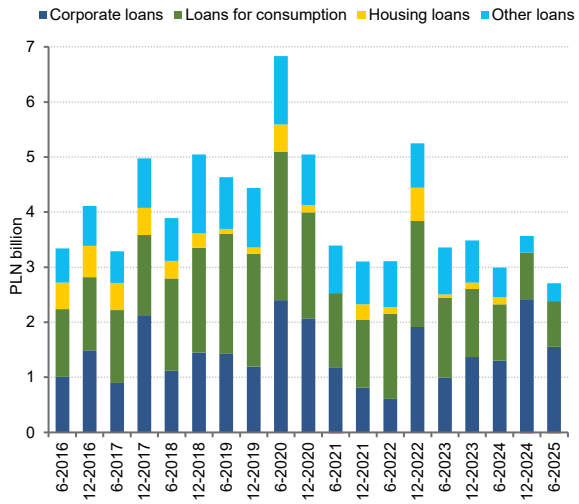
Source: NBP.

Figure 2.14. Loan portfolio (left-hand panel), impaired loans (middle panel), and loan losses (right-hand panel) by type and entity loan losses at the end of June 2025.



Source: NBP.

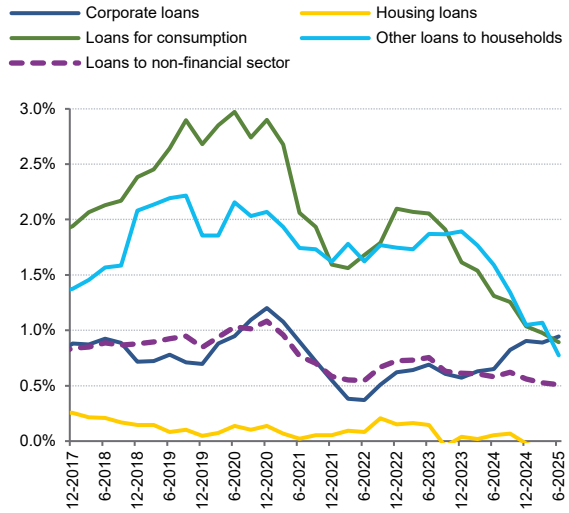
Figure 2.15. Loan losses in loans to non-financial sector



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

Source: NBP.

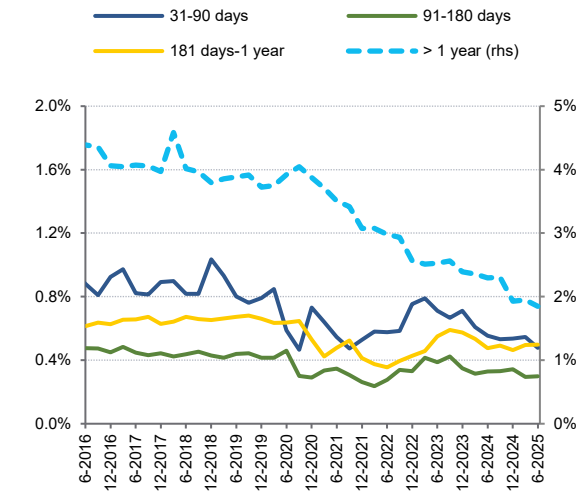
Figure 2.16. Loan losses to net loans ratio



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

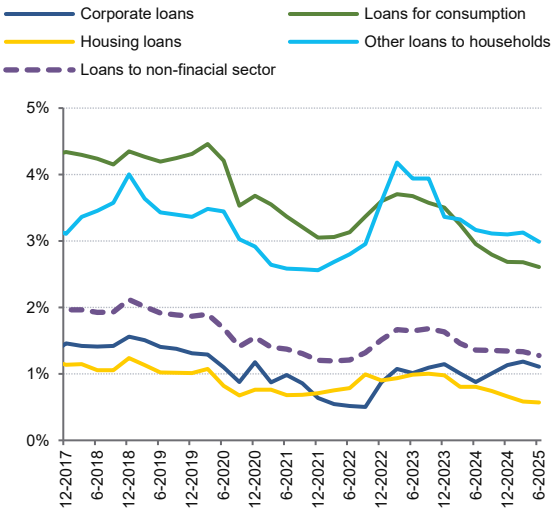
Source: NBP.

Figure 2.17. Shares of loans in arrears to the non-financial sector in individual arrears classes



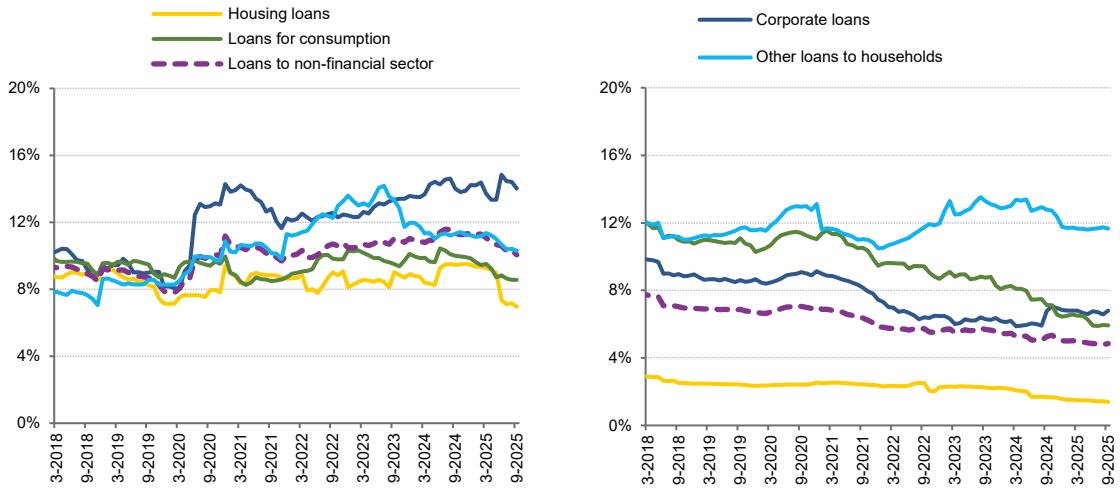
Source: NBP.

Figure 2.18. 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 2.19. The ratios of Stage 2 loans (left-hand panel) and impaired (Stage 3) loans (right-hand panel)



Note: 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.

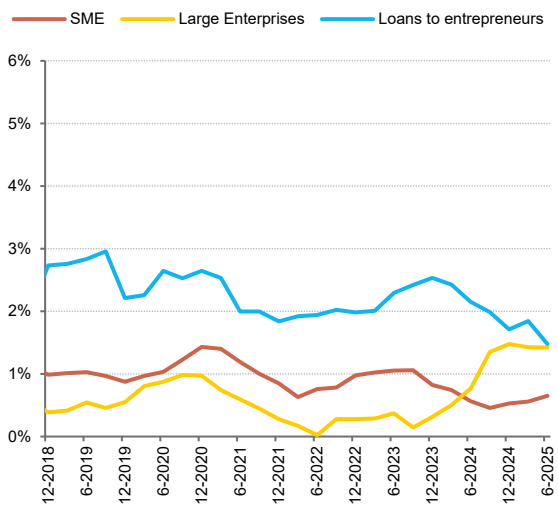
Source: NBP.

Loans to business entities

In the first half of 2025, most of the credit risk indicators for loans to business entities stabilised at relatively low levels. Loan losses have not changed significantly (see Figure 2.16 and Figure 2.20) while short and medium-term arrears in loan repayment have decreased slightly (see Figure 2.18 and Figure 2.21). There has been a slight increase in the Stage 2 loan ratio in the small and medium-sized enterprise category. This has mainly been the case of business entities in the trade and manufacturing sections, which could have resulted from increasing competition in retail and rising international trade tensions. At the same time, the ratio of impaired loans (Stage 3) has decreased (see Figure 2.19). Further improvements in risk assessment have occurred in the information and communication section and in industries particularly affected by the pandemic in the past, i.e. tourism and hotels.

The level of credit risk is strongly correlated with the scale of operations of business entities. The smallest entities, including primarily individual entrepreneurs, remain particularly sensitive to the economic downturn. This segment shows an increased, although declining ratio of loan losses to net loans and the highest share of short-term and medium-term arrears in loan repayment (see Figure 2.20 and Figure 2.21).

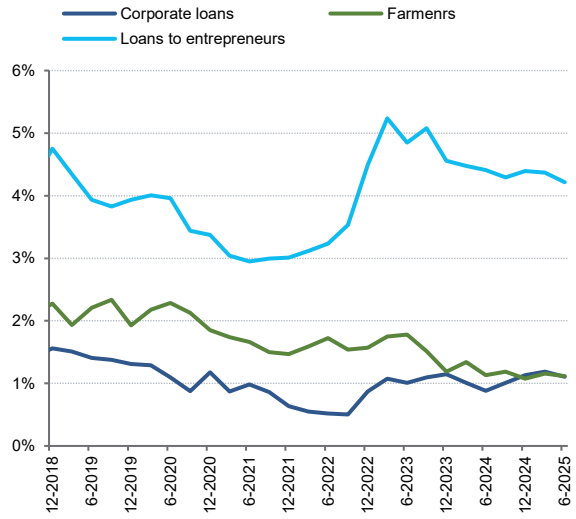
Figure 2.20. Loan losses to net corporate loans ratio



Note: Annualised data.

Source: NBP.

Figure 2.21. Shares of short and medium-term arrears (31 days to 1 year) for individual types of loans to the business entities



Source: NBP.

In the coming quarters, corporate credit risk can be expected to stabilise at its current, relatively low level. This will be supported by stable economic growth and growing investment.[22] A further decline in the profitability of enterprises may be a risk factor, among other things, due to rising payroll expenses,[23] accompanied by high uncertainty in the international environment.

Loans to households

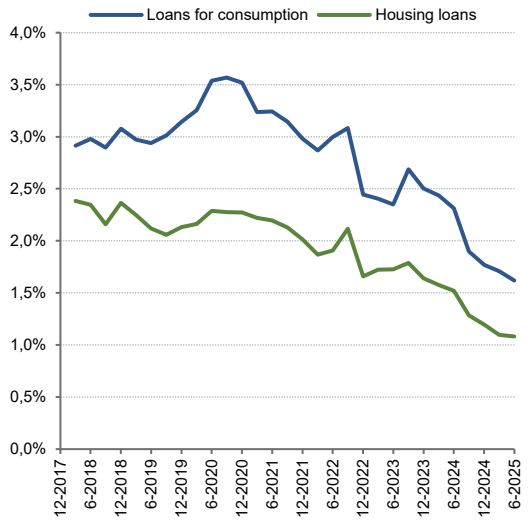
In a favourable labour market environment, most risk indicators for housing loans remained at very low levels. The decrease in interest rates and conservative lending policy of banks in previous years contributed to an improvement in risk indicators. Loan losses were close to historical lows (see Figure 2.15 and Figure 2.16). The following indicators have also decreased: (i) loans in arrears (see Figure 2.21), (ii) impaired loan ratio and Stage 2 loan ratio (see Figure 2.19) and the (iii) share of forborne loans (see Figure 2.22).

The significant decline in the share of Stage 2 loans was the result of reclassification to Stage 1 of some of the loans covered by the loan repayment holidays programme in 2024. Previously, these loans had been transferred to Stage 2 as a precaution. Following the termination of the loan repayment holiday programme and in the absence of other indications of increased credit risk, a significant part of the loans participating in the programme were transferred back to Stage 1.

[22] See "Inflation report", July 2025, NBP. Material available at: www.nbp.pl

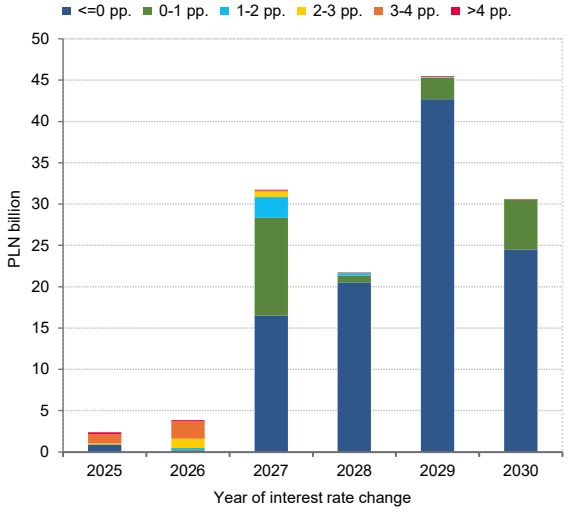
[23] See "Szybki Monitoring NBP. Analiza sytuacji sektora przedsiębiorstw", ["NBP Quick Monitoring Survey. Economic climate in the enterprise sector"], No. 04/25 (October 2025), NBP. Material available at: www.nbp.pl

Figure 2.22. Share of forborne loans in housing loans and loans for consumtion



Source: NBP.

Figure 2.23. Distribution of the value of PLN housing loans by increase in lending rates (in percentage points) after the end of the fixed rate period compared to the current level

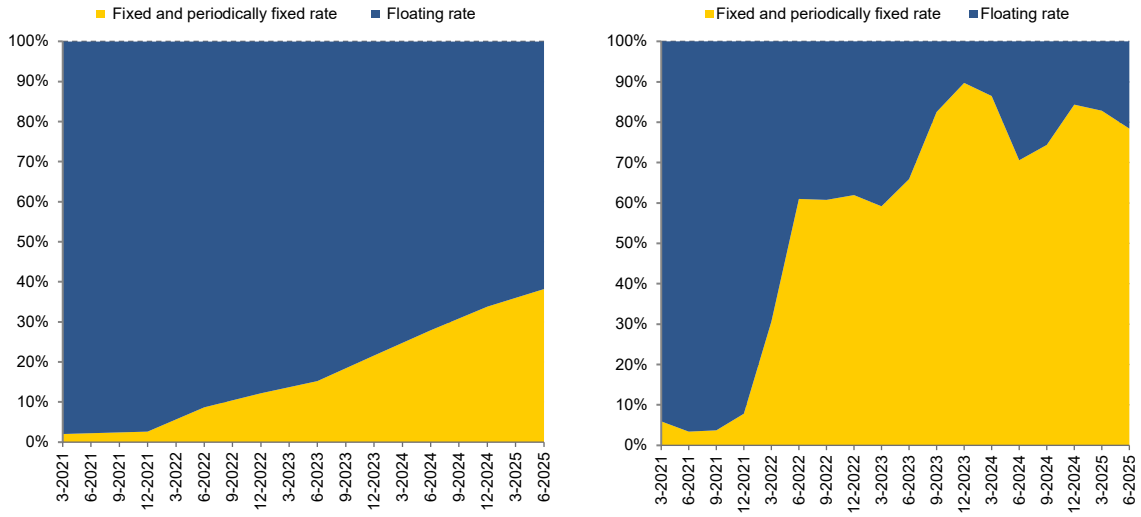


Note: According to the value of loans for a periodically fixed rate at the end of 2025 H1, excluding loans granted under the "2% Safe Mortgage" programme; 2025 - data for H2; it was assumed that the loan is renewed at a fixed rate according to the current (August 2025) average interest rate on newly granted fixed-rate loans.

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

Borrowers who decided to take advantage of loan repayment holidays due to difficulties in servicing increased instalments (rather than because of the favourable terms of the programme) may experience problems in servicing their loans once their savings or other sources of financing for increased loan instalments have been exhausted. However, this should not occur on a large scale. It is because the average income of borrowers has increased significantly since 2022, and the loans have been partially repaid (the loan repayment holidays applied to loans taken out until the end of the 2022 H1). Moreover, due to the decline in interest rates in the last 2 years, the scale of the increase in floating-rate loan instalments (relative to the moment when the loan was taken out) is no longer as large as in 2022 and 2023.

Figure 2.24. Shares of fixed or periodically fixed and floating interest rate loans in the portfolio (left-hand panel) and in new loans (right-hand panel)



Note: The right-hand chart shows the data for PLN loans.

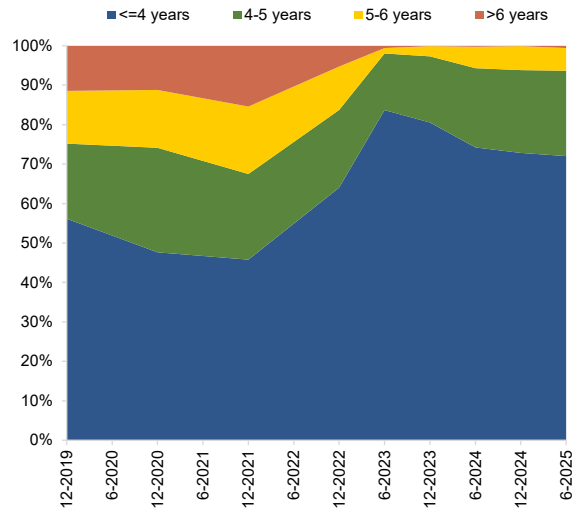
Source: NBP estimates based on UKNF non-standard reporting data.

The exposure of banks to credit risk resulting from the increase in instalments on floating-rate housing loans has decreased in recent years as a result of a change in the structure of the portfolio. The highest credit risk associated with potential rise in market interest rates was recorded in 2020-2021 when floating-rate loans, mostly granted in the period of record low interest rates, were predominant in the portfolio (see Figure 2.24, left-hand panel). Since mid-2022, the majority of loans have been granted at fixed or periodically fixed interest rates (see Figure 2.24, right-hand panel). This has led to a significant decrease in the share of floating-rate loans in the portfolio[24], although such loans still constitute a majority (62%). The banks are encouraged to offer fixed/periodically fixed rate loans, among

[24] In addition, the change of the type of interest rate of some loans from floating to fixed or periodically fixed rate acted towards a decrease in the share of floating-rate loans in the portfolio. Such loans accounted for approximately 13% of the portfolio of PLN-denominated housing loans with fixed or periodically fixed interest rates at the end of the first half of 2025. The opposite change in the interest rate type, i.e. from fixed or periodically fixed to floating, applied to loans constituting approximately 1% of the PLN-denominated floating-rate housing loan portfolio at the end of the first half of 2025 (source: NBP estimates based on UKNF non-standard reporting data). According to the position of the UKNF, it is not permissible to change the type of loan interest rate from a fixed or periodically fixed rate to a floating rate before the end of the fixed rate period or to offer refinancing of loans resulting in such a change in the type of interest rate (see https://www.knf.gov.pl/komunikacja/komunikaty?articleId=82903&p_id=18).

other things, by the design of the WFD ratio, which places such loans in a privileged position in terms of the necessary funding.[25]

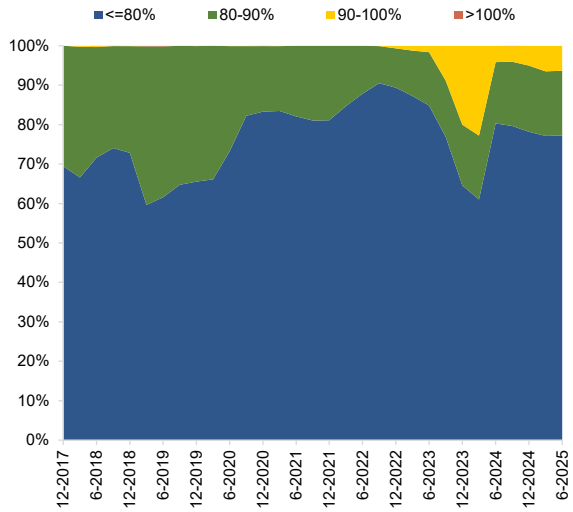
Figure 2.25. Distribution of LTI values of newly extended housing loans



Note: Data excluding loans granted under the "2% Safe Mortgage" programme.

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

Figure 2.26. Distribution of LTV values of newly extended housing loans



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

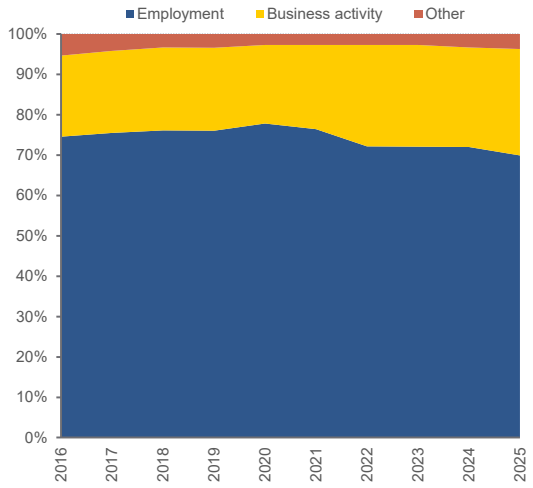
In periodically fixed-rate contracts, the risk of instalment increase after the end of the current fixed-rate period can be assessed as low, unless a significant increase in interest rates over the current level will occur until the end of this period occurs. The interest rates on the predominant part of these loans will be reset for the next period (or replaced with a floating interest rate) in 2027-2030. Assuming that interest rates on new lending remain at the current levels, the interest rates would almost always be lower or only slightly higher than at present (see Figure 2.23). This is because the change in the type of interest rate of newly granted loans towards periodically fixed rate loans took place after 2021, with higher interest rates than at present, while the standard length of the fixed rate period is at least 5 years. Higher interest rate increases may only occur in the case of loans granted at the lowest interest rates in 2020-2021, whose interest rates for the next period will be reset in 2025 H2 and in 2026. However, the value of these loans is very low (see Figure 2.23), and the ability to service them has been positively affected by the high growth in average wages and the repayment of part of their principal amount since they were granted.

For the past two years, the percentage of new housing loans with a relatively high value in relation to borrowers' income - LTI, has been increasing (see Figure 2.25). The increase in the share of loans with a relatively high LTI ratio was associated with a rise in loan servicing capacity due to the falling

[25] For more information on the WFD, see Box 2.1 in: "Financial Stability Report. December 2024"; report available at: www.nbp.pl

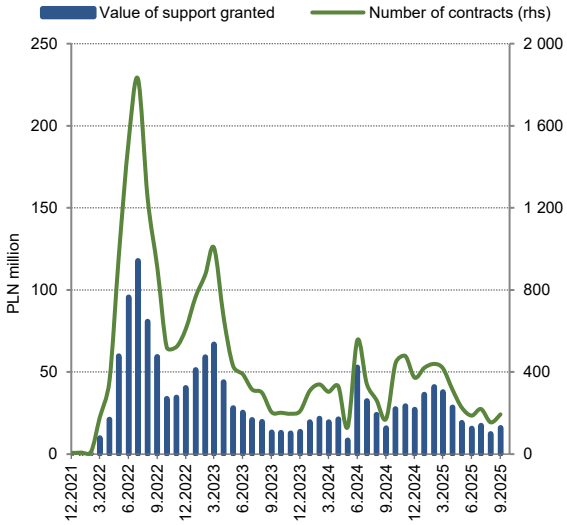
interest rates.[26]. However, the current lending policies of banks are much more conservative than in 2019-2022. Most loans are characterised by a low or medium LTI.

Figure 2.27. Shares in new lending originated in subsequent years by borrower's main source of income



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

Figure 2.28. Number and value of concluded agreements for FWK support



Source: BGK.

The share of new loans with high LTV ratios (above 80%) has slightly increased (see Figure 2.26). The highest LTV ratios (above 90%) were seen in loans granted under the governmental "Family Housing Loan" programme. In the case of these loans, the down payment of up to 20% of the amount spent on the purchase of real estate is guaranteed by the BGK, which significantly reduces their risk.

In the last few years, banks have been slightly more inclined to grant loans to households that are riskier in terms of source of income (see Figure 2.27). In new loans, the percentage of loans to households with a source of income other than employment, in particular business activity, has increased**.** The quality of these loans at the end of 2025 H1 was lower than in case of loans granted to households with employment as the main source of income (see Figure 2.29). The likely reason for this phenomenon is a higher volatility of income earned by individual entrepreneurs.

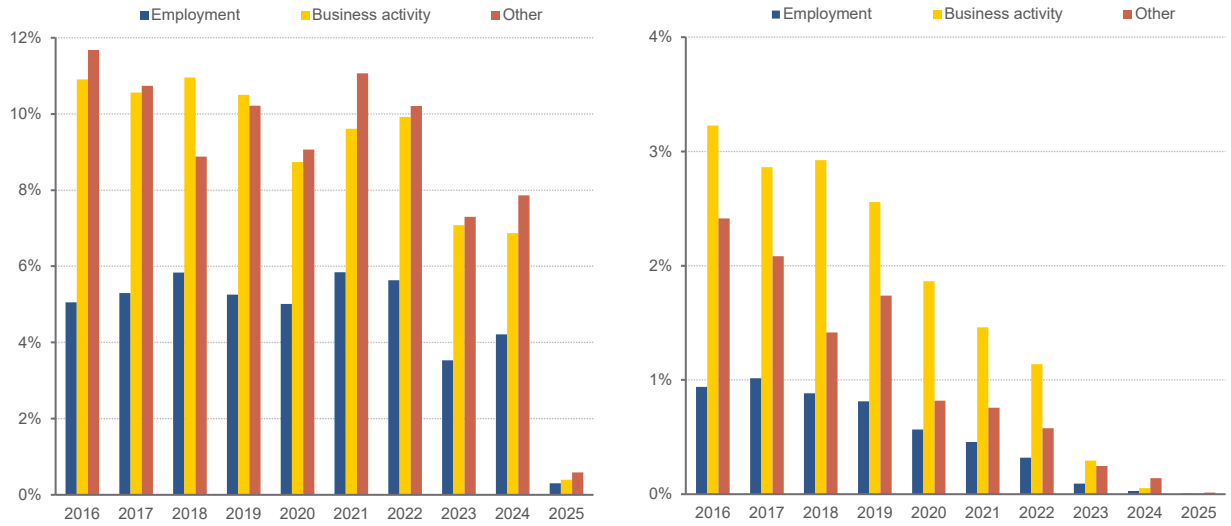
The value of new support from the Borrower Support Fund (FWK) decreased significantly, confirming the good financial standing of housing loan borrowers (see Figure 2.28). The earlier increase in the number of applications for support from the Fund (in 2024 H2 and early 2025) was related to the relaxed criteria of access to the FWK following the amendment of the law,[27] as well as the high

[26] A decline in interest rates results, *ceteris paribus*, in an increase in the maximum amount of credit that banks are willing to grant to a borrower with the same income (the same part of income can be allocated for servicing a larger loan).

[27] See Act of 12 April 2024 amending the Act on Support to Home Loan Borrows Who Are in a Difficult Financial Situation and the Act on Crowdfunding of Business Projects and Support to Borrowers (Journal of Laws of 2024, item 696).

indexation of the income thresholds for eligibility[28] and granting of the right to apply for support to borrowers affected by the floods in September 2024.

Figure 2.29. Shares of loans in Stage 2 (left-hand panel) and Stage 3 (right-hand panel) extended in consecutive years by the borrower's main source of income at the end of 2025 H1.



Note: Shares calculated according to the loan value as at the loan origination date.

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

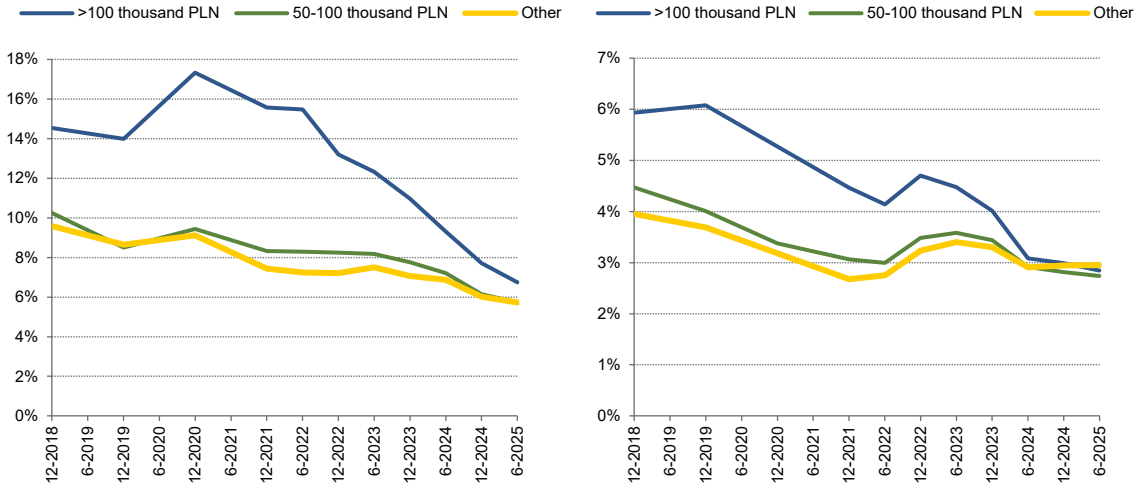
Credit risk indicators of loans for consumption have also improved. The following indicators have decreased: (i) loan losses (see Figure 2.15 and Figure 2.16), (ii) share of loans with short and medium-term arrears in repayment (see see Figure 2.18), (ii) impaired loan ratios and Stage 2 loan ratios (see Figure 2.19) and the (iii) share of forborne loans (see Figure 2.22). The reduction in the impaired loan ratio was affected by both a lower balance of loans reclassified to Stage 3 and the impaired loan management policy. In the last several quarters, 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.

Risk indicators decreased in the case of both high-value loans for consumption and other loans. The difference in quality between both types of loans is currently very small (see Figure 2.30) and exists only in loans with the value above 100 thousand zlotys as at the loan origination date. The share of high-value loans in new consumer lending has increased significantly over the past few years, but this increase can be mostly attributed to the real depreciation of the adopted thresholds of 50 thousand zlotys and 100 thousand zlotys (see Figure 2.32). Excluding the impact of this factor, a slight increase

[28] Since the beginning of 2025, these thresholds have increased from 1,940 zlotys to 2,525 zlotys for single-person households and from 1,500 zlotys to 2,057.50 zlotys per person for multi-person households. Income thresholds in the FWK are determined as two and a half times the income criterion for social assistance benefits. This criterion was increased pursuant to Regulation of the Council of Ministers of 12 July 2024 on verified income criteria and amounts of cash benefits from social assistance (Journal of Laws of 2024, item 1044).

in share occurred only in case of the largest loans (above 100 thousand zlotys) and was mainly related to cash loans.

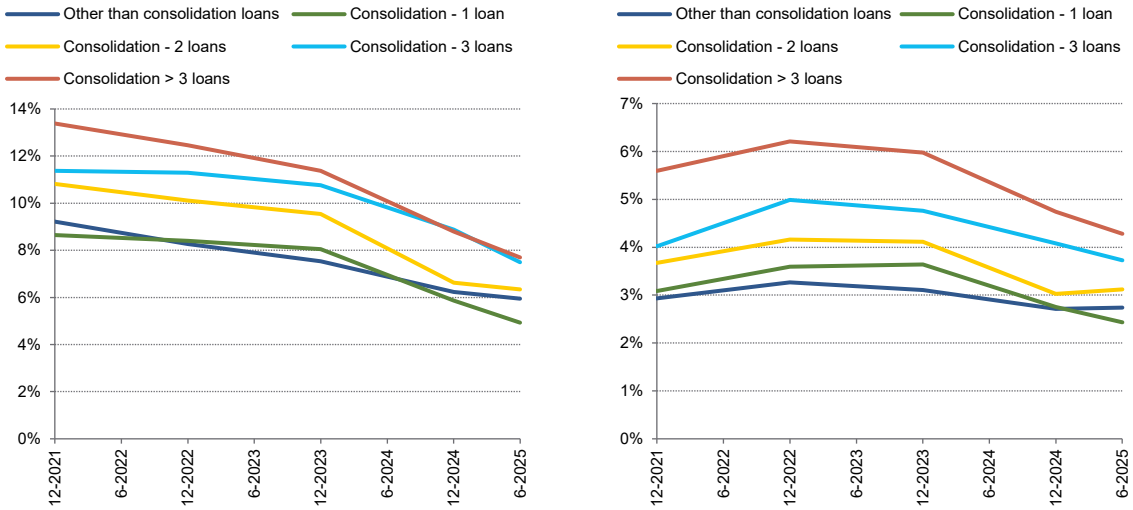
Figure 2.30. Impaired loan ratios (left-hand panel) and shares of loans with short and medium arrears (right-hand panel) broken down by value as at the loan origination date



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

The risk indicators of consolidation loans have also improved (see Figure 2.31). At the same time, the share of riskier loans (consolidating more than 2 loans) has increased slightly but is still not significant (see Figure 2.33). Although consolidation of loans for consumption has a positive effect on the borrower's capacity to service debt by reducing the repayment burden, a large share of loans consolidating a higher number of loans could indicate excessive indebtedness of households.

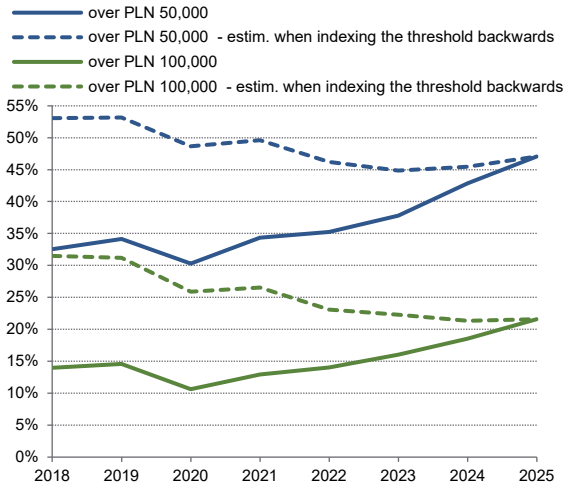
Figure 2.31. Impaired loan ratios (left-hand panel) and shares of loans with short- and medium-term arrears (right-hand panel) broken down by consolidation and other loans



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

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

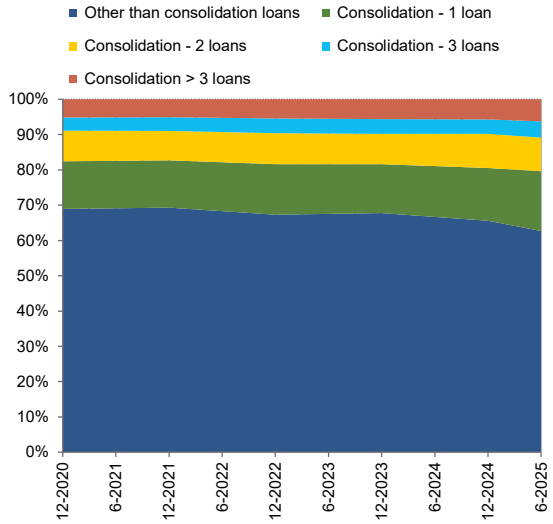
Figure 2.32. Shares of loans for consumption in new lending by value as at the loan origination date



Note: High-value loans for consumption – loans with the value above 50 thousand zlotys or above 100 thousand zlotys as at the loan origination date. A dashed line - for loans extended before 2025 H1, the share assuming indexation of the 50 thousand zloty and 100 thousand zloty threshold adjusted (downward) by the wage growth index.

Source: NBP estimates based data of Statistics Poland and UKNF non-standard reporting data.

Figure 2.33. Structure of loans for consumption portfolio by number of loans subject to consolidation



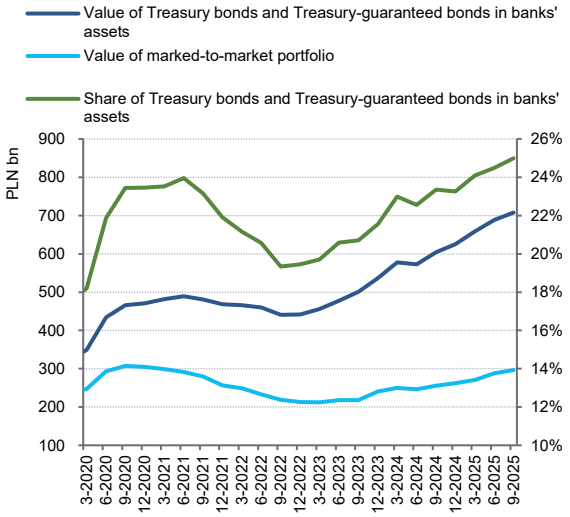
Source: NBP estimates based on UKNF non-standard reporting data.

Household credit risk ratios should remain low in the coming quarters. This will be supported by the anticipated good labour market situation (moderate real wage growth, continuing low unemployment), the recent NBP interest rate cuts and the permanent availability of FWK assistance. On the other hand, the easing of lending policies in lending for consumption observed for several quarters, and the increase in certain categories of higher-risk housing loans may have an impact on the rise in risk indicators.

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

The value and the share of Treasury bonds and bonds guaranteed by the State Treasury in the banking sector assets is growing. Since the end of 2024, the portfolio of these securities has increased by 82 billion zlotys, or 13% (see Figure 2.34). As at the end of September 2025, the book value of Treasury bonds and Treasury-guaranteed bonds amounted to 708 billion zlotys. At the same time, their share in the banking sector assets has increased by 1.7 percentage points to 25.0%, reaching the highest level. The analyses indicate that so far the high share of Treasury bonds in assets has not led to the diminishing of the role of banks in financing the economy (no crowding-out effect, see Box 2.2).

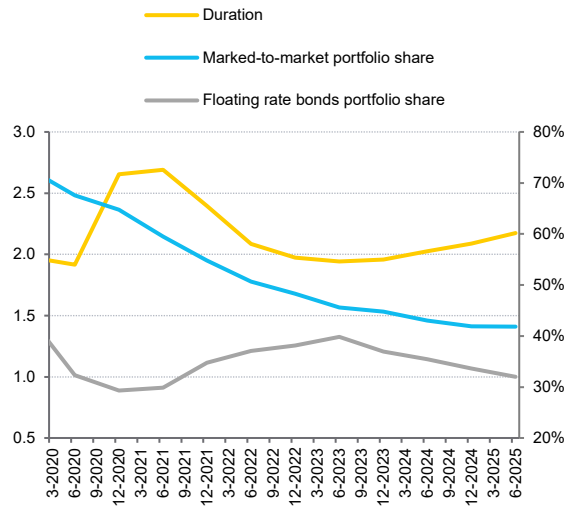
Figure 2.34. Treasury bonds and Treasury-guaranteed bonds in banking sector's assets



Note: Banking sector excluding BGK.

Source: NBP.

Figure 2.35. Duration and share of MtM and floating-rate Treasury and Treasury-guaranteed bonds



Note: Banking sector excluding BGK.

Source: NBP.

The risk of banks adversely affected by bond price movements is mitigated by the fact that marked to market bonds represent a smaller part (42%) of the total portfolio. The share of the portfolio sensitive to changes in interest rates has been decreasing in recent years (see Figure 2.35), although its nominal value has continued to increase, to 296 billion zlotys at the end of September 2025. However, since the beginning of 2024, the duration of the banks' total bond portfolio, a measure of interest rate sensitivity, has gradually increased. At the end of September 2025, it reached 2.2 years. At the same time, banks reduced exposure to floating rate bonds, characterised by short duration.

The risk of the portfolio not being marked to market is the potential for large one-off losses if the securities it comprises were to be subject to fire sale. However, it is significantly limited by the low concentration of banks' funding sources, sufficiently high liquid asset buffers at banks (see Chapter 2.5) and the possibility of using Treasury securities in secured financing transactions, e.g. with NBP.

Box 2.2. Impact of bank tax on deposit and loan interest rates and banks' asset structure

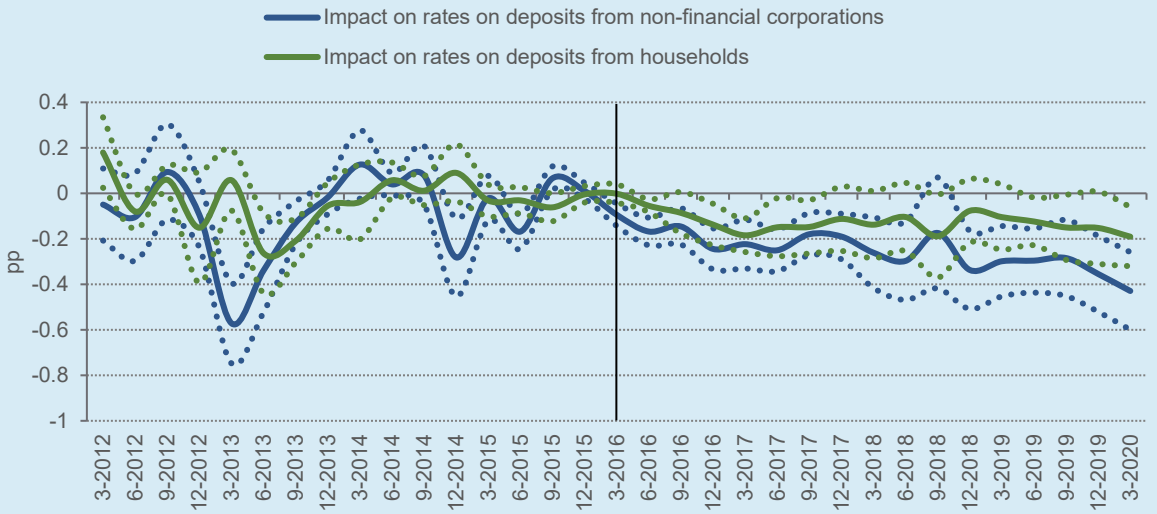
The tax on certain financial institutions (the so-called "bank tax"), since its introduction in 2016, has triggered many debates and has been cited as affecting deposit and lending interest rates and restricting the supply of credit to the economy. This box presents the results of analyses aimed at verifying the following theses:

- the bank tax may have caused the higher level of bank lending margins in Poland than average in other EU countries (as pointed out, among others, in the Financial System Stability Report of June 2025); and

- the exclusion of Treasury bonds from the bank tax base promotes an increase in demand for these instruments and may have the effect of reducing the share of credit to the non-financial sector in banks' assets through the crowding-out mechanism.

In order to verify these theses, the impact of the bank tax on the most important components of banks' interest margins – the deposit and lending interest rates – as well as on the volumes of loans and bonds in banks' assets was estimated. Its impact on the level and profitability of banks' assets was also assessed. For this purpose, the difference-in-differences method was used, which in this case involves comparing the levels of individual variables in two dimensions: (i) between the banks that are the payers of the tax and the remaining banks; and (ii) between the periods before and after the introduction of the tax.[29] To further isolate the effects of the bank tax from other factors, emphasis was placed on differences in the not-so-wide, symmetrical window around the period of the tax introduction (February 2016) – 4 years before and after, thus cutting off the period from the COVID-19 pandemic. It should be expected that, if the tax had an impact, it should have become apparent already in this period.

Figure 2.36. Estimates of the impact of the bank tax on deposit interest rates



Note: The chart compares the levels of individual variables between banks that are taxpayers and other banks for periods since and before the introduction of the tax. Dashed lines indicate 95 per cent confidence intervals. Confidence intervals on both sides of zero indicate the absence of differences in the given period; analogically, confidence intervals on one side of zero indicate the presence of differences in the period concerned.

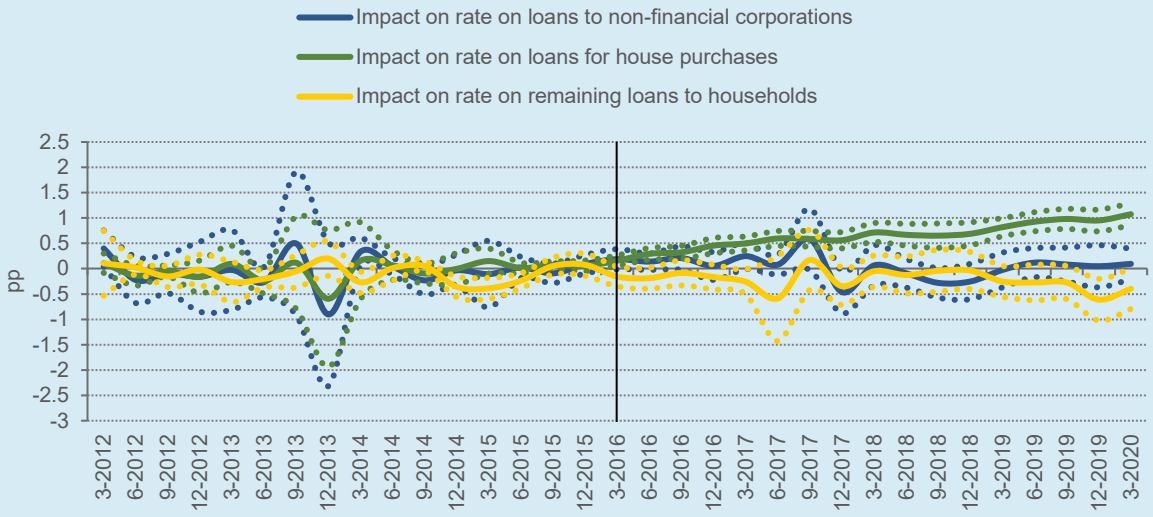
Source: NBP.

[29] The heterogeneous difference-in-differences method and the regression adjustment estimator were used. The banks which are payers of bank tax were compared with small commercial banks and cooperative banks. Tax exempt banks (state-owned banks and banks under the recovery plan) and those that did not operate in all periods in the sample were eliminated. In addition to the standard components of the model (bank fixed effects and period fixed effects), variables adjusting for the effects of mergers and acquisitions were included.

The results are summarised in graphs illustrating the differences between the payers of the bank tax and other banks in each period. The lack of systematic differences before introduction of the tax, with significant differences since its introduction, indicates that the tax had an effect.

The results of the analysis confirm that the bank tax has an impact in increasing bank interest margins, albeit to a varying extent through its effect on deposit and lending rates. According to the results of the comparison, the introduction of the bank tax resulted in the reduction of the interest rates on deposits at banks – both those accepted from businesses and households (see Figure 2.36). **On the other hand, the analyses do not confirm that the bank tax contributed to an increase in corporate lending rates and rates on loans for consumption** – the slight increase in corporate lending rates was short-lived and temporary. Only in the case of interest rates on housing loans is the positive impact of the tax evident (see Figure 2.37).

Figure 2.37. Estimates of the impact of the bank tax on interest rates on loans



Note: See Figure 2.36.

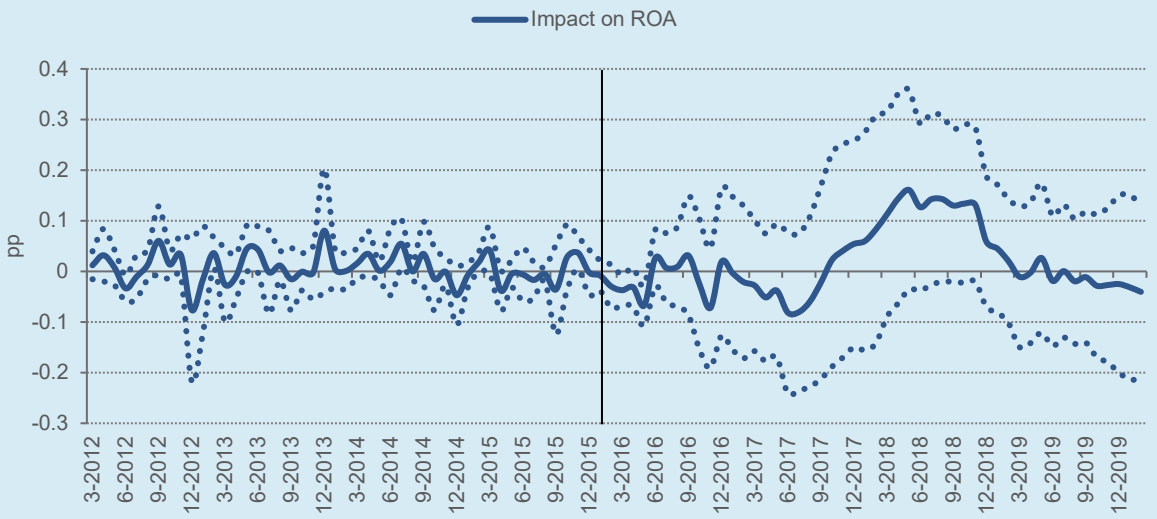
Source: NBP.

Thus, the bank tax was included in the pricing of some financial products, and its cost was passed on to customers. The reduction in deposit interest rates and the increase in interest rates on some (i.e. housing) loans were gradually reflected in the banks' financial results and the initial negative impact of the introduction of the bank tax on the ROA of the taxed banks faded after a few months (see Figure 2.38).

However, the results of the analyses do not support the second thesis that the decreasing share of credit in banks' assets alongside the increasing share of Treasury bonds results from crowding out

of credit to the private non-financial sector by the public sector. As a result of the introduction of the bank tax, banks increased the volume of bonds in their assets; however, the introduction of the tax did not cause a permanent decrease in the volume of loans – a negative impact occurred for a short time, but faded after several months (see Figure 2.39). Moreover, in response to the introduction of the bank tax, some entities have reduced their total assets (see Figure 2.40). This decline was one-off and concentrated in the time immediately following the introduction of the tax. This suggests that it was based on the liquidation of short-term financial assets, such as interbank deposits.

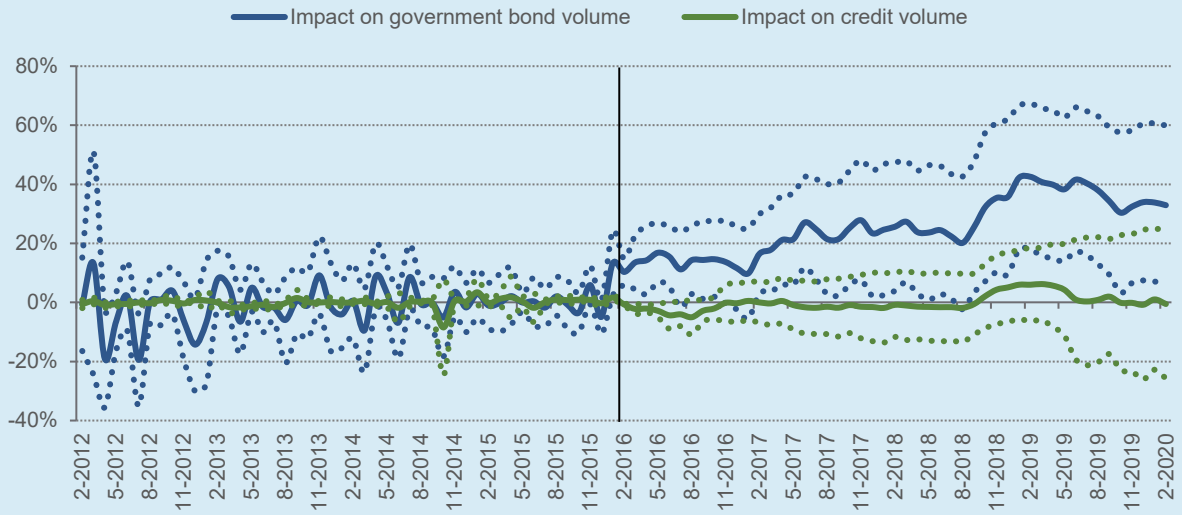
Figure 2.38. Estimates of the impact of the bank tax on banks' profitability



Note: See Figure 2.36.

Source: NBP.

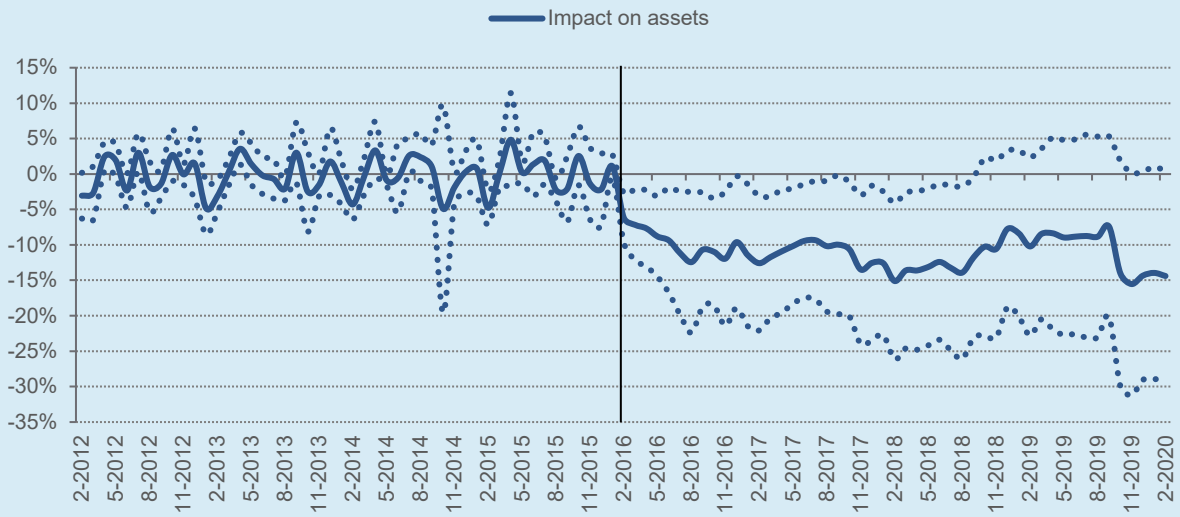
Figure 2.39. Estimates of the impact of the bank tax on the volume of bonds and credit in banks' assets



Note: See Figure 2.36.

Source: NBP.

Figure 2.40. Estimates of the impact of the bank tax on the volume of banks' assets



Note: See Figure 2.36.

Source: NBP.

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

Legal risk associated with FX loans remains material, although its impact on the stability of the financial system has been significantly reduced. The scale of the provisions created[30] means that the sector is now well prepared for any further materialisation of this risk. Nevertheless, the costs associated with FX housing loans will continue to be a burden for banks in the coming quarters.

Several years after the first CJEU ruling,[31] banks are experienced in managing the risks of FX housing loans, including estimating the necessary provisions and reaching settlements with borrowers. Increasingly, banks are also offering settlements in relation to agreements subject to litigation (see Figure 2.41). By mid-2025, banks and borrowers had signed approximately 156 thousand settlements concerning FX housing loans, including approximately 35 thousand with customers who had previously sued the bank. The conclusion of a settlement agreement is beneficial for both parties to the proceedings, as it significantly reduces the time it takes to resolve the dispute and avoids the additional costs associated with long-lasting court proceedings.

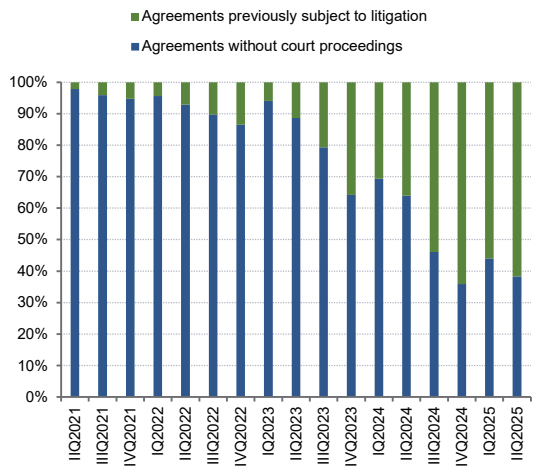
The line of jurisprudence in favour of borrowers is a factor conducive to the steady increase of new court cases. The number of lawsuits relating to active loans in Swiss franc, as well as those that have been repaid and loans denominated in euros has been increasing. At present, approx. 154 thousand cases involving FX housing loans are pending in courts. The recently clarified the line of jurisprudence

[30] Provisions and adjustments related to legal risks/ settlements for the portfolio of FX housing loans.

[31] Judgement of the Court of Justice of the European Union of 3 October 2019 in Case C-260/18 (Dziubak versus Raiffeisen Bank International AG), concerning the invalidity of loan agreements containing abusive clauses.

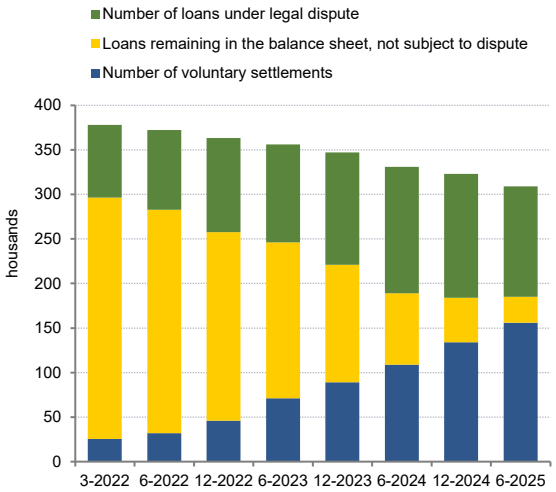
of the CJEU and the Supreme Court has contributed to speeding up proceedings before the courts. To date, approximately 59 thousand cases have become final and binding.

Figure 2.41. Structure of settlements concerning FX housing loans concluded in the quarter concerned, broken down by litigation status



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

Figure 2.42. Number of CHF loans at the end of individual quarters, broken down by cases settled, subject and not subject to litigation

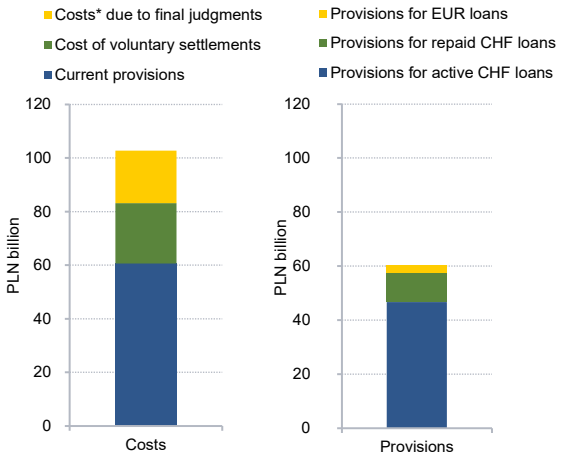


Source: NBP estimates based on UKNF non-standard reporting data.

The banks have created substantial provisions to date, however, due to the possibility of further litigation, they continue to incur the cost of creating additional provisions. By June 2025, the total amount of legal risk costs of FX housing loans had reached approximately 100 billion zlotys (see Figure 2.43). Approx. 40% of this amount has already been used to cover the costs of materialisation of this risk, i.e. the costs of settlements and the costs of final judgements. On the other hand, provisions of approx. 60 billion zlotys are earmarked to cover further costs of these risks. Banks adjust their provisioning models according to current conditions and projections concerning, among others, the number of litigations and average loan losses. A draft law prepared at the Ministry of Justice[32] may increase the rate of utilisation of the provisions. The aim of the law is to create special solutions to enable courts to consider cases involving FX housing loans denominated in Swiss francs more quickly. The decreasing number of active CHF loan agreements not subject to court proceedings means that the inflow of new CHF loan cases at courts will be significantly lower (see Figure 2.42), while previously repaid CHF loans and loans in other foreign currencies will account for a higher share of new lawsuits.

[32] 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 for considering cases regarding loan agreements denominated in or indexed to the Swiss franc concluded with consumers].

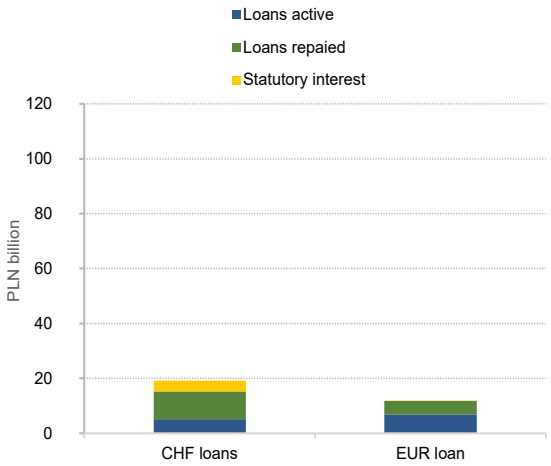
Figure 2.43. Balance of legal risk provisions for FX housing loans at the end of 2025 H1 and costs incurred to date



* Estimates.

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

Figure 2.44. Estimated value of missing provisions for legal risk of FX housing loans assuming all agreements are challenged



Note: The simulation was carried out assuming the exchange rate of the Swiss franc and the euro as at 30 June 2025. The estimates of missing provisions do not include the costs of litigation, the costs of statutory interest that will accrue in the future, additional costs in the event of repayment of instalments in the currency of the loan and the costs of limitation of claims.

Source: NBP.

Costs arising from legal risks have already been largely covered by the banks, but the need for additional provisions cannot be ruled out. Assuming a worst case scenario of customers challenging all FX (CHF + EUR) housing loan agreements, including repaid loans, it can be estimated that the missing provisions for this risk could exceed 30 billion zlotys in total (see Figure 2.44). In this amount, estimated provisions relating to active FX loans alone would amount to approx. 12 billion zlotys. Potential provisions required to cover on the risk of lawsuits filed by borrowers who have already repaid their liabilities would be higher (approx. 15 billion zlotys) due to the low coverage of these loans by provisions to date. Moreover, due to the long duration of the litigation, additional provisions[33] may be needed for statutory interest (the estimated cost of interest accrued by the end of the 2025 H1 is approximately 4 billion zlotys). The entry into force of the aforementioned law is likely to limit the increase in the cost of statutory interest in the future due to the expected shortening of court proceedings. However, the final level of expenses incurred will depend on the customers' decision to start a dispute with the banks and their willingness to settle.

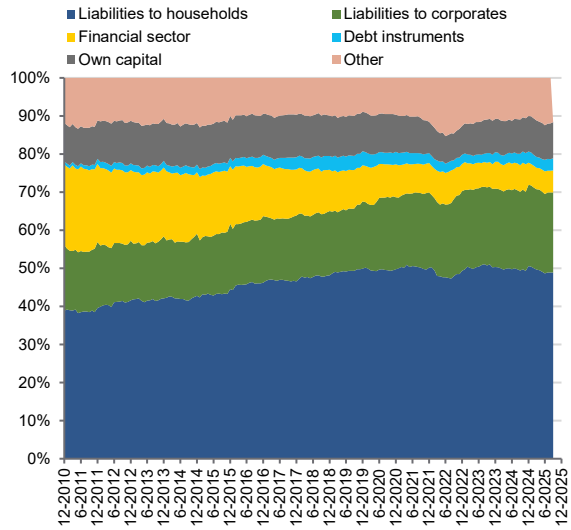
[33] Assuming that half of the active CHF loan cases are resolved by court judgements and half - by settlements.

2.5. Liquidity risk and funding

Funding risk

The structure of banks' funding is stable and similar to that observed in earlier periods (see Figure 2.45). Deposits from the non-financial sector (70% of total liabilities at the end of September 2025), supplemented by liabilities to financial entities (5.8%) and equity (9.5%) remain the main source of funding for banks in Poland. In particular, household deposits, which account for approximately half of liabilities, are significant. The share of other funding sources still remains limited (less than 5%).

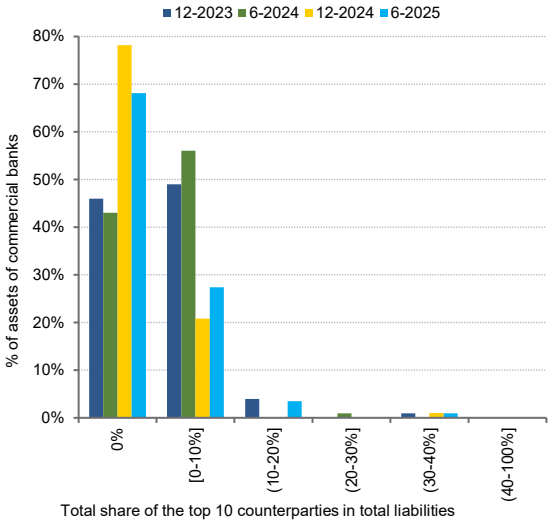
Figure 2.45. Structure of liabilities of the banking sector



Note: Data excluding BGK. Latest observation – September 2025.

Source: NBP.

Figure 2.46. Concentration of funding by counterparty



Note: Data for commercial banks (excluding BGK). Counterparty liabilities excluding financial instruments and intragroup financing. The largest counterparties, i.e. those whose funds exceed 1% of the bank's liabilities.

Source: NBP.

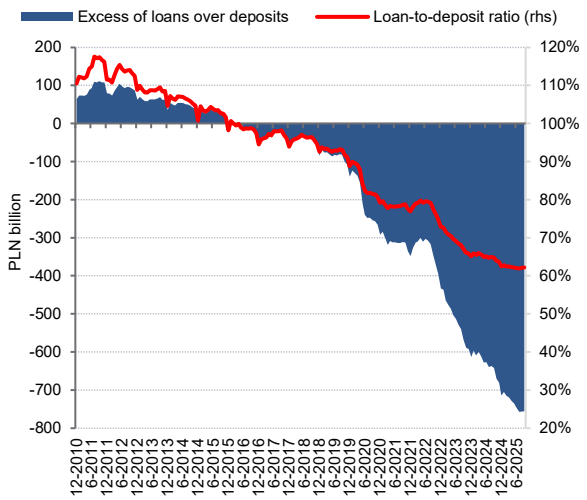
The role of bank debt instruments issued has increased slightly but remains limited (approx. 3.2% of liabilities). This results, among other things, from the availability of non-financial sector deposits bearing lower interest and the limited demand for lending. At present, the issuance of debt instruments is mainly driven by the need to meet the MREL requirement rather than by the liquidity needs of the banks. On the other hand, in order to diversify sources of funding and meet the WFD requirement, some banks are offering new financial instruments to households. In October 2025, one mortgage bank introduced retail covered bonds. The new MREL methodology[34] and the WFD requirement, to enter into force on 31 December 2026, may contribute to a further increase in banks' debt issuance. However, even if banks met both of the above requirements, this would not significantly change the funding

[34] See https://bfg.pl/przymusowa-restrukturyzacja-bankow-i-kas/metodyka-mrel/.

structure of the banking sector - *ceteris paribus* the share of financing with debt instruments would increase to approx. 4.2% of liabilities.[35]

The liabilities of most banks in Poland are characterised by low entity concentration, which also significantly reduces liquidity risk (see Figure 2.46). 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. Nevertheless, widespread access to electronic distribution channels for financial services can be an additional challenge in liquidity risk management, especially bearing in mind the risks related to cyber-security and the potential loss of trust and reputation of the affected bank. This increases the importance of banks holding adequate liquid assets.

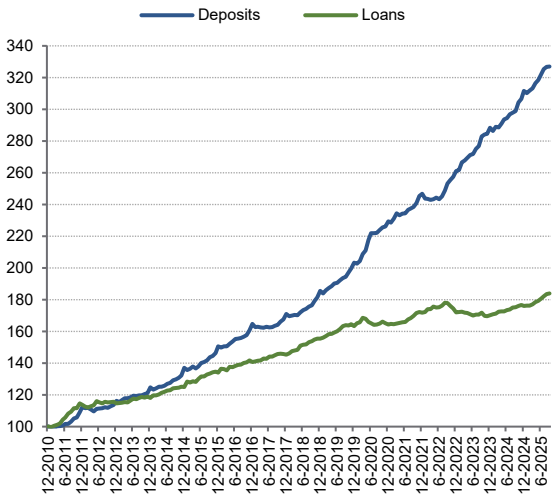
Figure 2.47. Excess of deposits over loans to the non-financial sector



Note: Latest observation – September 2025

Source: NBP.

Figure 2.48. Deposits and loans of the non-financial sector (12-2010 = 100)



Note: Latest observation – September 2025

Source: NBP.

There is still a significant maturity mismatch between assets and liabilities, but it does not generate systemic risks. The funding structure of Polish banks is dominated by household deposits with maturities of up to 1 year. The potential for the present maturity mismatch to turn into systemic risk in the medium term is limited[36] due to the significant excess of deposits over loans and the low availability of

[35] The estimated funding shortfall for the WFD requirement of 40% and to cover MREL-RCA with 100% eligible instruments (according to the new BFG methodology) based on data as of June 2025 was, *ceteris paribus*, approx. PLN 28 bn in total. Considering the countercyclical buffer ratio at its target level, the shortfall for the WFD requirement *ceteris paribus* would increase by approx. PLN 13 bn.

[36] This topic is discussed more extensively in: "Financial Stability Report. December 2023", NBP, Warsaw, Box 2.2, p. 45; the report is available at: www.nbp.pl.

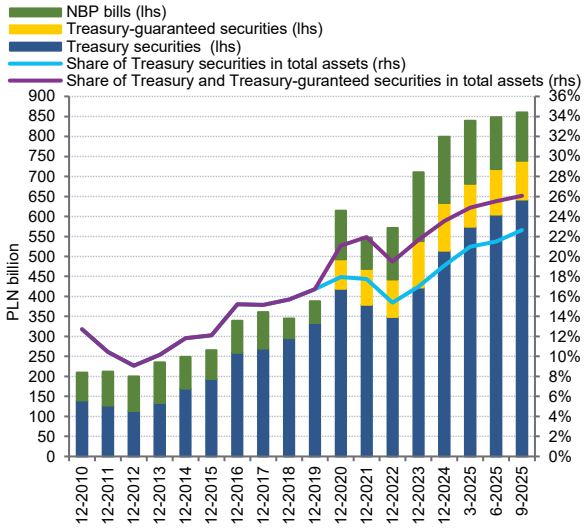
alternative, non-bank investment products combined with the preference of households for safe investments. However, in the longer term, maturity mismatches may gradually decrease as banks diversify their funding sources.

The liquidity position of the banking sector continued to be favourable. Since 2015, an excess of deposits over loans to the non-financial sector has been maintained (see Figure 2.47)**.** This excess increased significantly in the last three years (from PLN 124 bn at the beginning of 2020 to PLN 756 bn in September 2025). The main reasons for this initially included the inflow of public aid funds received by enterprises during the pandemic and the rapid growth of deposits, reflecting the savings' preferences of households and the relatively low demand for credit from non-financial sector (see Figure 2.48).

Liquidity risk

The value of the banking sector's liquid asset portfolio, mainly Treasury bonds, is steadily increasing (see Figure 2.49). Consequently, at the end of September 2025, around 30% of the banking sector's balance sheet (excluding BGK) consisted of securities issued and guaranteed by the Treasury (26,1%[37]and NBP bills (4.3%). In the context of liquidity risk, the high share of Treasury securities should be considered as a positive factor, but it should be noted that this situation may give rise to other challenges (see chapters 2.3 and 4.1.2).

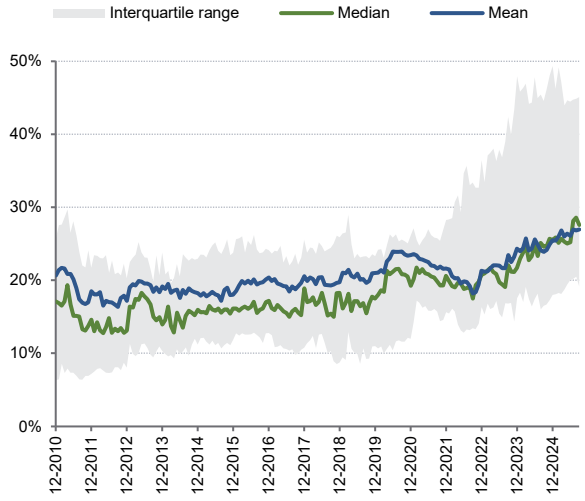
Figure 2.49. NBP bills and Treasury/Treasury-guaranteed securities in total assets of banking sector



Note: BGK excluded.

Source: NBP.

Figure 2.50. NBP bills and Treasury debt securities in assets of domestic commercial banks



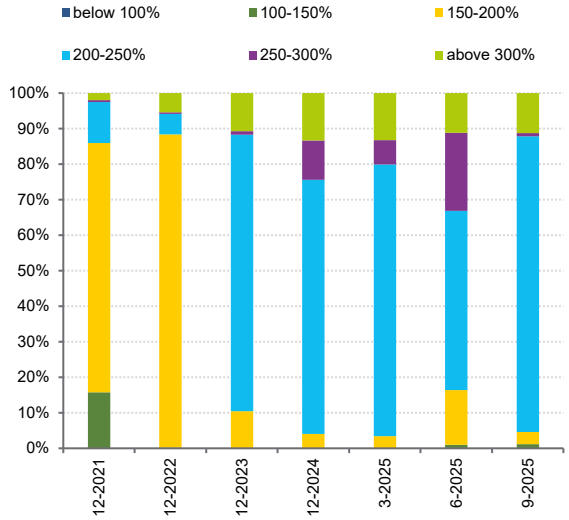
Note: BGK excluded. Latest observation – September 2025

Source: NBP.

[37] Of which 25% in relation to assets are Treasury bonds or bonds guaranteed by the Treasury, and 1.1% are Treasury bills.

The liquidity position of individual banks is diversified - both in terms of the size and the structure of the liquid asset portfolio. However, the situation of banks with a relatively higher liquidity risk profile is gradually improving (see Figure 2.50).

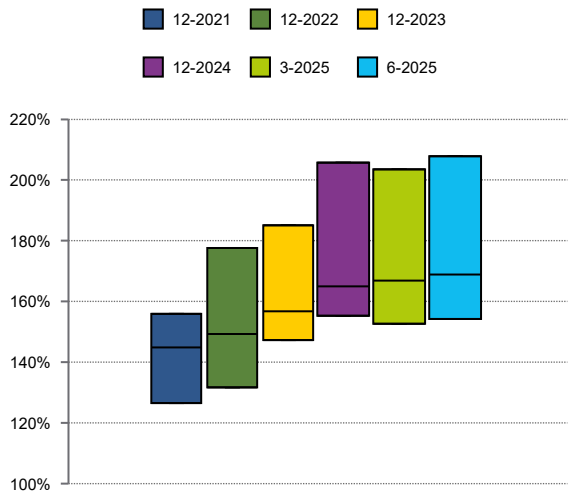
Figure 2.51. Distribution of domestic commercial banks' assets by LCR levels



Note: Data for commercial banks excluding BGK and associating banks.

Source: NBP.

Figure 2.52. NSFR distribution of domestic commercial banks



Note: Distributions excluding BGK and associating banks and after eliminating banks with ratios higher than 500%; horizontal lines indicate quartiles and box heights indicate the interquartile gap.

Source: NBP.

The levels of regulatory short-term and long-term liquidity standards confirm very good liquidity position of the banking sector. The LCR and NSFR ratios significantly exceeded the regulatory minima (see Figure 2.51 and Figure 2.52). The LCR has remained consistently above 200% since the beginning of 2023. In addition, estimates of excess liquidity – both in absolute terms and in relation to liabilities – have also remained high (see Figure 2.53).

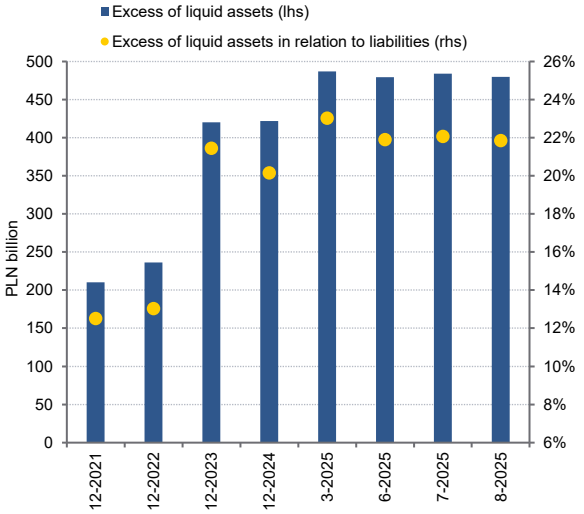
The results of the simulation of liquidity shocks[38] in domestic commercial banks confirmed that these banks are highly resilient. At the assumed magnitude of the shock,[39] almost all banks had adequate liquid asset buffers to cover the increased outflows of funds and to maintain LCR levels above

[38] 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.

[39] Main 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 were carried out based on June 2025 data.

the regulatory minima. The results have deteriorated slightly since December 2024, but the extent of the shortfall is limited (PLN 0.4 bn). 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' capacity to deal with the liquidity shock.

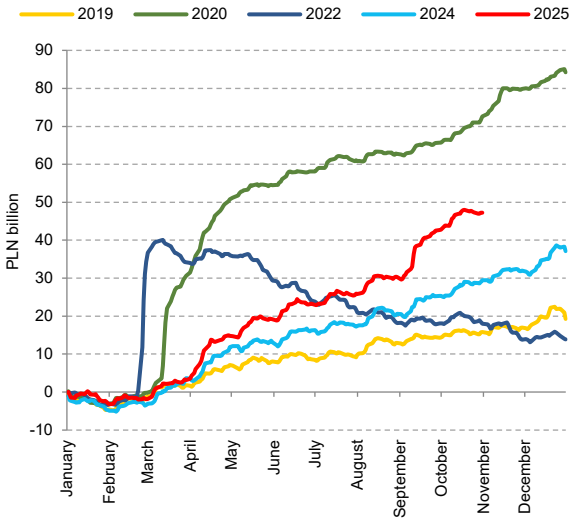
Figure 2.53. Excess of liquid assets in domestic commercial banks



Note: Excess of liquid assets understood as an excess of liquid assets over net outflows under the condition that LCR=100%. The data do not include BGK and associating banks.

Source: NBP.

Figure 2.54. Currency in circulation* (*daily cumulative changes)*



* including MFIs' vault cash.

Source: NBP.

The liquidity position of banks was affected by the increased cash withdrawals in mid-September 2025, which mainly resulted from the increase in uncertainty following the violation of Polish airspace. In two days, the total value of currency in circulation increased by approx. PLN 5.1 bn (see Figure 2.54). The situation stabilised after two days and withdrawal amounts decreased, although they still remained at elevated levels for several consecutive days. This was another episode of this type (following the experience during COVID-19 and immediately after the outbreak of war in Ukraine), which confirms the need for banks to maintain their readiness to meet increased cash needs of the clients.

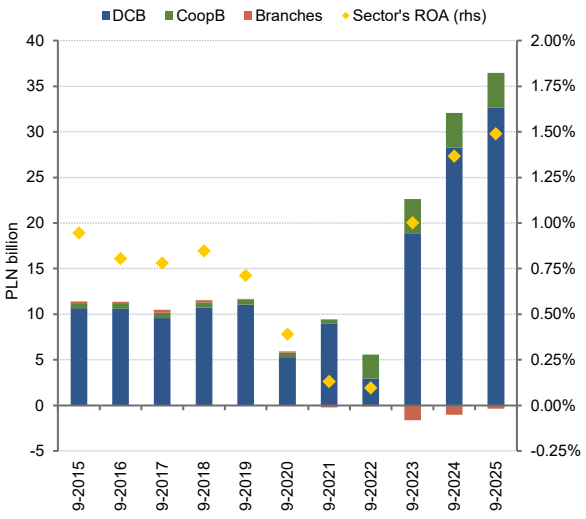
2.6. Earnings

In the consecutive months of 2025, earnings of the banking sector reached record levels in nominal terms. However, measures of profitability improved to a lesser extent. The sector's net profit until September 2025 was 16% higher compared to the corresponding period of the previous year (see Figure 2.55). Profits of domestic commercial banks grew much faster than those of cooperative banks. However, cooperative banks still achieved a higher average return on assets (see Figure 2.57).

The profitability ratios of domestic commercial banks were considerably diversified, mainly as a result of the heterogeneous exposure to the legal risk of FX housing loans. Cooperative banks were clearly more homogeneous in terms of returns. The share of banks with negative profitability in the

sector's assets continued to decrease, as did the amount of losses they made.[40] Losses were mainly reported by institutions whose activities are limited to managing the legacy portfolio of FX housing loans.

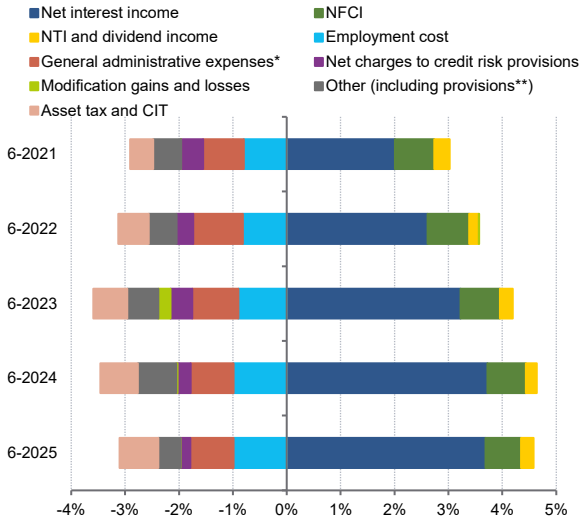
Figure 2.55. Net earnings until September (YTD) in respective years and ROA of the banking sector



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 2.56. 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.

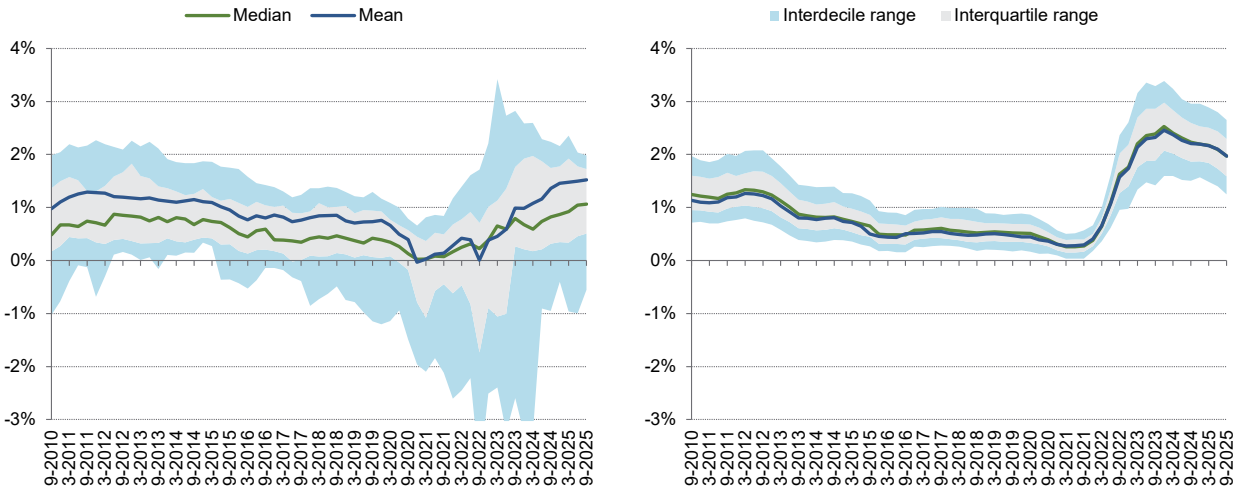
Source: NBP, BGK website.

Net interest income remained the main source and most important driver of improvement in the banking sector's earnings (see Figure 2.56 and Figure 2.58). The level of net interest income and net interest margin (NIM) is strongly correlated with the level of interest rates (see Figure 2.60). NIM of the Polish banking sector is also favourably influenced by a high excess of non-financial sector deposits over loans, owing to which banks are able to offer depositors interest rates well below market interest rates, thereby achieving high deposit margins (see Figure 2.59). The average interest rate on liabilities is also dampened by their term structure – a significant share of low-interest current accounts (see Chapter 2.5). 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 excess of loan interest rates over market interest rates).[41] There

[40] The share of banks with negative profitability and the amount of losses they made were 1.4% and 3.8 billion zlotys, respectively, at the end of September 2025, compared to 1.6% and 5.2 billion zlotys at the end of 2024.
[41] More on margins on housing loans in Box 2.2 in: "Financial Stability Report. June 2025", NBP, p.49.

is also virtually no difference in the level of effective interest rate on loans and 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 power of these groups of banks – large universal banks generally pay 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 2.57. 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.

Source: NBP, BGK website.

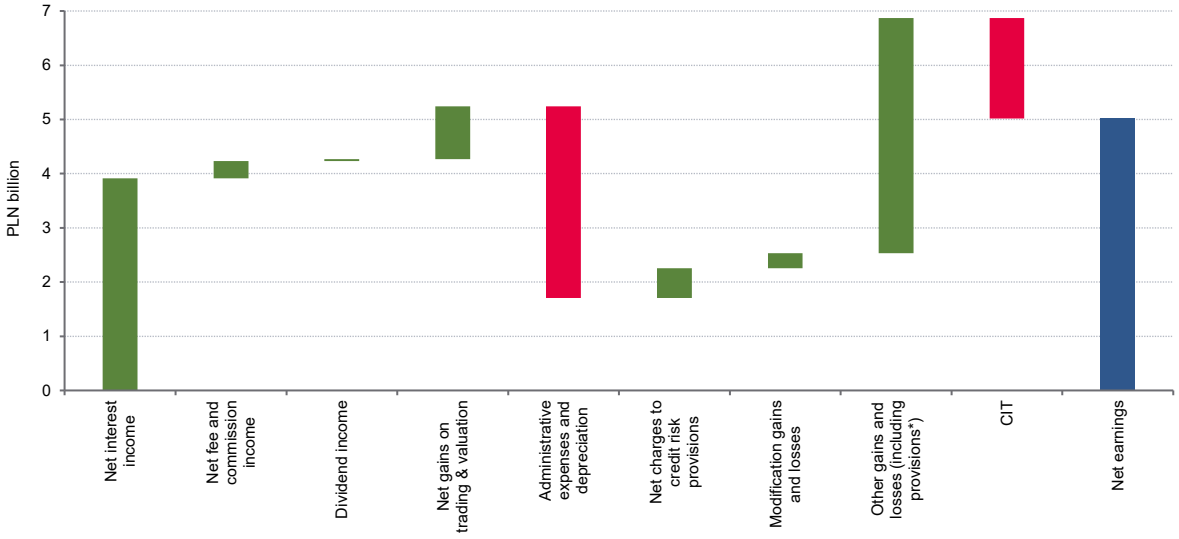
The net interest margin has been slowly diminishing since the end of 2024. The main cause is the decline in market interest rates, gradually reflected in the effective interest rates on banks' assets and liabilities (see Figure 2.59). In the case of cooperative banks, this process started earlier – after the cuts in the official interest rates in 2023 H2 (see Figure 2.60). Commercial banks reduce the sensitivity of their net interest income to interest rate changes by extending the average period to repricing of their assets (by lending at a periodically fixed rate, buying fixed-rate bonds) or by means of derivative transactions. Another reason for the decline in the NIM may be a gradual increase in the share of Treasury bonds and Treasury-guaranteed bonds (which carry lower interest rates than loans to the non-financial sector) in banks' balance sheets.

In the coming quarters, the NIM can be expected to decrease further due to the easing of NBP's monetary policy. NBP interest rate cuts made to date[42] and expected by financial market participants (see Figure 1.5) would negatively affect the interest margins of banks due to the nature of the Polish

[42] The MPC's decisions of May, July and September 2025, decreasing NBP's key interest rates by a total of 1 percentage point, have not yet been fully reflected in interest rates on the floating-rate assets and liabilities of banks. On the other hand, the next interest rate cut of October 2025, by 0.25 percentage points was made after the period covered by the banking data available as at the cut-off date of the Report.

banking sector's exposure to interest rate risk (the so-called long open position). The results of the SOT NII test[43] indicate that lower interest rates will affect earnings of cooperative banks more strongly than those of commercial banks (see Figure 2.60 and Figure 2.61). The economic value of equity (EVE) of cooperative banks is also more sensitive to changes in interest rates than in the case of commercial banks (see Figure 2.62), 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 on the valuation of the bank's assets and liabilities. The decline in NIM may be further influenced by the need to issue long-term debt instruments to meet statutory requirements and regulatory recommendations (MREL, WFD). Such instruments, as a rule, bear higher interest rates than customer deposits.

Figure 2.58. Change in banking sector's net earnings in the period from January to September 2025 compared to the corresponding period of 2024 and the 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 nominal 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 of the decomposition items, in particular, *Modification gains and losses* (comprising a part of loan repayment holiday costs) and *Other gains and losses (including provisions)* may assume both positive and negative values, so it can only be inferred from the figure whether a change in this item had a positive or negative effect on the earnings.

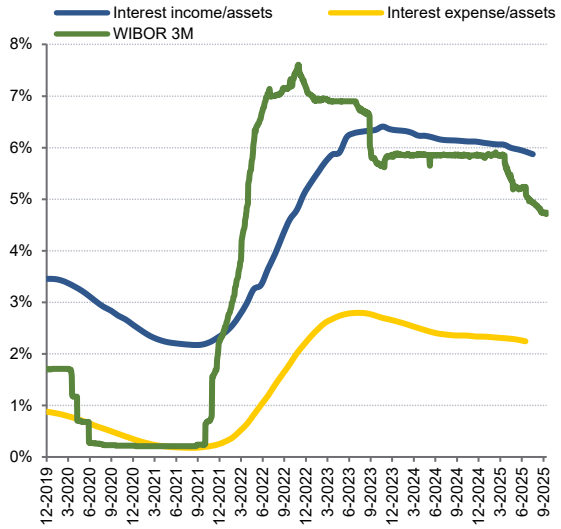
Source: NBP.

Rising operating expenses were the main factor limiting the growth of the banks' earnings (see Figure 2.58). First of all, personnel expenses increased significantly (9% y/y), which mainly resulted from aa rise in the average wage in the sector. Costs have also increased as a result of the reinstatement of

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

the contribution to the BFG deposit guarantee fund in 2025,[44] suspended after the reduction of the target level of this fund.[45] The increase in operating expenses was offset by lower provisions for legal risks related to FX housing loans (see Chapter 2.4). The banking sector's earnings were also positively affected by higher valuation and trading profits and lower provisions for credit risk.

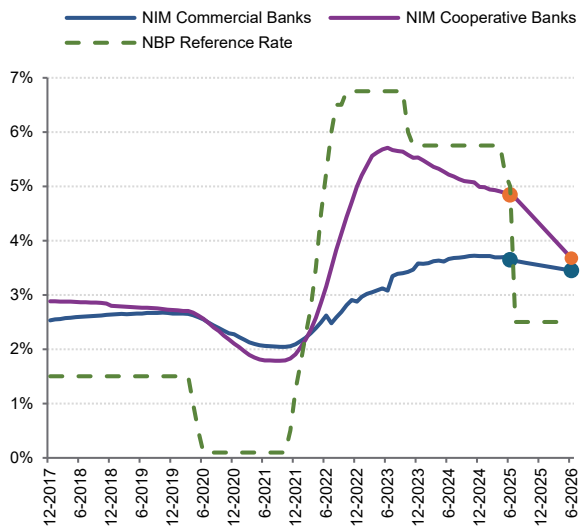
Figure 2.59. Interest income and expenses in relation to average assets of the banking sector



Notes: Annualised data. Average assets excluding flow funds of BGK.

Source: NBP, BGK website.

Figure 2.60. Net interest margin (NIM) of banks against the NBP reference rate



Note: The period from June 2025 to June 2026 shows the estimated change in NIM as a result of a hypothetical one-off reduction in the NBP reference rate by the value assumed in the SOT NII test (2.5 percentage points) compared to the level of June 2025.

Source: NBP.

The profitability of the banking sector in Poland is improving but – affected by tax burdens and costs of legal risk – remains moderate compared to the banking sectors in other EU countries[46] and to other financial institutions operating in Poland. Since 2024 H2, the return on equity (ROE) of the Polish banking sector has exceeded the median for the European Union countries (see Figure 2.63), however it is still lower than in most other countries of Central and Eastern Europe. The profitability of the banking sector in Poland is also moderate compared to other domestic financial institutions (see

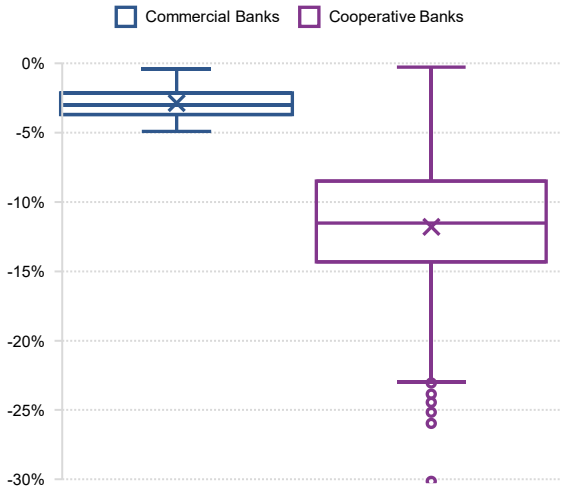
[44] Pursuant to resolutions of the BFG Council adopted on 11 February 2025, the contribution to the guarantee fund in 2025 amounts to 893 million zlotys (no contribution in 2024) and the contribution to the resolution fund to 1.8 billion zlotys (1.6 billion zlotys in 2024).

[45] Resolution of the BFG Council No 50/2022 of 26 October 2022

[46] 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: "Financial System in Poland 2023", available on: www.nbp.pl

Figure 2.64). In addition, the gap between the ROE of banks and other financial institutions increased in 2025 H1.

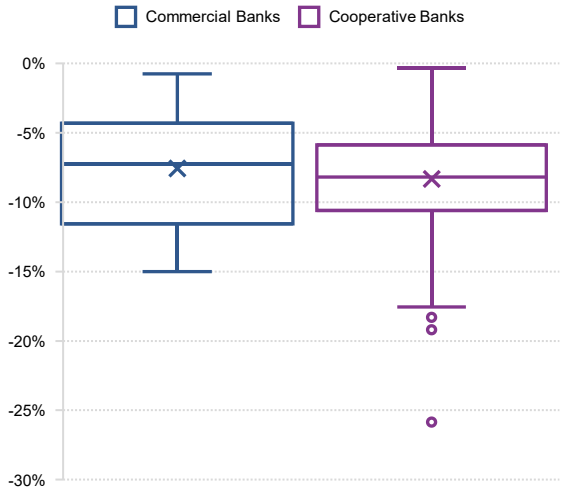
Figure 2.61. Distribution of sensitivity of banks' interest income to the fall in interest rates in the SOT NII test



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

Source: NBP.

Figure 2.62. 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.

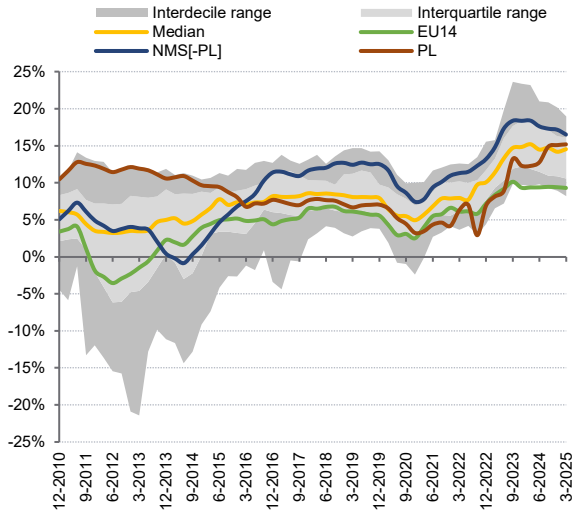
The effective taxation of banks has increased compared to the end of 2024, and the announced tax rate changes[47] may increase it further. As at the end of September 2025, the combined effective tax rate on certain financial institutions (the so-called tax on assets) and CIT for banks is estimated at 30%, compared to 29% as at the end of 2024 (see Figure 2.65). The effective CIT rate is higher than the statutory rate, because (among others) tax on assets and part of costs incurred by banks (including the provision for legal risk[48]) are not recognized in the calculation of taxable income. If the tax changes as

[47] On 1 October 2025, the government submitted a draft Act amending the Corporate Income Tax Act and the Act on Tax on Certain Financial Institutions to the Sejm (Sejm print no. 1752). This draft stipulates that the CIT rate for banks in 2026 will amount to 30%, in 2027 to 26% and from 2028 to 23%. In turn, the rate of tax on certain financial institutions (tax on assets) is to be reduced to 0.40% per annum in 2027 and to 0.35% from 2028.

[48] Provisions for legal risk are not recognised as tax deductible when they are created, while banks can take advantage of the option (available temporarily, until the end of 2026) to reduce taxable income by the equivalent of written off housing loans (e.g. when settlements are reached with customers). 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).

proposed by the government come into force, the combined effective tax rate on assets and CIT could temporarily rise to approximately 39% in 2026 and, despite a gradual decline, continue to remain above the current levels in subsequent years.

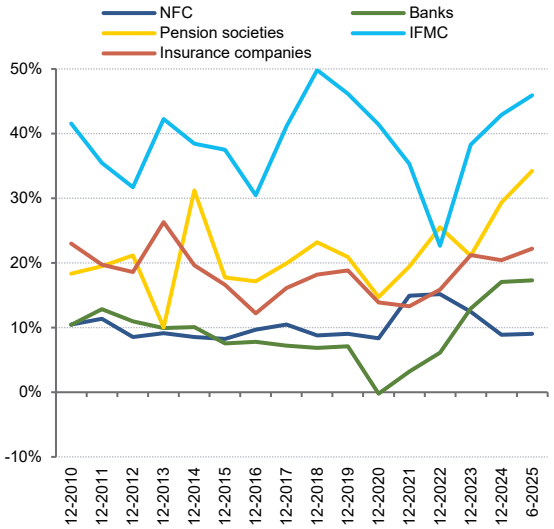
Figure 2.63. Distribution of ROE for the banking sectors of EU countries



Notes: Annualised data. EU14 – average ratio for the 14 EU member states before the 2004 enlargement. NMS[-PL] – average ROE for the countries of Central and Eastern Europe that joined the EU in 2004 or later (excluding Poland).

Source: NBP estimates based on ECB data.

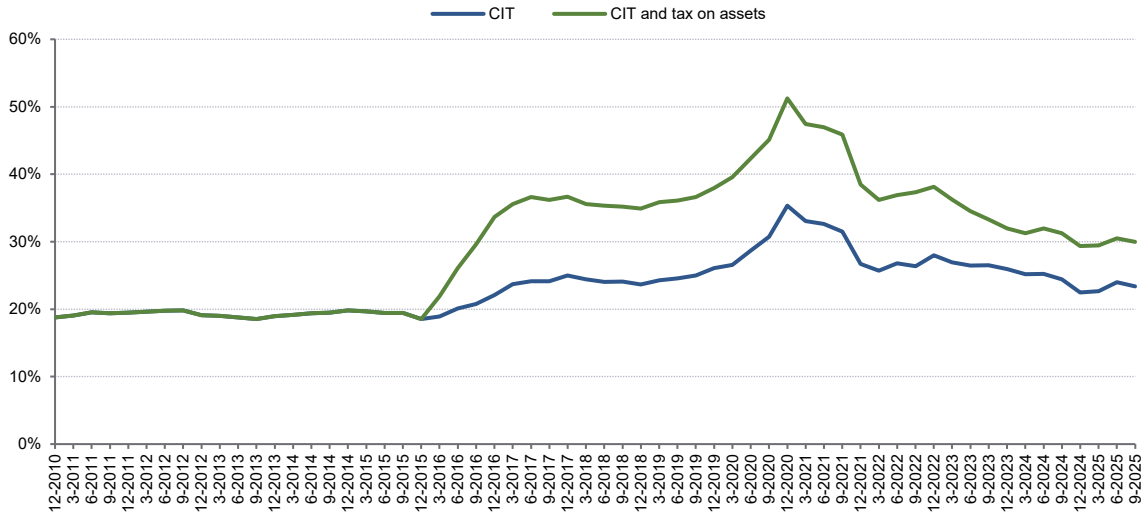
Figure 2.64. ROE of domestic banks, other financial institutions and non-financial corporations in Poland



Note: Annualised data.

Source: NBP estimates based on NBP, UKNF, Statistics Poland data.

Figure 2.65. Effective rate of CIT and tax on assets at banks



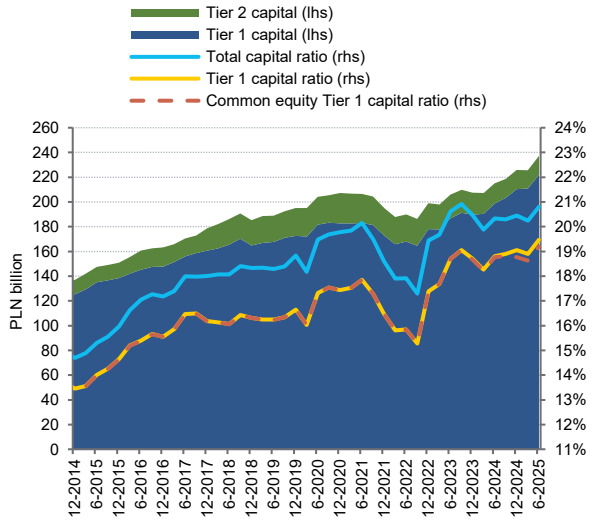
Notes: Annualised data. Estimate for banks with positive net earnings in the period of 12 months.

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 first half of 2025, the average levels of capital ratios across the sector changed rather insignificantly (see Figure 2.66). The total risk exposure amount (TREA) increased, driven by the recovery in lending and, to some extent, regulatory changes.[49] At the same time, the sector's own funds increased (to PLN 237 bn), especially common equity Tier 1 (CET1) capital. Once again, a major part of the cooperative banks' profits (see Chapter 2.6 and previous *Reports*) was allocated to other reserves. Commercial banks also increased CET1 capital through profit retention, although some of them paid dividends. The dividend payout ratio in most of the listed banks was close to the limit set by the KNF. The favourable impact of the changes of valuation of Treasury securities on CET1 capital also continued (see Figure 2.67). However, the sensitivity of the banking sector's own funds to the risk of Treasury securities revaluation shock has increased (see Chapters 2.3 and 4.1.2).

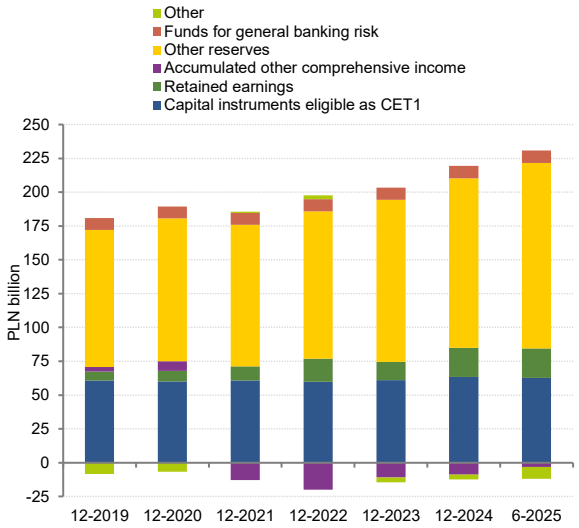
Figure 2.66. Own funds and capital adequacy ratios



Note: BGK excluded.

Source: NBP.

Figure 2.67. Selected CET1 items



Note: BGK excluded.

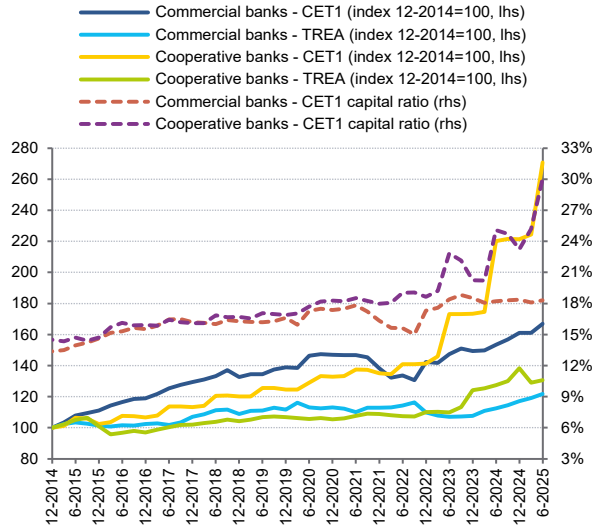
Source: NBP.

The implementation of the amended CRR from the beginning of 2025, changing certain rules for determining capital requirements, had a varied impact on the capital adequacy ratios of individual banks. The amendments involved, among other things, reducing the use of model-based or advanced

[49] See Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 *amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor*. The main purpose of this regulation update was to transpose Basel III standards into European law (see *Basel III: Finalising post-crisis reforms*).

approaches in favour of modified standardised approaches, with the aim of ensuring greater comparability and predictability of the requirements while maintaining appropriate risk sensitivity. Their application contributed to a slight decrease in capital adequacy ratios in commercial banks and a marked increase in cooperative banks (see Figure 2.68). In commercial banks, exposure to all major risk categories increased (by approx. PLN 40 bn; see Figure 2.69). However, in cooperative banks, despite an increase in credit risk exposure, TREA decreased (by approx. PLN 5 bn) due to a significant decrease in operational risk exposure. In particular, this was due to the introduction of the new standardised measurement approach (SMA) for calculating operational risk requirement, which replaced the previous simpler approaches and the advanced approach. The requirement determined by the SMA approach was approximately 50% lower compared to the basic indicator approach (BIA) previously used by cooperative banks.[50] Two institutions that had previously used the advanced measurement approach (AMA) were mainly responsible for the increase in the operational risk requirement in commercial banks.

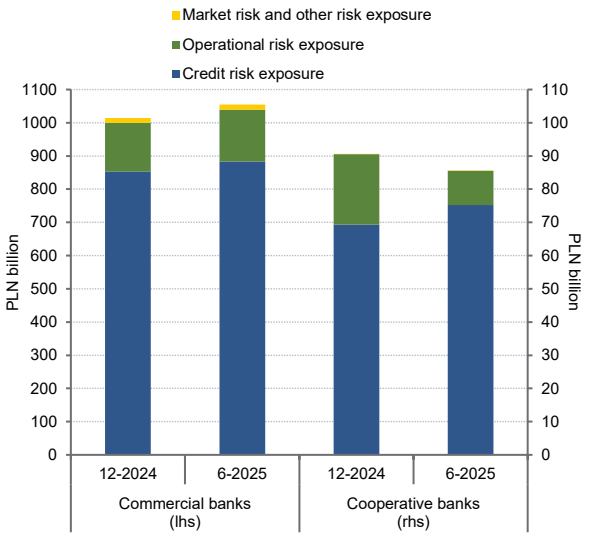
Figure 2.68. Common equity Tier 1 capital ratio and its components



Note: BGK excluded.

Source: NBP.

Figure 2.69. Total risk exposure amount (TREA)



Note: BGK excluded.

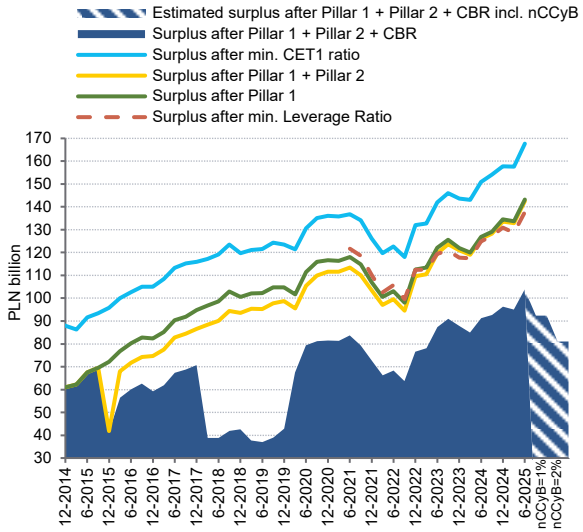
Source: NBP.

Banks' own fund have significantly exceeded the current capital requirements in the risk-based regime, confirming that the sector is very well prepared for the introduction of a positive neutral

[50] This is due to the design of the SMA approach, including the introduction of a ceiling on interest income within one of the components of the business indicator and the use of a smaller multiplier.

countercyclical capital buffer (nCCyB).[51] At the end of June 2025, the common equity Tier 1 (CET1) capital surplus over Pillar 1 and Pillar 2 and the combined buffer requirement increased to the historic highs (over PLN 103 bn, on average ca. 9% TREA; see Figure 2.70). Thisgrowth in capital surpluses (by approximately PLN 5 bn) was recorded mainly in cooperative banks. The gradual introduction of the nCCyB will not reduce these surpluses, *ceteris paribus*, to the extent that could affect the ability of banks to provide credit to the economy. Alongside that, the sector's leverage ratio also remained at a level well above the required minimum, and averaged approx. 8% at the end of June 2025.

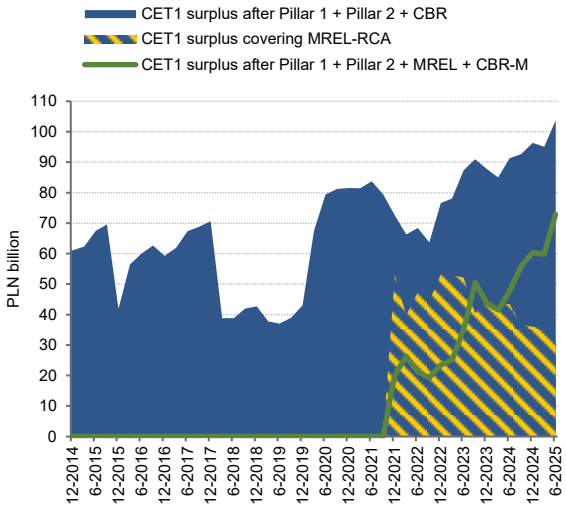
Figure 2.70. CET1 surplus after fulfilling selected capital requirements



Note: BGK excluded. Estimates of CET1 surpluses including the introduction of nCCyB=1% and nCCyB=2% based on June 2025 data.

Source: NBP.

Figure 2.71. Estimated use of CET1 surplus covering MREL



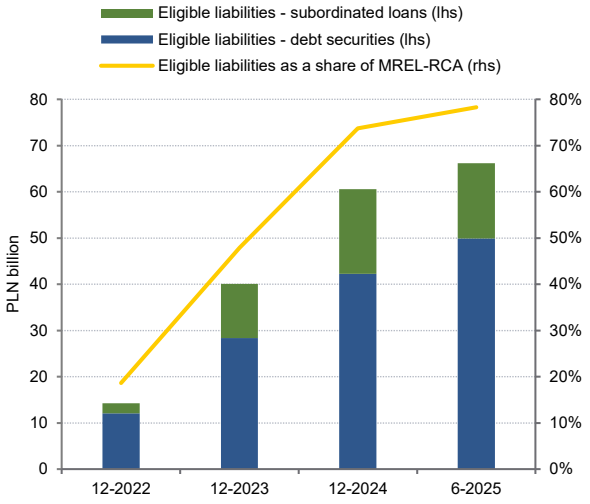
Note: BGK excluded.

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

[51] On 14 June 2024, the Financial Stability Committee adopted a resolution (No. 74/2024) recommending that the countercyclical buffer rate should be set at 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 September 2024 setting the countercyclical buffer rate at 1%, which will apply from 25 September 2025 (Journal of Laws 2024, item 1400).

Banks continued to increase the share of eligible liabilities to meet the MREL-RCA requirement,[52] **reducing the use of surplus CET1 capital for that purpose.**[53] Further increase in funding of eligible liabilities resulted in another increase in estimated CET1 capital surpluses over the combined buffer requirement in addition to MREL-TREA (CBR-M) in the first half of 2025 (exceeding PLN 72 bn, i.e. to approx. 6.4% of TREA on average; see Figure 2.71). From a financial stability perspective, this trend should be assessed as positive, because the high coverage of MREL-RCA by instruments other than CET1, in particular by eligible liabilities, supports the effectiveness of potential resolution processes, limits their costs for the banking sector as a whole and does not absorb capital that could otherwise be used for lending.

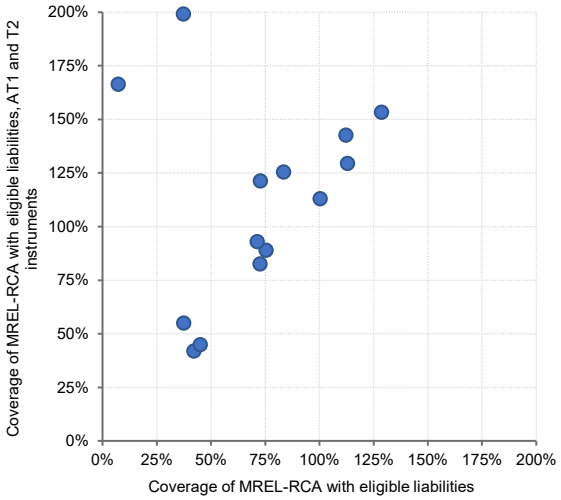
Figure 2.72. Eligible liabilities and MREL-RCA coverage



Note: BGK excluded.

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

Figure 2.73. MREL-RCA coverage with eligible liabilities, AT1 and T2 instruments



Note: Selected commercial banks.

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

[52] In 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 1 and Pillar 2 requirements of the risk-based regime and is covered solely with own funds. On the other hand, the recapitalisation amount can be covered with both own funds and eligible liabilities.

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

Banks continued to vary in terms of the extent of coverage of the recapitalisation amount by eligible liabilities as well as AT1 and T2 instruments.[54] On a sector-wide basis, eligible liabilities accounted for almost 80% of MREL-RCA (see Figure 2.72). The level of MREL-RCA coverage, by eligible instruments alone and including AT1 and T2 instruments, remained varied. Over 90% of eligible liabilities were included in the balance sheets of seven banks (see Figure 2.73).

Growing capital surpluses in each of the parallel regulatory regimes indicate that the sector has a high capacity to expand lending and absorb costs arising from unforeseen shocks. Further growth of the capital base can be driven by issuing debt securities and subordinated loans, and classifying them as additional Tier 1 or Tier 2 capital (including for the purposes of the MREL requirement). The growth prospects for common equity Tier 1 capital will depend primarily on the future profitability of banks and their decision to allocate profits between dividends and further increase in their own funds.

2.8. Stress tests

Top-down stress tests were conducted to assess the resilience of domestic commercial banks[55] to the impact of adverse macroeconomic and market shocks and the costs of legal risk. Two scenarios of economic developments over the period from the third 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, November 2025" was used as the **reference scenario**. The **adverse scenario** was developed on the basis of the historical developments of macroeconomic variables for periods of financial downturns in other countries and the model used for the NBP macroeconomic projections. The paths of selected macroeconomic variables in both scenarios are presented in Table 2.2 and Figure 2.74. The adverse scenario includes a decline in real GDP, stagnation of nominal GDP and falling market interest rates (the reference scenario – a moderate real GDP growth with a constant level of interest rates). In addition, the adverse scenario assumes that an increase in risk aversion could result in: (i) a lasting depreciation of the zloty – increase in

[54] At the end of 2024, the updated MREL methodology was published, which formulated the BFG's expectation that the MREL requirement in the part corresponding to the amount for recapitalisation (RCA-TREA) should be fully covered with debt instruments (other than CET1), i.e. additional Tier 1 instruments, Tier 2 instruments and eligible liabilities (https://bfg.pl/en/mrel-methodology/).

[55] Domestic commercial banks operating at the end of June 2025, excluding BGK. The analysis covered 28 entities with a combined share of 78% in the banking sector's assets (excluding flow funds of BGK) at the end of June 2025.

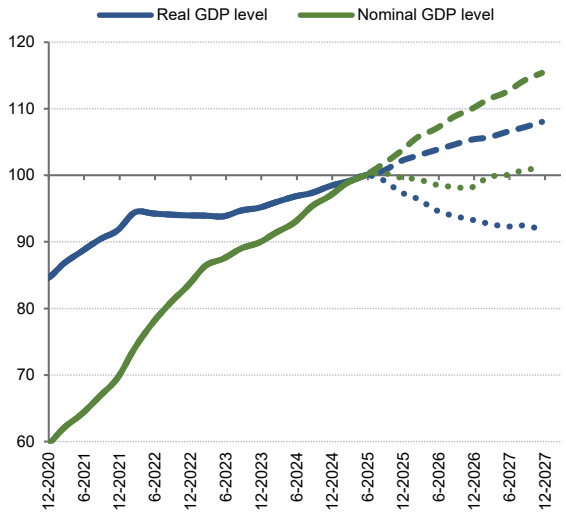
currency exchange rates by 30%; and (ii) an immediate increase in the credit spread of Treasury bonds by 300 basis points (gradually decreasing in subsequent quarters of the simulation to 200 basis points at the end of 2027).

Table 2.2. Major average annual economic indicators in the macroeconomic scenarios considered

Scenario	2024	2025	2026	2027
GDP (y/y, %)				
Reference	2.9	3.4	3.7	2.6
Adverse	2.9	1.9	-4.4	-2.4
CPI (y/y, %)				
Reference	3.7	3.7	2.9	2.5
Adverse	3.7	4.0	3.4	4.3
Employment (y/y, %)				
Reference	-0.4	-0.2	0.0	-0.4
Adverse	-0.4	-0.4	-1.9	-1.5
Real wages (y/y, %)				
Reference	9.4	4.7	3.4	2.8
Adverse	9.4	4.0	0.6	-1.1
WIBOR 3M (%)				
Reference	5.9	5.2	4.6	4.6
Adverse	5.9	4.6	3.9	2.1

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

Figure 2.74. The level of nominal and real GDP under the macroeconomic scenarios considered



Note: 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, Reuters data.

Projections from the VECM model, performed under the reference or the adverse scenario, were used to determine the paths of possible lending growth for each bank[56]. 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 1 and 2 capital requirements, the MREL-RCA requirement[57] (less the value of eligible liabilities issued by the end of June 2025[58]) and the combined buffer requirement (CBR-M) increased by the

[56] 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).

[57] Excluding the MREL-RCA in banks with the SPE strategy.

[58] According to the law, banks may cover the MREL 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.

countercyclical buffer target value, i.e. 2%.[59] It has been assumed that undistributed profits and new profits generated in the period of analysis increase own funds after payment of the dividend determined on the basis of the criteria formulated in *the KNF Position on dividend policy in 2025*.[60]

In the reference scenario, the future legal risk burden of FX housing loans was determined by assuming that:

- banks will conclude settlements with a half of the customers still repaying housing loans in Swiss francs, who have yet neither engaged in litigation with the bank nor concluded a settlement agreement,
- a judicial declaration of invalidity of the agreement will apply to other customers who are still repaying Swiss franc-denominated housing loans and who have yet neither engaged in litigation with the bank nor concluded a settlement agreement,
- half of the customers who have repaid their Swiss franc housing loans will sue the bank and obtain a court ruling declaring the loan agreements invalid,
- half of the customers who have housing loans in euro (active or repaid) will sue the bank and obtain a court ruling declaring the loan agreement invalid.

It was also assumed that in each court case, the customers will be awarded interest for the bank's delayed performance.

The adverse scenario assumes an increase in the percentage of loan agreements subject to litigation (up to 90% in the case of repaid loans in Swiss francs and loans in euro). The depreciation of the zloty has also been introduced, which increases provisions.

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.[61]

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

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

[60] 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.

[61] The adverse scenario assumes that the line of jurisprudence in such disputes would become unfavourable for banks and the related costs would reach approximately 25 billion zlotys. This is a hypothetical scenario adopted to analyse the resilience of the sector to unlikely shocks, rather than the expected level of losses.

Stress test results

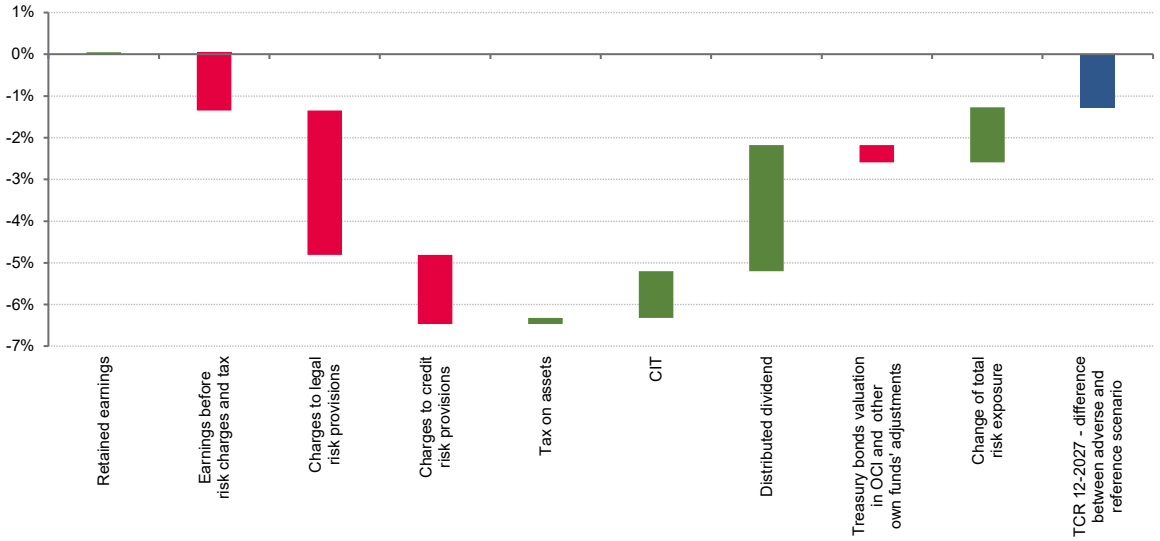
The materialisation of the assumed adverse scenario would negatively affect the situation of the analysed banks primarily through the high legal risk costs, but also through loan losses and a decrease in earnings before risk charges and taxes (see Figure 2.75). Charges to provisions for legal risk would amount to 53 billion zlotys and would be almost 3 times higher than in the reference scenario (but on average lower per annum than in the past). Banks would have to:

- increase provisions for legal risk of FX housing loans by 54% compared to the end of June 2025;
- create additional provisions for the risk of customer claims relating to free credit sanctions.

Net interest income would be 8% lower than in the reference scenario, primarily as a result of falling interest rates. On the other hand, loan losses – due to the economic slowdown assumed in the adverse scenario – would amount to 46 billion zlotys in total and would be on average almost four times higher per annum than in the 12-month period until June 2025. However, the burden of loan losses on banks' earnings would be lower than in the past. The lower sensitivity of banks to the effects of materialisation of credit risk results from a better quality of the loan portfolios and changes in the structure of assets in recent years – an increase in the share of debt securities issued and guaranteed by the State Treasury. Such a change in the balance sheet structure improves banks' resilience to credit risk but may make them more vulnerable to other risks (see Chapter 4.1.2).

The vast majority of banks would generate positive 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. In some quarters of the adverse scenario, even up to half of the analysed banks would make a loss, however, in aggregate over the analysis horizon, the earnings of the vast majority of banks (by asset share) would be positive despite the shock. The average annual earnings of the analysed banks in the adverse scenario would be more than 60% lower than in the 12-month period until June 2025 (and in the reference scenario) while ROA would fall to 0.6% compared to 1.6% in June 2025. Assuming that the rules stated in the *KNF Position on dividend policy in 2025* are applied throughout the simulation period, 34% of the undistributed profit generated before the analysis period and 41% of the profit from the simulation period would be allocated to increasing regulatory funds.

Figure 2.75. The difference in the total capital ratio of the analysed group of banks at the end of the adverse and reference scenario and the decomposition of this difference

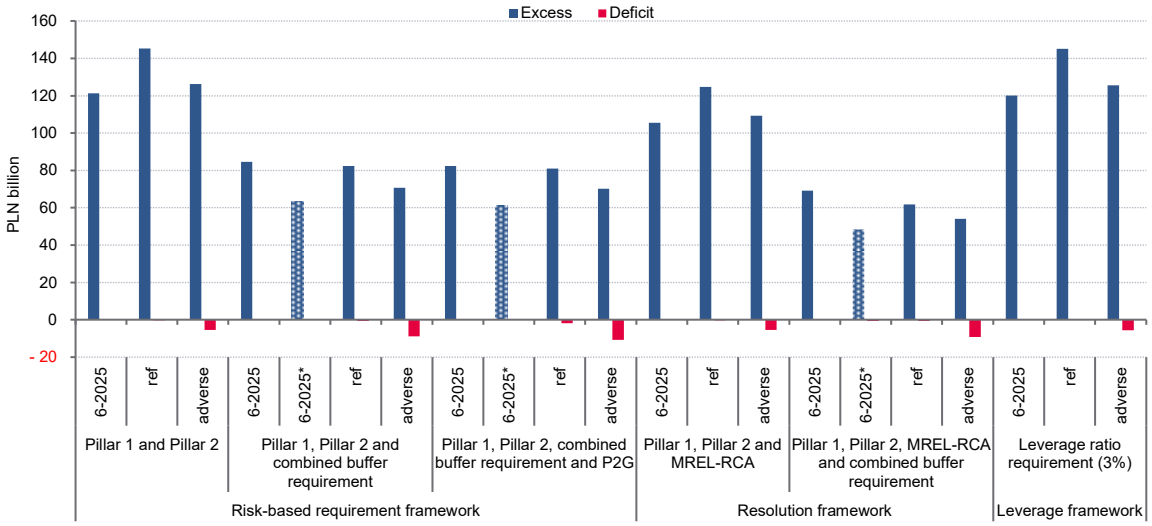


Note: The blue bar indicates the difference between the total capital ratio of 28 banks analysed at the end of the adverse and reference scenarios. Green bars indicate factors increasing the average total capital ratio (TCR) in the adverse scenario compared to the reference scenario, while red bars mark 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 at the end of June 2025) generated before the simulation period, arising from the adopted assumptions, while "Distributed dividend" concerns profits achieved in the simulation period. "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 will be subject to the recovery plan, which relieves it from paying tax for the rest of the projection period. The "Change of 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.

Both scenarios assume the application of the nCCyB (1% from September 2025 and 2% from September 2026). During the period of the analysis, this will "freeze" some of the banks' existing capital surpluses, however, the vast majority of the analysed banks hold sufficient capital surpluses to cover this requirement. If the reference scenario were to materialise, over the simulation horizon the analysed banks would be able to rebuild surplus capital to a level close to that before the countercyclical buffer was raised (see Figure 2.76). On the other hand, at the end of the adverse scenario these surpluses would be lower than at the end of June 2025. If the systemic risk assessment by the Financial Stability Committee indicated such a need, the countercyclical buffer could be released if the adverse scenario materialised. In such a case, the surpluses of CET1 capital in the banks analysed would increase significantly.

Figure 2.76. Total excess and deficit of Common Equity Tier 1 capital of the analysed group of banks at the end of June 2025 and at the end of the simulation period (2027) after meeting the requirements applicable in different prudential regulation frameworks



Note: Capital excess 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 took into account the target countercyclical buffer (nCCyB) 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 June 2025 is shown as 6-2025* and marked by a pattern.

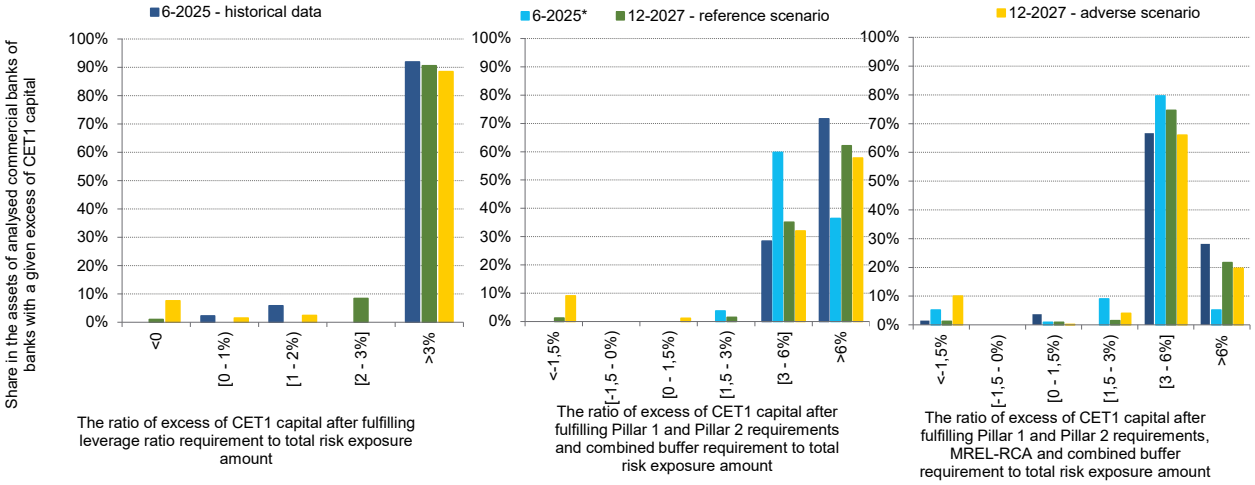
Source: NBP.

The widening of Treasury bond credit spreads would significantly reduce banks' ratios and capital surpluses in the initial quarters of the simulation, but the impact of this shock would decrease over time and would be further mitigated by the impact of falling interest rates. An initial increase in risk aversion would contribute to a decline in the value of bonds on the balance sheets of the analysed banks by approximately 23 billion zlotys. This would limit the capacity to pay dividend during the simulation period. As this shock gradually faded, interest rates would decrease, resulting in an increase in the value of the banks' fixed-rate bond holdings measured at fair value. The interaction of these two factors would reduce the combined impact of bond value changes on capital ratios at the end of the simulation period (see Figure 2.75). The simulation results indicate that most banks have sufficient surplus of capital to absorb the assumed credit spread shock and that their lending during the simulation period would not be affected.

An increase in risk exposure (TREA) in the adverse scenario would also be a limiting factor for the excess of capital over the regulatory requirements. Lending projections in individual portfolios indicate that in the adverse scenario, corporate loan debt would not change materially, and the growth of household loans would be slower than in the last 12 months, despite the surplus capital available in the

banks.[62] The negative impact of the economic shock on lending would be limited by a fall in interest rates. In the reference scenario, the portfolio of PLN-denominated housing loans would increase at an average annual rate of more than 6%, while other loans to households and corporate loans would grow at an average annual rate of 4%. 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 process of concluding settlements and judicial declaration of invalidity of the loan agreements.

Figure 2.77. Distribution of assets of the analysed commercial banks according to excess CET 1 capital after meeting the requirements in different prudential regulation frameworks



Notes: See Figure 2.76.

Source: NBP.

If the adverse scenario materialised, some banks would fail to meet the capital requirements at the end of the analysis horizon[63] as they would have made losses decreasing their own funds. The amounts of the capital shortfall on a sector-wide basis would be relatively limited, as would be the share of banks reporting deficits in the sector's assets (see Figure 2.76 and Figure 2.77). In particular, in the adverse scenario at the end of 2027:

- banks with a 6% share in the sector's assets[64] would fail to meet the leverage requirement, while the associated Common Equity Tier 1 capital shortfall for that reason would amount to 5.6 billion zlotys,

[62] The availability of these surpluses would not be significantly affected by the adoption of an additional assumption that banks maintain additional management buffers on top of the applicable capital requirements, as long as banks with surplus capital could take over the market from banks with deficits.

[63] In the first quarters of the simulation period, the share of non-compliant banks would be higher, as would the amount of shortfalls (among other things, as a result of the bond credit spread shock, which partially fades over time).

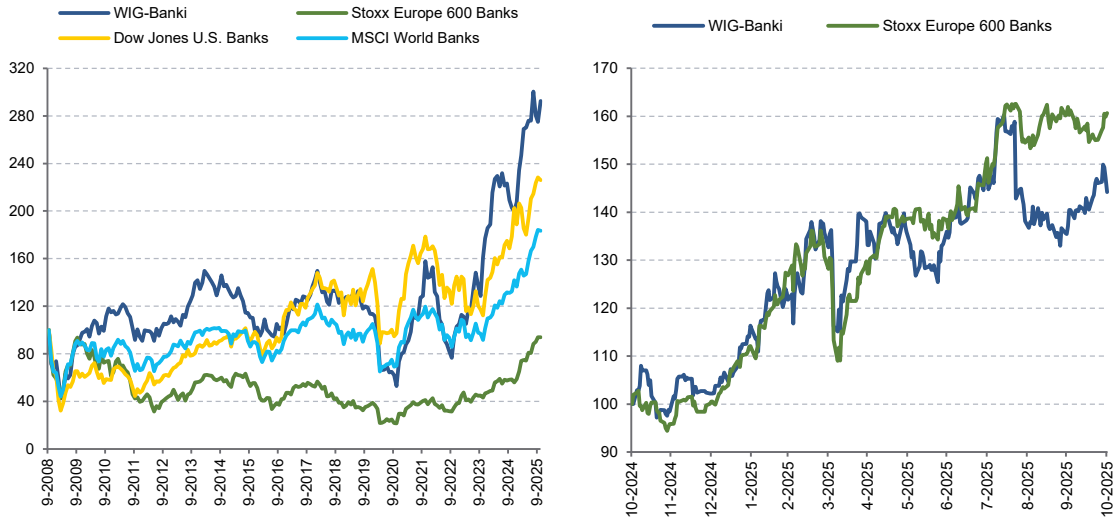
[64] Shares calculated relative to sector assets excluding flow funds of BGK.

- the capital requirements for Pillars 1 and 2 would not be met by banks with a 2% share in the sector's assets, and the Common Equity Tier 1 capital shortfall would amount to 5.4 billion zlotys.
- commercial banks with a 7% share in the sector's assets would fail to meet jointly the Pillar 1 and Pillar 2 capital requirements and the combined buffer requirement, while the total Common Equity Tier 1 capital shortfall would amount to the total of 8.9 billion zlotys,
- commercial banks with an 8% share in the sector's assets would fail to meet jointly the Pillar 1 and Pillar 2 capital standards, the target MREL-RCA requirement and the combined buffer requirement, with the total Common Equity Tier 1 capital shortfall amounting to approx. 9.1 billion zlotys.

2.9. Market assessment of banks

The favourable situation of the banking sector in Poland is confirmed by financial market valuations and assessments by rating agencies. The main factors influencing the market valuation of banks included global conditions and the announced raising of the CIT rate for banks.

Figure 2.78. Stock indices of selected groups of banks after the outbreak of the global financial crisis (left-hand panel) and in the last 12 months (right-hand panel)



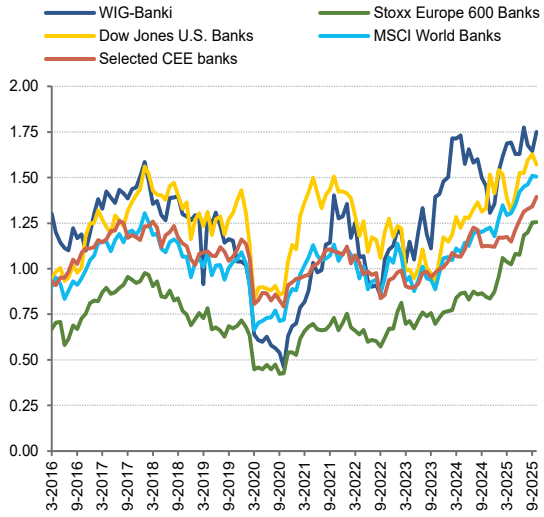
Note: Indices scaled to 100 as of 15 September 2008 and 31 October 2024 on the left and right-hand panel, respectively.

Source: NBP estimates based on LSEG data.

Markets responded positively to information confirming the higher-than-expected profitability of Polish banks. The achievement of higher earnings for 2025 Q1 and Q2 than expected by most of the domestic listed banks and positive assessments of rating agencies stimulated an increase in their share prices (see Figure 2.78) and an increase in their market valuation advantage (measured by the P/BV ratio) relative to European banks (see Figure 2.79). An important positive stimulus was provided by the publication on 1 August of the results of the stress tests conducted by the European Banking

Authority, where Bank Pekao S.A. proved to be the first and PKO PB S.A. the third most resilient bank to a macroeconomic downturn.[65] However, the announcement in June 2025 of plans to introduce a tax on excessive profits for banks and to tax interest on mandatory reserves contributed to a decline in share prices. On 21 August 2025, a correction of several per cent in bank quotations was triggered by information concerning a draft act on increasing the CIT rate for banks.

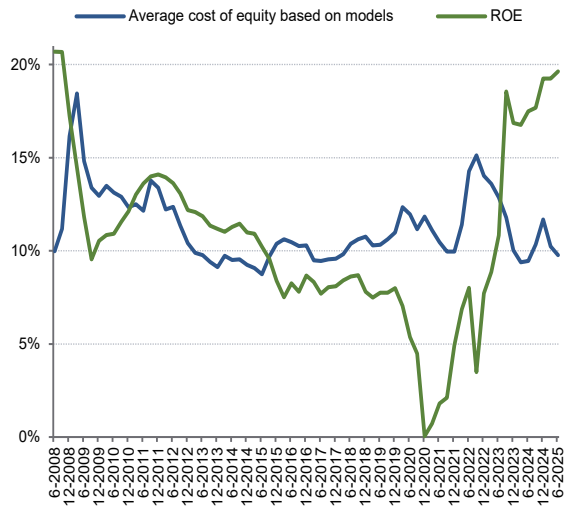
Figure 2.79. The "price-to-book-value" ratio for selected groups of banks from 31 March 2016



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

Source: NBP calculations based on Bloomberg data.

Figure 2.80. Cost of equity against return on equity (ROE) in 2008-2025



Source: NBP calculations based on NBP and LSEG data.

The quotations of bank shares on the Warsaw Stock Exchange (WSE) also respond to changes in global market prices, among others, due to the high share of foreign investors in the Polish stock market.[66] Announcements of increased tariffs to be introduced on imports to the United States or an agreement with major trading partners on a temporary suspension of tariff sanctions caused several per cent changes in quotations on global exchanges. The expected termination of the conflict between Iran and Israel and the war in Ukraine, as well as the prospect of contracts to rebuild its economic infrastructure, contributed to strong gains in bank share quotations in late July and early August this

[65] The EBA conducted stress tests among 64 key banks operating in the EU and Norway. Information on the results of the tests is available on the EBA website: https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-results-its-2025-eu-wide-stress-test

[66] In 2024, the share of foreign investors in turnover on the WSE Main Market increased to 68%. See the press release of the WSE of 2 April 2025 available at: https://www.gpw.pl

year. Meanwhile, declines in the valuation of European banks, including Polish ones, were triggered by the governmental crisis in France which started on 25 August 2025.

The estimated cost of capital decreased in 2025 H1 as the risk-free rate declined. At the same time, the return on equity of listed banks stabilised at high levels. As a result, in recent quarters, the return on equity ratios of the analysed banks have far exceeded the cost of capital ratios (see Figure 2.80).

The rating agencies either raised or affirmed the individual ratings of banks operating in Poland, while the outlook for their ratings was negatively affected by the deterioration of Poland's rating outlook. The rating agencies highlighted good prospects for the banking sector as a whole and gave a positive assessment of the profitability, liquidity and quality of the loan portfolio of the banks tested.[67] They emphasised that the persistence of high (in their opinion) interest rates and access to low-cost domestic deposits will allow banks to achieve high interest margins, net profits and improve their capital endowment, while high staffing levels and real wage growth have a positive impact on the quality of the loan portfolio. The downgrading of Poland's rating outlook from "stable" to "negative" by Fitch and Moody's in September this year was the sole reason for the downgrading of the long-term rating outlook of some of the banks with the highest long-term ratings in the country to "negative".[68]

[67] The agencies upgraded: (1) primary rating: Fitch for Bank Pekao (to bbb+), Santander Bank Polska (bbb+), ING Bank Śląski (bbb+) and Bank Millennium (bbb-) and Moody's for PKO PB (baa1); (2) long-term rating: Fitch for Bank Pekao and Pekao Bank Hipoteczny (BBB+). The agencies confirmed the long-term rating: Fitch for BNP Paribas Bank Polska (BBB-), Bank Handlowy (BBB-) and BOŚ (BB-), Moody's for Bank Pekao (A2) and Santander Bank Polska (A2), and S&P Global Ratings for Bank Pekao (A-) and Alior Bank (BB+).

[68] In September 2025, the agencies reaffirmed the long-term rating and at the same time downgraded the rating outlook to negative: Fitch for BNP Paribas Bank Polska and ING Bank Śląski and Moody's for Bank Pekao.

2.10. Selected indicators describing the situation of the banking sector

Table 2.3. Banking Sector

in %	6-2024	9-2024	12-2024	3-2025	6-2025
Return on assets (ROA) *	1.18	1.37	1.42	1.45	1.47
Return on Tier 1 capital (RORC) *	15.6	18.2	19.6	19.8	20.1
Return on accounting capital (ROE) *	13.8	16.0	17.1	17.1	17.3
Net interest margin (NIM) *	3.73	3.75	3.76	3.74	3.69
The share of net interest income in net income from banking activity *	80.4	80.8	80.4	80.5	80.3
The share of net noninterest income in net income from banking activity *	19.6	19.2	19.6	19.5	19.7
Operating costs to net income from banking activity (CTI) *	42.7	42.8	42.9	43.5	43.4
Net charges to credit risk provisions to net income from banking activity *	5.1	5.3	4.6	4.4	4.2
Loan grow th rates (y/y)					
- nonfinancial sector	3.2	4.5	4.6	3.9	4.9
- households	4.3	4.8	4.2	3.5	3.4
- loans for consumption	6.6	7.1	7.1	7.4	8.5
- housing loans	4.4	5.4	4.1	2.5	2.6
- enterprises	0.8	3.6	5.3	4.3	7.7
Impaired loan ratios					
- nonfinancial sector	5.1	5.3	5.0	5.0	4.9
- households	4.5	4.4	4.0	4.0	3.8
- loans for consumption	7.4	7.1	6.4	6.5	5.9
- housing loans	1.7	1.7	1.6	1.5	1.4
- enterprises	6.0	6.8	6.9	6.8	6.8
Net charges to credit risk provisions to net value of loans *					
- nonfinancial sector	0.58	0.62	0.56	0.53	0.51
- households	0.55	0.51	0.37	0.32	0.26
- loans for consumption	1.31	1.26	1.04	0.98	0.89
- housing loans	0.05	0.07	-0.02	-0.07	-0.09
- enterprises	0.65	0.82	0.90	0.89	0.94
Funding gap	-28.7	-29.0	-30.0	-32.0	-33.6
Total capital ratio	20.3	20.3	20.3	20.3	20.5
Tier 1 capital ratio	18.8	18.9	18.9	18.9	19.1
Core Equity Tier 1 capital ratio	18.8	18.8	18.7	18.6	18.9
Financial leverage (multiple)	12.5	12.4	12.5	12.7	12.5
Leverage ratio according to CRDIV/CRR	7.9	7.9	7.9	7.7	7.9

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. Loan growth rate calculated using transactional changes.

Source: NBP, BGK website.

Table 2.4. Domestic commercial banks

in %	6-2024	9-2024	12-2024	3-2025	6-2025
Return on assets (ROA) *	1.16	1.36	1.46	1.48	1.50
Return on Tier 1 capital (RORC) *	14.5	17.4	18.9	19.3	19.8
Return on accounting capital (ROE) *	13.0	15.4	16.7	16.8	17.1
Net interest margin (NIM) *	3.66	3.70	3.71	3.69	3.65
The share of net interest income in net income from banking activity *	80.0	80.5	79.9	80.1	79.9
The share of net noninterest income in net income from banking activity *	20.0	19.5	20.1	19.9	20.1
Operating costs to net income from banking activity (CTI) *	38.4	38.5	38.4	39.0	38.8
Net charges to credit risk provisions to net income from banking activity *	5.2	5.4	4.7	4.5	4.2
Loan grow th rates (y/y)					
- nonfinancial sector	1.2	2.7	4.1	3.3	4.8
- households	0.9	1.9	3.2	3.0	2.7
- loans for consumption	4.1	4.4	5.6	6.0	6.3
- housing loans	2.7	3.8	4.3	2.6	2.6
- enterprises	2.0	4.6	6.0	3.8	9.3
Impaired loan ratios					
- nonfinancial sector	5.0	5.3	5.0	5.0	4.8
- households	4.5	4.4	3.9	3.9	3.7
- loans for consumption	7.8	7.4	6.7	6.8	6.2
- housing loans	1.7	1.6	1.5	1.4	1.4
- enterprises	6.0	6.9	7.0	7.0	6.8
Net charges to credit risk provisions to net value of loans *					
- nonfinancial sector	0.59	0.63	0.58	0.55	0.51
- households	0.57	0.52	0.37	0.34	0.26
- loans for consumption	1.36	1.30	1.07	1.01	0.91
- housing loans	0.08	0.08	-0.02	-0.05	-0.08
- enterprises	0.63	0.83	0.95	0.92	0.96
Funding gap	-27.1	-27.3	-27.9	-29.4	-30.8
LCR	227.8	234.9	243.0	243.6	237.2
Total capital ratio	19.9	19.9	20.0	19.8	19.6
Tier 1 capital ratio	18.3	18.4	18.6	18.4	18.2
Core Equity Tier 1 capital ratio	18.2	18.3	18.3	18.1	17.9
Financial leverage (multiple)	12.7	12.6	12.6	12.8	12.9
Leverage ratio according to CRDIV/CRR	7.6	7.7	7.7	7.5	7.6

Note: Annualised data are marked with an asterisk. Capital ratios and returns 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 2.5. Cooperative banks

in %	6-2024	9-2024	12-2024	3-2025	6-2025
Return on assets (ROA) *	2.27	2.21	2.20	2.16	2.10
Return on Tier 1 capital (RORC) *	26.8	25.7	25.3	24.6	22.7
Return on accounting capital (ROE) *	21.6	20.8	20.4	19.9	19.1
Net interest margin (NIM) *	5.22	5.10	4.99	4.93	4.84
The share of net interest income in net income from banking activity *	90.2	90.3	90.4	90.6	90.8
The share of net noninterest income in net income from banking activity *	9.8	9.7	9.6	9.4	9.2
Operating costs to net income from banking activity (CTI) *	43.8	44.6	45.4	45.8	46.4
Net charges to credit risk provisions to net income from banking activity *	5.7	5.3	4.5	4.2	4.0
Loan grow th rates (y/y)					
- nonfinancial sector	9.0	6.7	4.4	5.6	4.6
- households	12.3	8.3	4.1	4.4	2.8
- loans for consumption	8.0	9.1	11.2	10.2	11.1
- housing loans	0.9	2.2	3.2	3.4	4.1
- enterprises	0.8	2.9	5.3	9.1	9.5
Impaired loan ratios					
- nonfinancial sector	6.8	6.7	6.6	6.5	6.3
- households	4.6	4.6	4.5	4.5	4.4
- loans for consumption	4.1	4.0	3.9	3.8	3.6
- housing loans	1.4	1.5	1.5	1.5	1.6
- enterprises	12.9	12.5	12.3	11.9	11.4
Net charges to credit risk provisions to net value of loans *					
- nonfinancial sector	0.95	0.86	0.73	0.68	0.65
- households	0.66	0.59	0.46	0.38	0.35
- loans for consumption	0.61	0.62	0.65	0.62	0.60
- housing loans	0.30	0.28	0.19	0.13	0.12
- enterprises	1.80	1.67	1.51	1.57	1.49
Funding gap	-89.8	-90.5	-99.6	-103.8	-101.6
Unconsolidated LCR	473.0	496.5	496.9	452.7	475.9
Consolidated LCR	381.2	377.5	364.3	373.0	372.1
Total capital ratio	25.5	25.1	23.6	25.6	30.5
Tier 1 capital ratio	25.1	24.7	23.2	25.2	30.1
Core Equity Tier 1 capital ratio	25.1	24.7	23.2	25.2	30.1
Financial leverage (multiple)	10.5	10.7	11.5	11.7	9.9
Leverage ratio according to CRDIV/CRR	11.6	11.3	10.6	9.8	11.7

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.

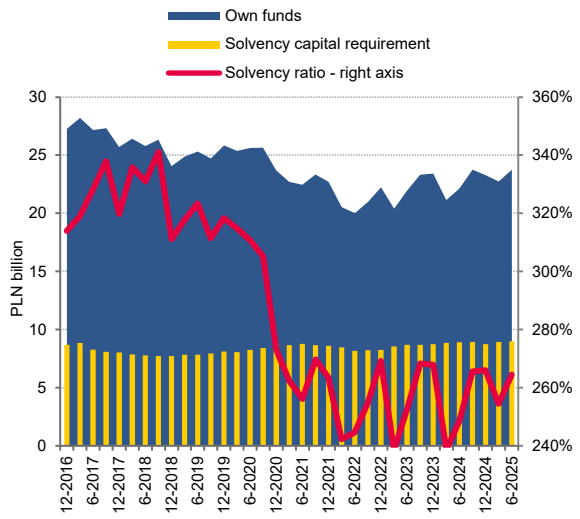
3. Non-banking sector situation

The non-banking sector in Poland still has a significantly smaller share in the assets of the financial system than credit institutions do (approximately 25% vs. 75%) and does not generate risks of a systemic nature. However, it is an important part of the financial system as it enables households and businesses to diversify their savings and investments and offers risk coverage. It is therefore advisable to monitor the sector and changes occurring in it systematically.

3.1. Insurance companies

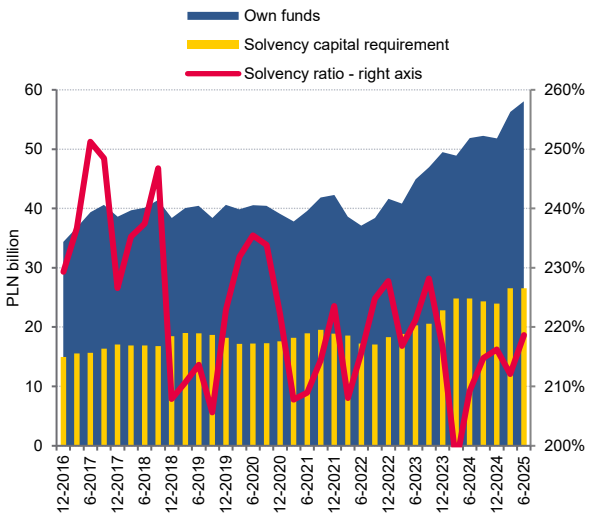
In the first half of 2025, the solvency ratios of the insurance sector did not change significantly and were at levels exceeding the regulatory requirements. In life insurance, the solvency ratio decreased by 2 percentage points to 264% (see Figure 3.1), and in non-life insurance it increased by 2 percentage points to 219% (see Figure 3.2). For the sector as a whole, the ratio reached 230% and was still below the EEA average (241%).[69] At the same time, all insurance companies had own funds exceeding the Solvency Capital Requirement and the Minimum Capital Requirement. Only three institutions, with an insignificant market share, had a solvency ratio below 150%. In both insurance segments, the high level of ratios was due to the largest entities, as evidenced by a higher weighted average value than the median – by almost 50 percentage points in life insurance and 35 percentage points in non-life insurance.

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.

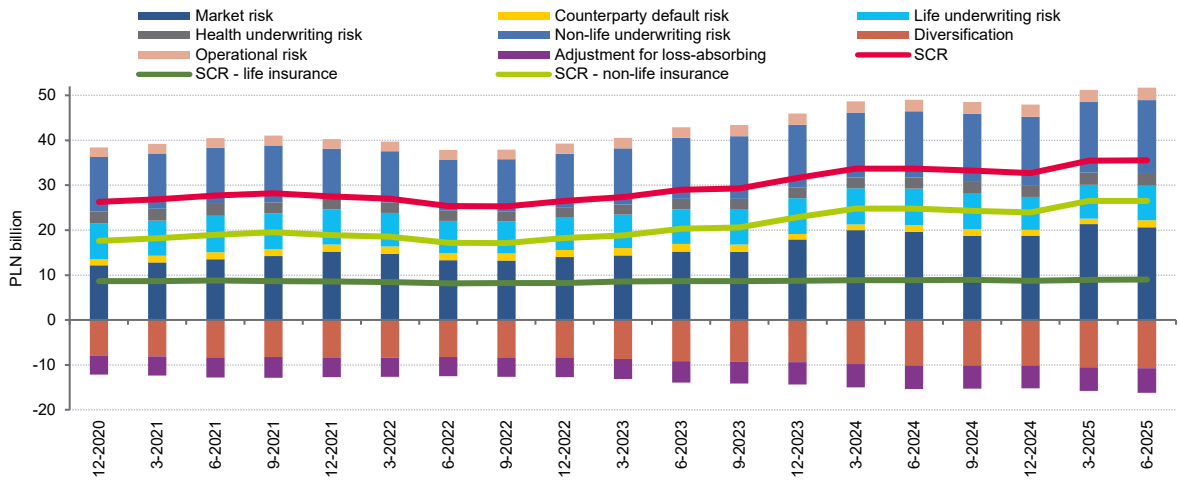
The growth rate of own funds of life insurance companies was significantly lower than in the case of non-life insurance companies. Thus, the capital gap between the segments of the insurance sector

[69] EIOPA data as at the end of the first quarter of 2025.

increased again in the first half of 2025. In life insurance, the value of own funds increased by 0.5 billion zlotys in that period, to 23.7 billion zlotys at the end of June 2025. At the same time, the assets of non-life insurance increased by 6.3 billion zlotys and amounted to 58.1 billion zlotys at the end of the first half of 2025. The improvement in the capital base in non-life insurance companies resulted from changes in asset valuation. Moreover, the value of foreseeable dividends fell in both segments, which also had a positive effect on the level of own funds.

The high share of expected profits included in future premiums (EPIFP) in own funds and the absence of regulatory restrictions on double gearing continue to contribute to the good solvency position of the sector. The value of the EPIFP in life insurance at the end of 2024[70] amounted to 11.8 billion zlotys, accounting for almost 51% of own funds. In the case of Polish entities, this relationship significantly exceeded that observed in EEA countries,[71] indicating higher margins charged by domestic insurers compared to their foreign counterparts. The high share of EPIFP in own funds may weaken domestic undertakings in the event of a crisis situation. The capital by the inclusion of profits on future premiums has a limited loss coverage capacity and can only be used to mitigate the risk of insurance agreement lapses. On the other hand, the solvency ratios of non-life insurance may inadequately reflect the resilience of entities due to the lack of a regulatory restriction on double gearing of capital. The value of participations of non-life insurance companies in the non-life insurance sector and in banks fluctuates around 50% of the non-life insurance segment. This equity is used to cover the risk arising from activities of the parent company and the subsidiary. As at the end of June 2025, the deduction of such participations from non-life insurance own funds would reduce the SCR coverage from 219% to 159%.

Figure 3.3. Structure of the solvency capital requirement



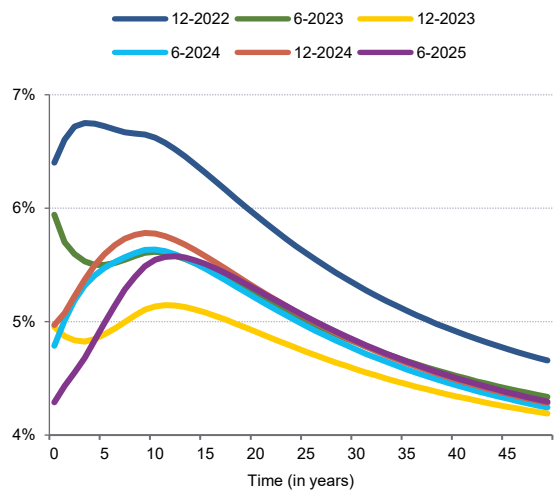
Source: UKNF.

[70] Data for the end June 2025 is not available.
[71] In 2018-2023 the median share of EPIFP in own funds for European life insurers was 3.8%.

The solvency capital requirement of life insurance companies was still mainly generated by lapse risk. As at the end of June 2025, the SCR of life insurance amounted to 9 billion zlotys, 0.2 billion zlotys more than at the end of 2024. The increase was driven by the underwriting risk module, which accounted for 80%[72] of the solvency capital requirement. Loss of profits on future premiums remained the dominant risk factor. Its impact on the SCR of the segment was much more significant than mortality, morbidity or longevity. It resulted from the pricing policies of the insurance companies and from products that provided low insurance value at a relatively high price. On the other hand, the market risk requirement was almost twice as low for life insurance companies and its share in the SCR fell by 3 percentage points to 42% in the period under analysis. Interest rate risk remained the most significant source of market risk.

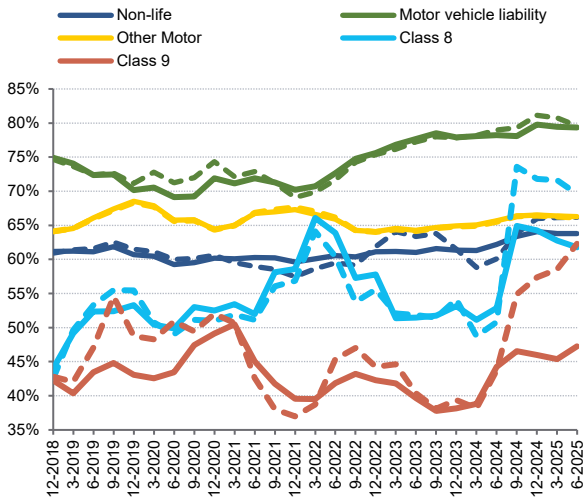
Market risk has once again become the most significant component of SCR in non-life insurance companies. At the end of June 2025, the solvency capital requirement amounted to 26.5 billion zlotys (24 billion zlotys at the end of 2024). An increase was recorded in all SCR modules of non-life insurance, with the highest increase in market risk, in particular market risk concentration and equity risk. This was due to the higher valuation of the shares of subsidiaries. On the other hand, underwriting risk in non-life insurance grew as a result of premium inflows. As in the case of own funds, the advantage of the SCR of non-life insurance over life insurance has also increased. At the end of the first half of 2025, non-life insurers generated a three times higher requirement than life insurers (see Figure 3.3). Such a high disproportion resulted mainly from the less conservative structure of investments of non-life insurance entities reflected in a higher share of equities.

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



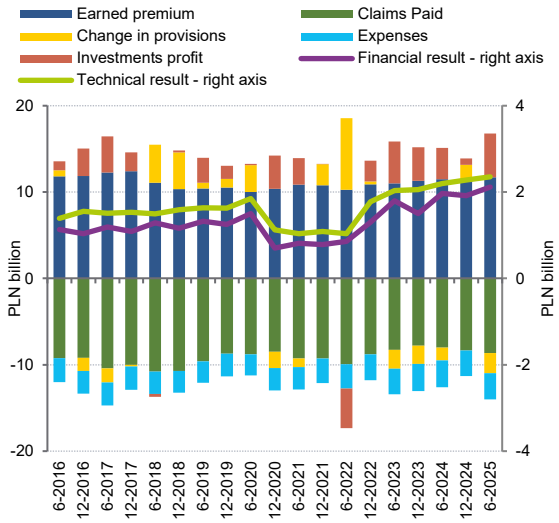
Note: The solid line marks the indicators on a net basis while the dashed line shows indicators on a gross basis.

Source: UKNF.

[72] Due to the diversification effect, the sum of the individual module shares exceeds 100% of the SCR.

Changes in risk-free interest rates have not adversely affected the solvency of the sector. The decisions made by the MPC in the first half of 2025 influenced the risk-free rate at the short end of the curve (see Figure 3.4). However, insurance companies operating in Poland show higher sensitivity to increases rather than decreases in interest rates, due to the significant prevalence of interest-sensitive assets over liabilities. Moreover, insurance companies extended the duration of the fixed-interest portion of the Treasury bond portfolio, from 5 to 5.2, which may have resulted from expectations of further interest rate cuts and consequently increased gains.

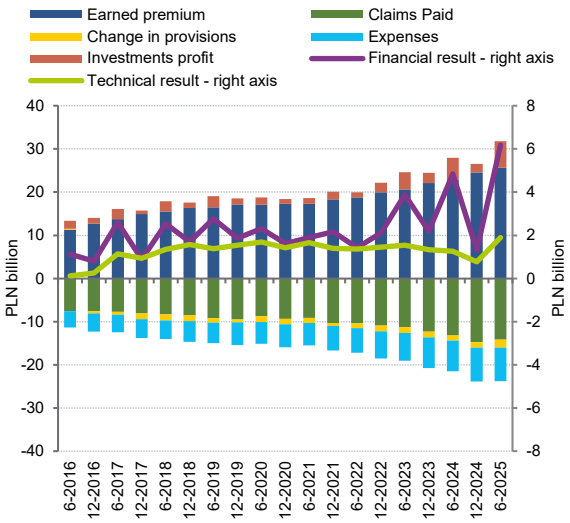
Figure 3.6. Selected items of the profit and loss account in the half year – life insurance



Note: Data according to the statutory reporting.

Source: UKNF.

Figure 3.7. Selected items of the profit and loss account in in the half year – non-life insurance



Note: Data according to the statutory reporting.

Source: UKNF.

The insurance sector has earned record high profits. The sector's good results were not a one-off phenomenon – above-average and steadily growing financial results have been recorded since 2023. In the first half of 2025, net profit amounted to 8.3 billion zlotys, which was the best result on record, 1.5 billion zlotys higher than in the same period of the previous year. This was attributable to non-life insurance, which generated a profit of 6.2 billion zlotys in the first half of 2025, the same amount as in the whole of 2024. Life insurance earnings amounted to 2.1 billion zlotys, the same as in the previous year. The profit of non-life insurance was mostly related to dividends received from subsidiaries. Compared to the first half of 2024, profits from both investment and insurance activity increased. The good results in both segments were driven by the largest entities, whose share in the profit exceeded the share in collected premiums or assets. Only three companies recorded a loss. In relation to their equity, life insurance companies were more profitable, with their ROE ratio reaching 34.6%, while non-life insurance companies achieved 18.6%.

The technical efficiency of life insurance companies remains above the long-term average (see Figure 3.6). In the first half of 2025, revenue improved across all insurance classes. Class 5 (sickness and accident insurance supplementary to life insurance agreements) remained the most effective,

generating a technical profit of 1.1 billion zlotys for the companies, which accounted for almost a quarter of the premium paid from this activity. Life and endowment insurance classified in Class 1 earned 0.9 billion zlotys, 0.1 billion zlotys more than in the first half of 2024. The above-average profitability of domestic entities was reflected in a twice as high profit-to-premium ratio (11%) compared to other European countries (5%).[73]

The technical result in non-life insurance increased significantly in the first half of 2025. It was 0.6 billion zlotys higher than in the first half of 2024 and 1.1 billion zlotys higher than in the second half of 2024 (see Figure 3.7). The increase in earnings of the first half of 2025 (compared to the first half of 2024) was mainly driven by motor insurance. Motor third-party liability insurance earned a technical profit for the first time in 1.5 years (50 million zlotys). Voluntary AC insurance had, once again, the highest impact on the segment earnings, with a 0.5 billion zlotys profit (up by 0.1 billion zlotys). Moreover, an improvement was recorded in the class most affected by the floods (insurance against damage caused by natural disasters). Consequently, due to the increase in the premium, insurance companies reached record high earnings in this business line for the six-month period.

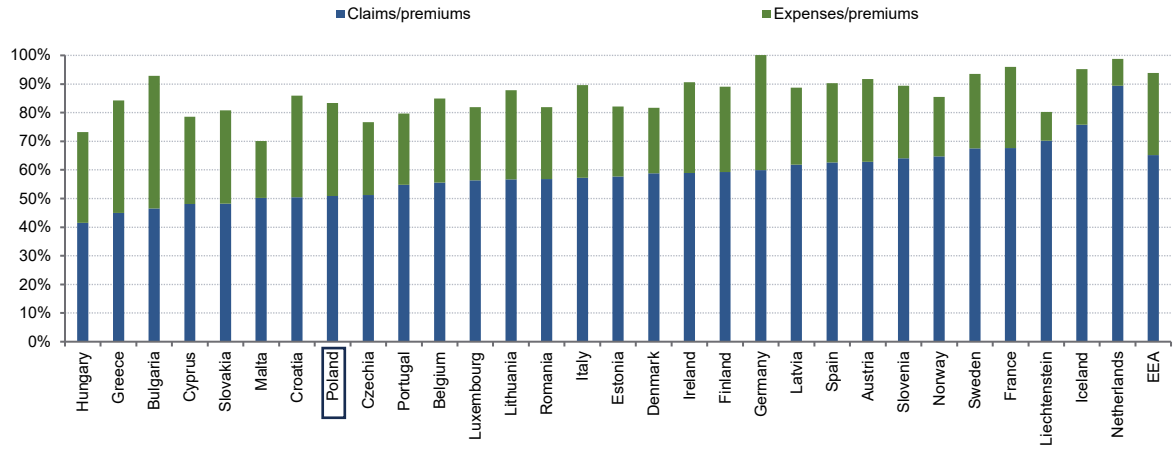
The high profits of life insurance companies did not contribute to improving solvency and business development. In the years 2010-2023, these entities generated a profit of 37.1 billion zlotys, of which 36.1 billion zlotys (97%) was paid out in dividends. Non-life insurance companies shared profits to a slightly lower extent – in the period concerned, almost 80% of the profit was disbursed to shareholders (53.8 billion zlotys in profit and 42.6 billion zlotys in dividend). The earnings in life insurance were therefore not used to develop the insurance activity in terms of the products offered. Indeed, the domestic sector still lacks some forms of life insurance, including as important as life annuity.

The profits earned do not encourage life insurers to make greater use of their underwriting capacity.[74] In fact, in life insurance, the ratio of technical provisions to assets, excluding the activities of unit-linked insurance (UFK), stood at a mere 27% at the end of the first quarter of 2025, while in selected EEA countries[75] it amounted to 80%. Such a discrepancy resulted both from the very large scale of the deduction (in the Solvency II methodology) of provisions from future profits, reflecting the high margins charged on domestic products, and the low insurance coverage. In non-life insurance companies, the ratio did not differ so much from the level for European countries (46% in Poland and 57% in the EEA). At the same time, there is room for extension of coverage in life insurance. **In Poland, the ratio**

[73] OECD data for life insurers from 15 European countries for the period 2019-2023. While Poland's share in the premium collected by the countries analysed was 1%, its share in the profit earned in these countries was as high as 14%.
[74] Underwriting capacity means the capacity of the insurance company to assume risk.
[75] Calculations based on EIOPA data. They include establishments that have been assigned the classification of activity.

of claims to gross premiums was lower than the EEA average.[76] In the years 2017-2024, claims paid by non-life insurance companies accounted for 51% of premiums, compared to 65% in EEA countries (see Figure 3.8). However, insurance companies do not have incentives to increase the ratio of expected claims to premiums above the minimum level stated in supervisory recommendations.[77] Moreover, some entities experienced a problem of a high proportion of underwriting costs in relation to premium. Under such circumstances, not only is a significant part of insurance revenues not allocated to covering risks, but it also does not improve the solvency of the insurance company.

Figure 3.8. Ratio of claims to gross premiums and costs to gross premiums in 2017-2024 in non-life insurance in EEA countries



Source: EIOPA.

In non-life insurance companies, mandatory motor third-party liability insurance remained the business line with the highest loss ratio. Despite the decrease in the (gross) loss ratio in this insurance class in the first half of 2025, its value still stood at approximately 80% (see Figure 3.5). In this period, however, motor third-party liability premiums increased enough to cover rising claims and costs, allowing non-life insurance undertakings to generate a positive technical result. Furthermore, as part of the motor insurance business line, the companies also improved their performance in the voluntary motor AC insurance class, which had significantly lower claim ratios (66.1% at the end of June 2025). The loss ratio in insurance against damages caused by natural disasters (class 8) also decreased in the first half of 2025. In fact, insurance companies have increased their premiums and have already managed to pay out almost all the claims related to the September 2024 floods. The efficiency of the entire non-life insurance segment improved in the period under review. The COR ratio, which measures the

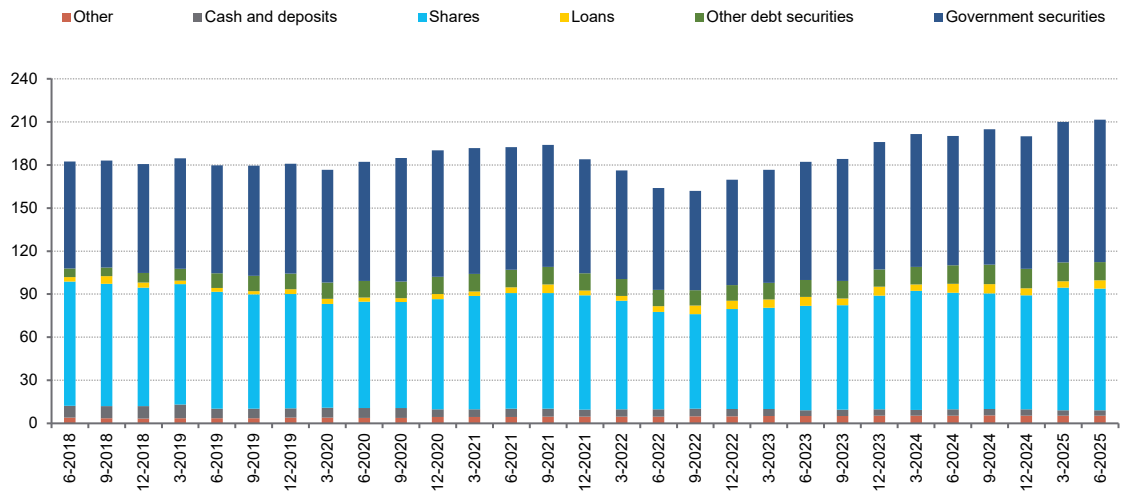
[76] The ratio of claims to premiums was calculated as the quotient of the sums of these items for the years 2017–2024. This provides a rough approximation of the expected value.

[77] Resolution No. 243/2023 of the Polish Financial Supervision Authority of 26 June 2023 on the issuance of Recommendation U on good practices for bancassurance (Official Journal of KNF of 2023, item 15).

ratio of claims paid and expenses to premiums earned, decreased by 2.5 percentage points to 94.1% at the end of June 2025.

The structure of investments of insurance companies was dominated by debt securities issued or guaranteed by the Treasury, the value of which increased to 93.6 billion zlotys at the end of June 2025. This was mainly attributable to entities in non-life insurance, which increased their exposure by 5.4 billion zlotys to 61.4 billion zlotys, while life insurance companies (excluding unit-linked investments) increased their exposure by 1.2 billion zlotys to 32.2 billion zlotys (see Figure 3.9). Domestic Treasury securities accounted for over 93% of Treasury debt instruments, while the value of securities guaranteed by the Treasury increased by 1.7 billion zlotys in the first half of 2025.

Figure 3.9. Investment structure of the insurance sector



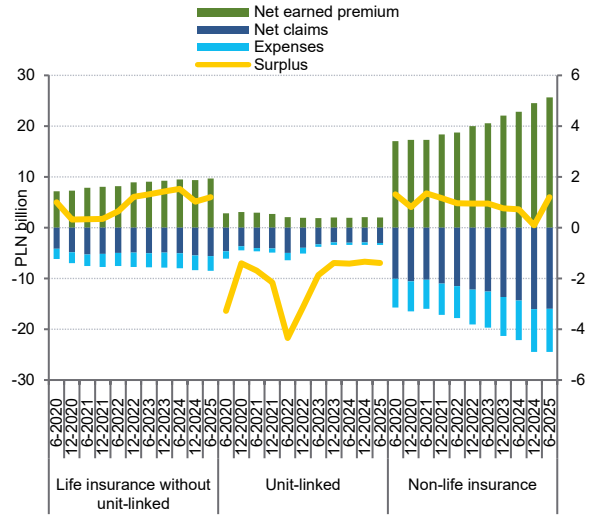
Source: UKNF.

The insurance sector's links with domestic investment funds, where companies placed 44.9 billion zlotys at the end of June 2025, remained important. The largest part of this exposure was generated by assets of unit-linked. The value of unit-linked investment in domestic investment fund's shares amounted to 28.5 billion zlotys, 97% of which were participation units of UCITS and open-ended AIFs. The structure of many UFK products continued to involve investing directly in the participation units of only one fund. In the case of other insurance sector investments (excluding UFK) in domestic investment funds, shares in specialised open-ended funds and certificates of closed-ended funds dominated. A significant part of the certificates included investments by non-life insurance companies, through which they gained exposure to the real estate, debt or corporate bond markets.

Due to a decrease in deposits by non-life insurers, exposure to the banking sector, net of the equities portfolio, fell slightly to 7.4 billion zlotys at the end of June 2025. The value of debt securities of domestic banks in the sector's portfolio amounted to 3 billion zlotys, with the dominant part held by non-life insurance companies. The share of loans and covered bonds in the sector's assets remained negligible. Some entities were still highly dependent on banking distribution channels regarding the

sale of insurance product. The prevailing part of the insurance cover provided through banks and related companies, served as security for loans, advances or leases. In the first half of 2025, the insurance sector's exposure to foreign banks decreased (3.3 billion zlotys), the largest part of which involved debt securities (2.6 billion zlotys). The extent of funding of domestic non-financial companies by the insurance sector remained stable at a level of 3.4 billion zlotys and mainly resulted from debt securities held (2 billion zlotys).

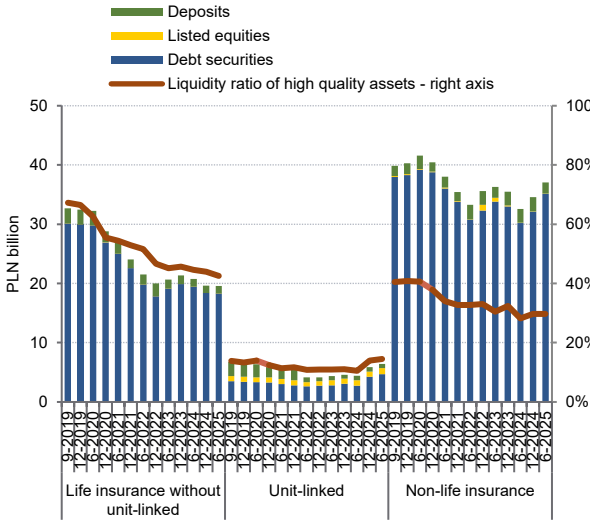
Figure 3.10. Premium earned, claims, costs and surplus funds in the half-year period



Note: Data on premiums, payouts and costs according to Polish accounting standards not comparable with previous editions of the Report.

Source: UKNF.

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



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

Source: UKNF.

Due to the increase in premiums in the first half of 2025, both life and non-life insurance companies have improved their liquidity position. The excess of premiums over claims and expenses in both insurance divisions amounted to 1.2 billion zlotys each.[78] Life insurance companies (excluding unit-linked) have maintained a high premium surplus since 2023 (see Figure 3.10). Moreover, their assets were the most liquid. The liquidity ratio[79] at the end of June 2025 reached 42%. Non-life insurance

[78] In the current edition of the Report, data on premiums, disbursements and costs are presented according to Polish accounting standards and are not comparable with the previous editions. This change is driven by the need to ensure consistency in the data contained in the profit and loss accounts of insurance companies.

[79] 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.

companies, on the other hand, increased their surplus significantly compared to the end of 2024. In the first half of 2025, the growth in premiums significantly exceeded the increase in claims and costs. Non-life insurance companies maintained their liquid asset ratio at the same level (30%) as at the end of December 2024. Despite the increase in assets, the structure of liquid investments has not changed, as entities proportionally increased their exposure to Treasury securities (see Figure 3.11). The UFK assets remained the least liquid, due to the high exposure of deposits to participation units in investment funds. At the end of June 2025, the liquidity ratio for unit-linked insurance increased slightly to 15%. Nevertheless, the companies included provisions in the insurance documentation protecting them in case they are unable to immediately divest from unit-linked funds in the event of suspension of valuation or redemptions of units of investment funds where the UFK assets were invested.

In unit-linked life insurance, the net outflow of funds continued, and its extent has not changed since the second half of 2023. From that period onwards, premiums, claims and expenses in this group of insurance have been similar in value, resulting in a net outflow of 1.4 billion zlotys in the first half of 2025. The structure of the outflow has not changed either. Redemptions prevailed among payouts, while the benefits due to insurance event did not exceed 10%. This resulted from the decisions of individual customers who redeemed their policies much more frequently than persons covered by group contracts. Despite the net outflow of funds, insurance companies maintained the technical result in this group at a stable and high level (0.4 billion zlotys). It was mostly generated due to the significant share of "old" products in the UFK assets, no longer offered (83% of the UFK net assets), and still charging existing customers with high costs and fees.

3.2. Investment funds

In the first half of 2025, open-ended funds[80] once again recorded high inflows and their liquidity ratios[81] improved slightly. The amount invested in these entities (22 billion zlotys on a net basis) was similar to that in the previous six months and still related mainly to debt funds (see Figure 3.14). In conjunction with outflows from closed-ended funds continuing since the second quarter of 2024[82] and a significant decline in their net assets in the first quarter of 2025, the share of open-ended funds in the sector's assets increased further (by almost 74% at the end of June 2025). Due to the offered redemption frequency, UCITS and open-ended AIFs are mostly exposed to liquidity risk. However, during the period under review, the value of their most liquid holdings increased (mainly as a result of increased

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

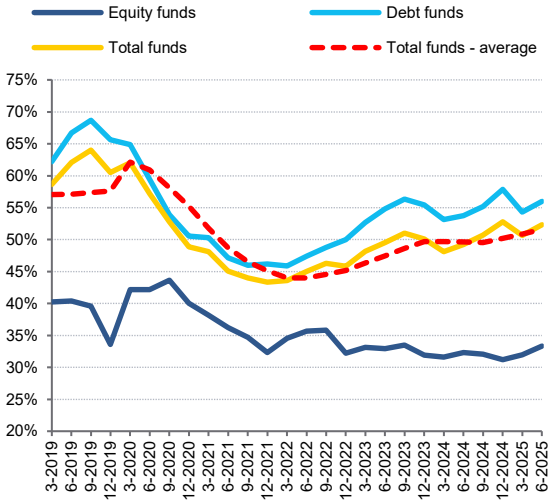
[81] The liquidity ratio measures the share of high quality liquid assets in the total assets of the funds. The following assets have been classified as high quality liquid assets: bank deposits, debt securities issued by the central government and central banks and shares listed on organised markets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

[82] In the first half of 2025, closed-ended funds recorded a negative inflow balance of 3 billion zlotys.

exposure to Treasury securities), which ultimately improved their liquidity ratios (see Figure 3.12and Figure 3.13).

The first half of 2025 was another period when most open-ended funds recorded an increased liquidity ratio. The level of diversification of this ratio was still higher in open-ended AIFs (see Figure 3.15). This group included relatively more funds with the lowest values of this parameter, including mainly those with investment fund shares as the prevailing category of investment (not included in the category of high-quality liquid assets according to the methodology adopted in this chapter). The managers of such funds thus acquired exposure to foreign financial markets, mainly through ETFs. These entities often offered pension products, which meant that the risk of redemptions on a significant scale was limited.

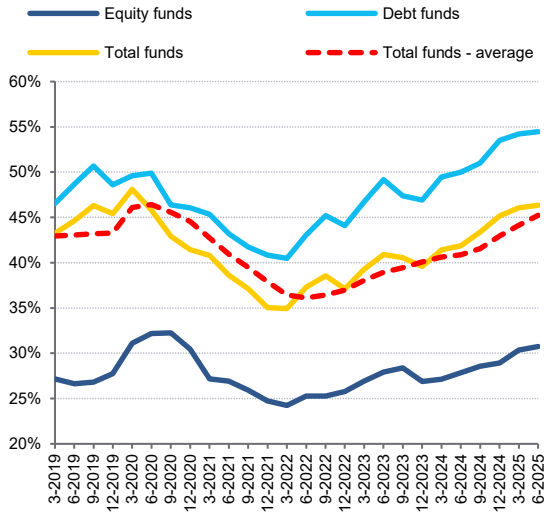
Figure 3.12. Liquidity coverage ratio in UCITS



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.

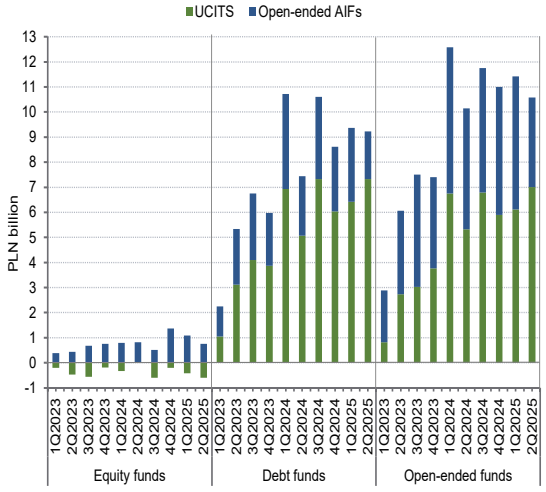
Source: NBP.

Open-ended funds continued to maintain low levels of the most liquid assets. In UCITS, the most liquid assets accounted for the lowest share in relation to total assets, i.e. 1.3% at the end of June 2025, and in AIFs - 1.6% (in nominal terms, the value of these buffers increased by 0.7 billion zlotys and 0.2 billion zlotys in the first half of 2025). The tendency to reduce the value of investment funds' bank deposits is also seen in the euro area countries.[83] Meanwhile, with balance sheet totals growing rapidly, it is important for domestic investment funds to maintain buffers in the form of the most liquid assets. Bank deposits can be used in the event of a sudden increase in redemption requests and reduce the risk

[83] *Financial Stability Review*, European Central Bank May 2025, s. 73, *Macroprudential Policy, Monetary Policy and Non-Bank Financial Intermediation*, ECB Working Paper Series No. 3130, European Central Bank October 2025.

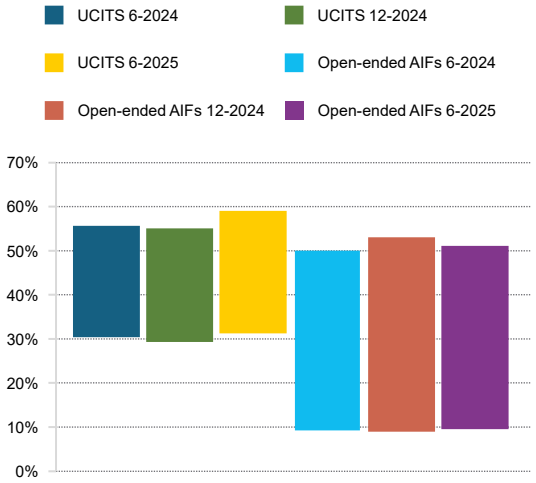
of fire sales.[84] The lack of sufficient liquidity buffers, especially in the event of large inflows, could undermine the resilience of the sector in the event of potential future shocks.

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 ratios is described in the footnote earlier in this chapter.

Source: NBP.

In the first half of 2025, the scale of domestic Treasury bond purchases by investment funds was still considerable.[85] The main purchasers of such instruments were open-ended funds which, due to the continued capital inflows from investors, had to allocate funds accordingly (debt funds constituted the majority). In the period from January to June, UCITS and open-ended AIFs purchased domestic Treasury bonds on a net basis for the amount of approximately 24 billion zlotys, i.e. over 6 billion zlotys more than in the second half of 2024.[86] As a result, the value of the portfolio of this asset class in their balance sheets stood at approximately 131 billion zlotys (see Figure 3.16 and Figure 3.17), which represented approx. 33% of their net assets. Treasury bonds issued on the domestic market prevailed. In the six-month period under review, open-ended funds doubled the scale of (net) purchases of floating-coupon securities, resulting in their increased share in the balance of transactions in domestic Treasury

[84] See: Dekker L. Vivar L. M., Wedow M., Weistroffer Ch., *Liquidity Buffers and Open-End Investment Funds: Containing Outflows or Reducing Fire Sales?* Journal of International Financial Markets, Institutions and Money 91(2024).

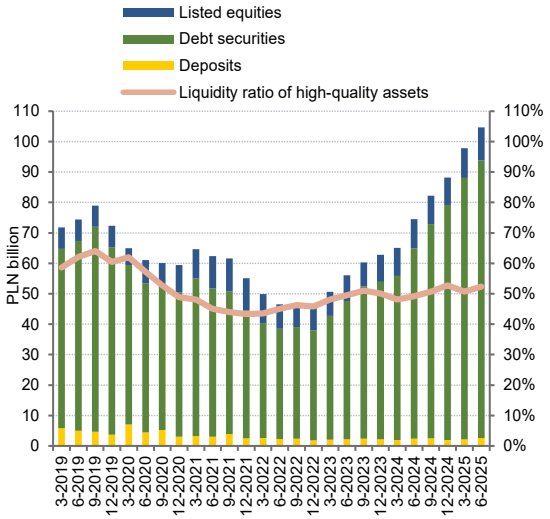
[85] The balance of transactions in Treasury bonds of foreign issuers was negative and stood at 4.4 billion zlotys.

[86] In the case of closed-ended funds, the balance of transactions in these instruments was negative and amounted to 3 billion zlotys.

bonds.[87] Moreover, UCITS and open-ended AIFs continued to supplement their portfolios with inflation-indexed bonds. In the first half of 2025, they purchased such instruments for a net amount of almost 3.5 billion zlotys.

Investment funds have also significantly increased their exposure to State-Treasury guaranteed bonds.[88] In the six-month period, the balance of transactions in these instruments recorded by open-ended funds (as their main purchasers) amounted to 8.5 billion zlotys, with a positive balance only in the case of securities issued by BGK.[89] Bonds issued for the COVID-19 Response Fund, in particular floating-rate securities, continued to be most popular among funds. As a result of purchases made and favourable price movements on financial markets, the value of State-Treasury guaranteed bonds held by open-ended funds increased by 9.2 billion zlotys to 31 billion zlotys at the end of the first half of 2025 (see Figure 3.18), which accounted for 23% of their portfolio of domestic Treasury securities.

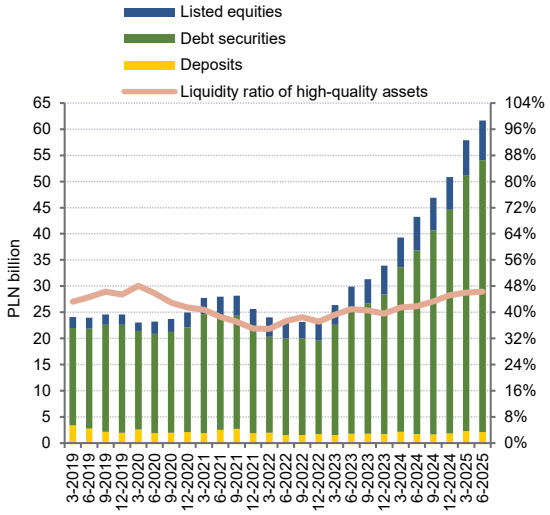
Figure 3.16. Structure of high quality liquid assets of UCITS



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

Source: NBP.

In the first half of 2025, open-ended funds continued to expand their debt portfolio with instruments issued by banks, but at a slower pace than before. In the period from January to June 2025, the balance

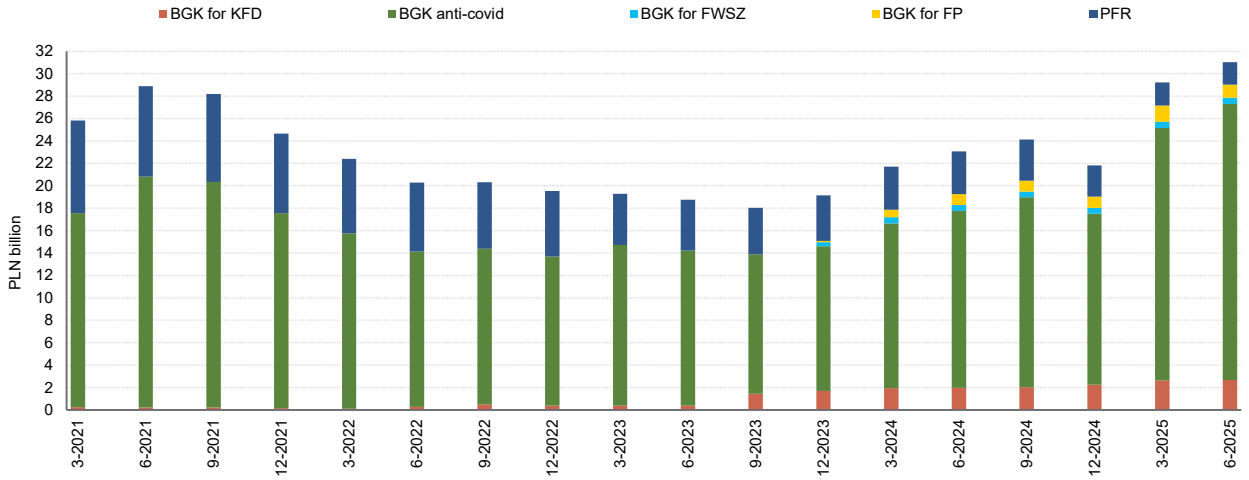
[87] The balance of transactions in fixed-rate Treasury bonds was lower than in the case of floating-rate bonds, but at the same time higher than in the previous six months. The duration of the fixed coupon part of the Treasury portfolio increased from 4.8 at the end of 2024 to 5 at the end of June 2025.

[88] I.e. BGK bonds issued for: National Road Fund (KFD), Armed Forces Support Fund (FWSZ), Aid Fund (FP), COVID-19 Response Fund and PFR bonds issued under the so-called Financial Shields.

[89] The balance of transactions in PFR bonds issued under the Financial Shields continued to remain negative.

of transactions by open-ended funds amounted to approximately 2 billion zlotys and, combined with favourable changes in the valuation of these instruments, their value in the aggregate balance sheet of UCITS and open-ended AIFs increased to approximately 27 billion zlotys (see Figure 3.19), approaching the value of funds invested in State-Treasury guaranteed bonds. The portfolio of bank debt securities held by open-ended funds was dominated by debt instruments of domestic banks, including securities issued to meet the MREL requirement (approx. 11.5 billion zlotys). The positive balance of transactions also involved covered bonds, although their value in the fund portfolios remained significantly lower (below 5 billion zlotys).

Figure 3.18. Exposure of open-ended 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 Financial Shields.

Source: NBP.

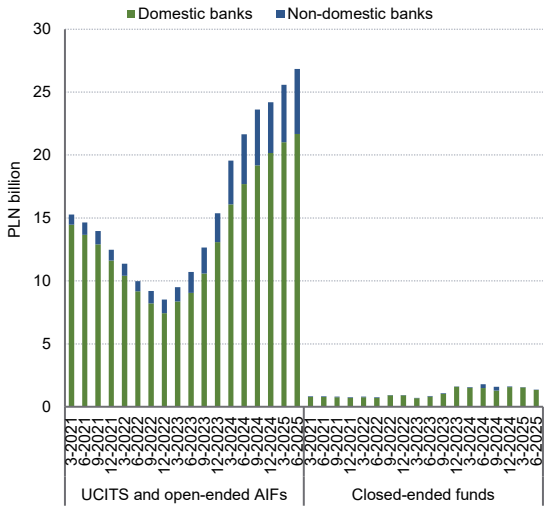
Ownership relationships represent an important part of the links between open-ended funds and the banking sector. The largest open-ended funds (in terms of net assets) are entities managed by investment fund management companies (IFMCs) with capital links with banks. These funds also record the highest balance of inflows, which may be significantly affected by their use of the banking distribution channel for participation units. A significant concentration of sales occurs particularly in debt funds — in the first half of 2025 when the entities managed by IFMCs whose shareholders are banks reached a two-third share of the balance of inflows into these funds. A high amount of assets, on the other hand, translates into earnings of the companies.[90] The number of IFMCs with banks as the majority shareholders is not high[91] but due to the scale of their activities they play an important role in the

[90] Some entities report an ROE well above the third quartile value for the entire IFMC population.

[91] Banks were the majority shareholders in nine out of 55 investment fund management companies operating in the domestic market. These companies accounted for 40% of the sector's net assets and 52% of open-ended fund assets.

development of market trends. In the first half of 2025, the share of entities related to banks in the net financial result of the IFMC sector[92] reached approx. 67%. These entities also demonstrated a high share (approx. 70%) in the value of funds contributed to investment funds (on a net basis).

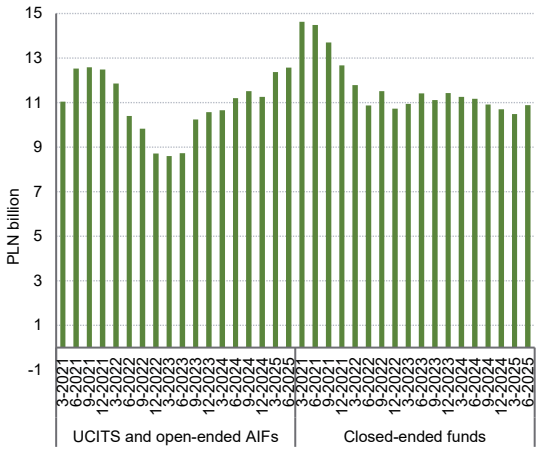
Figure 3.19. Exposure of investment funds to banks' debt instruments



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.

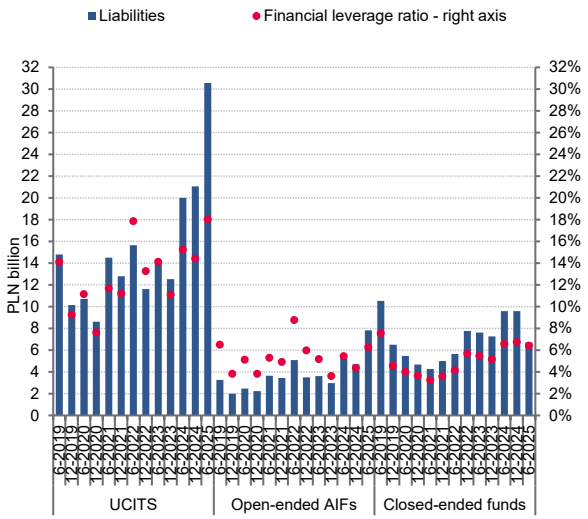
Open-ended funds continued to be net purchasers of domestic corporate debt securities. As a result of the positive balance of transactions in the first half of 2025 and favourable price movements of these instruments, their value in the balance sheets of UCITS and open-ended AIFs increased by 1.3 billion zlotys to 12.6 billion zlotys at the end of June this year, i.e. nearly 2 billion zlotys more than in closed-ended funds (see Figure 3.20). However, the portfolio of these instruments remained relatively limited compared to the value of other types of debt securities held by open-ended funds (e.g. almost twice as small as the portfolio of instruments issued by banks). Approximately three quarters of its value consisted of investments in debt instruments listed on Catalyst. Open-ended funds reported considerable holdings of securities of issuers from the energy sector. At the end of June, their investments in such securities accounted for nearly 40% of the total UCITS and open-ended AIFs corporate debt securities portfolio.

Against a backdrop of inflows of funds to the sector continuing for over two years, investment funds once again increased their liabilities, while the risk associated with the leverage used remained

[92] The net profit of the IFMC sector in the first half of 2025 amounted to 0.5 billion zlotys. The primary source of revenue for IFMC is the fee for the management of investment funds, which depends on the size of their assets. In this period, the ROE of the IFMC sector was close to 46%.

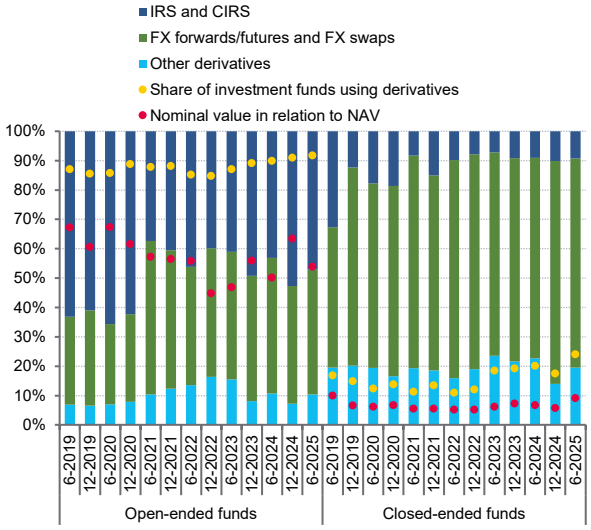
limited. In the first half of 2025, the value of the sector's liabilities increased by 9.8 billion zlotys (up by 28%), and at the end of June they represented 11.3% of net assets (see Figure 3.21). The entities demonstrating the highest leverage ratios did not have a significant market share - 3.5%,[93] while their total net assets amounted to 13.5 billion zlotys. Debt funds, the most popular among investors, had the highest level of leverage: 17.2% for open-ended funds and 30.3% for closed-ended funds, respectively. Treasury bonds accounted for a significant part of their portfolios, due to which these entities had higher liquidity ratios than the average observed for individual fund types (see Figure 3.23 and Figure 3.24). These instruments were also the most common collateral for loans granted to the funds.

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



Source: NBP.

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



Source: NBP.

The sources of leverage in the sector mainly included repo and sell-buy-back transactions. As at the end of June 2025, liabilities on this account amounted to 33.4 billion zlotys. At the same time, entities used credits, loans and bond issues to a very limited extent. Due to the restrictions[94] introduced in the legislation concerning the maximum repayment period and the amount of borrowing by UCITS, these entities use this type of financing mainly to ensure the continuity of redemption payments, rather than to finance investment activities. Favourable market conditions and continuing demand for open-ended fund participation units further improved their liquidity position. As a consequence, at the end of the first half of 2025, they had no liabilities due to credits and loans. Closed-ended funds also used this type of debt financing to a limited extent - at the end of June 2025, the value of their liabilities amounted to: 1.1 billion zlotys due to credits and loans and 0.1 billion zlotys due to bonds issued. At the same time, none of the closed-ended investment funds approached the statutory debt limit set at 75% of net

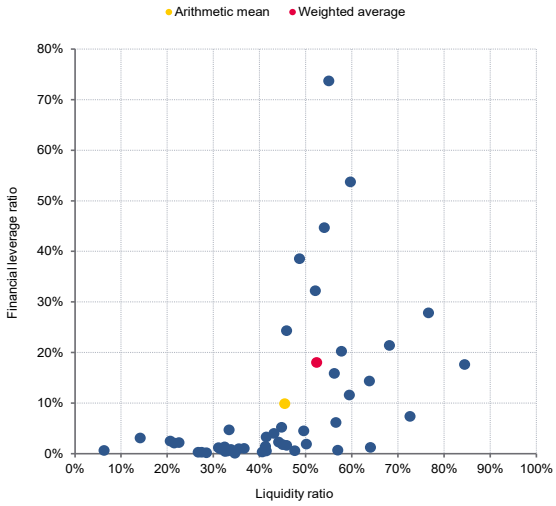
[93] Within this group, entities whose leverage ratio exceeded 50% were singled out.

[94] Article 108 of the Act of 27 May 2004 on Investment Funds and Alternative Investment Fund Management (Journal of Laws2024, item 1034).

asset value. The total amount of the funds' liabilities due to exceeded bank account overdraft limits was not significant across the entire financial system and amounted to only 12 million zlotys at the end of the first half of 2025.

The domestic sector demonstrated a higher leverage than in most European countries. At the end of June 2025, the ratio of credits, loans and conditional transactions to the net assets of the funds was 9.1%. Higher ratios were only recorded in Lithuania and Portugal (see Figure 3.25). In addition to the liquidity management objective, it seems that Polish funds, primarily open-ended funds, have relatively often used funds raised through repo and sell-buy-back operations to acquire other financial instruments, thereby raising the expected rate of return. Consequently, this increased the risk for its participants, the vast majority of whom were households.

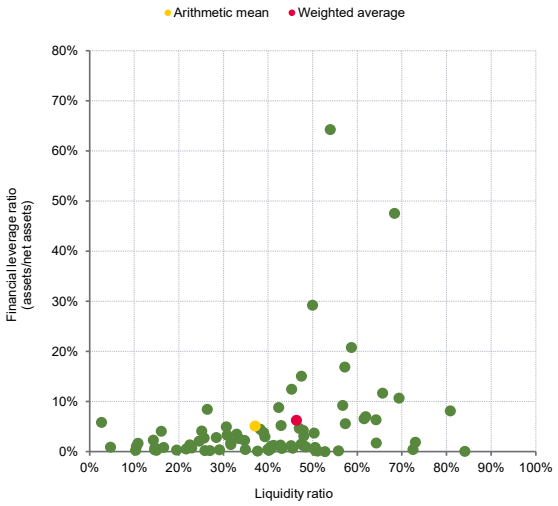
Figure 3.23. Distribution of the liquidity and leverage ratio in UCITS at the end of June 2025.



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 June 2025.



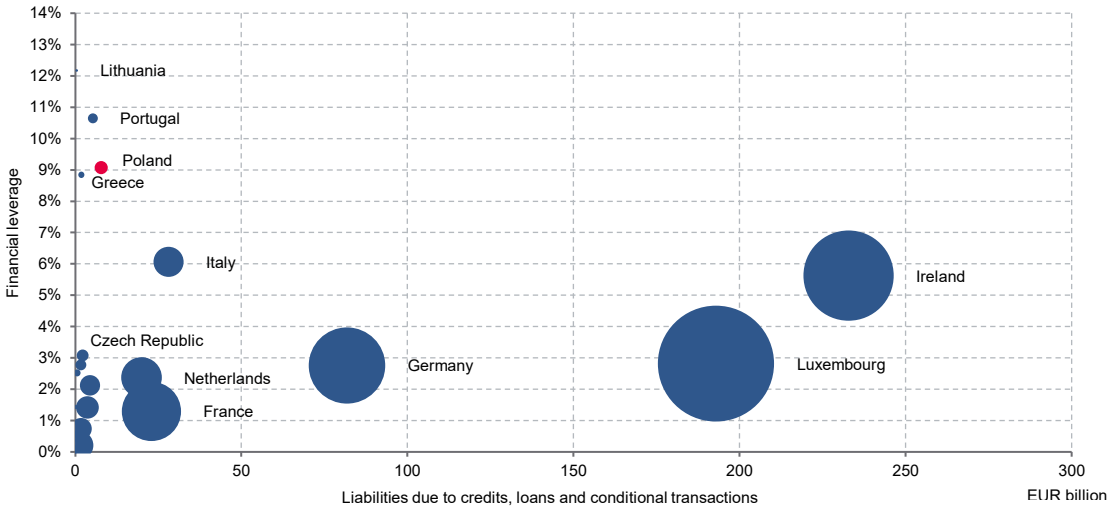
Note: The entities are divided into groups by the leverage ratio, in descending order. Each green dot represents the average value of the leverage ratio and the liquidity ratio for a given group (averages weighted by the net asset value of the entities included in each group).

Source: NBP.

The level of exposure of investment funds to derivatives was similar to that observed in the previous six months. The synthetic leverage ratio, expressed as a ratio of the nominal value of derivatives to the sector's net assets, amounted to 42.1%, i.e. 0.6 percentage points lower than at the end of December 2024 (see Figure 3.22). Debt funds, being the most sensitive to changes in interest rates, were most active in the derivatives market. They focused primarily on IRS transactions, most often concluded with banks. Despite the relatively high notional amounts of these transactions (64.4 billion zlotys at the end of June 2025) and thus the relatively high synthetic leverage ratios, the risks associated with the use of such instruments were limited. Indeed, their main objective was not speculation but hedging of the

portfolio against interest rate risk. In addition, the actual flows of funds between counterparties are relatively limited compared to the notional amounts of the transactions. Investment funds have also used FX derivatives, mainly swaps and forward contracts, to hedge against FX risk[95]. Moreover, a strategy used by a relatively large number of operators was to invest in futures contracts, primarily stock or stock index futures. However, these funds included only six for which the synthetic leverage ratio exceeded 100%. Their combined share in the sector's net assets was insignificant and amounted to 0.08%.

Figure 3.25. The ratio of investment funds' liabilities due to credits, loans and conditional transactions to NAV in selected European countries at the end of June 2025.



Note: the size of the dots in the chart reflects the net asset value of investment funds established in individual European countries. Financial leverage was expressed as the ratio of liabilities due to credits, loans and conditional transactions to net assets. Due to the limitations in data availability, the analysis does not include funds' liabilities due to debt securities issued.

Source: ECB.

[95] Assets denominated in foreign currencies prevailed in the balance sheets of 28% of total entities.

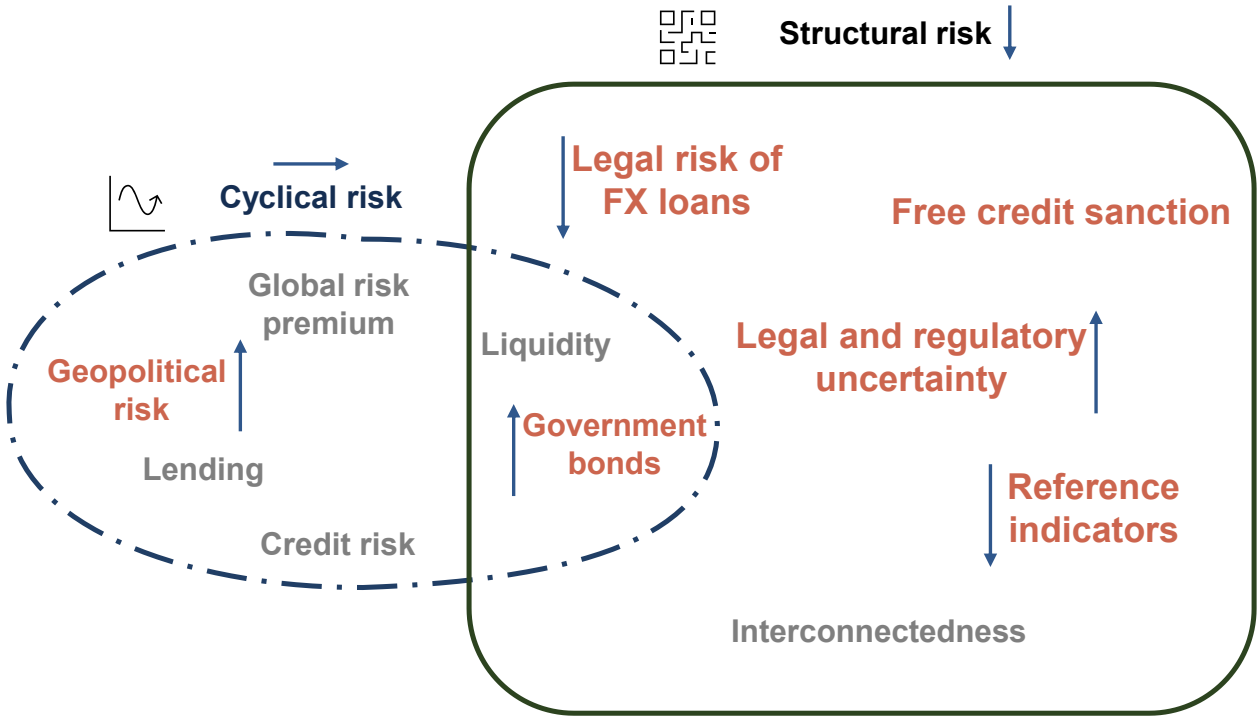
4. Systemic risk assessment

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 is largely tied to the risk of excessive debt growth and excessive leverage, as well as 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.*

Systemic risk in the Polish financial system mainly affects the banking sector due to its size (share in the total assets of the financial system) and the type of services provided. *The risk existing in non-banking financial institutions is not systemic in nature, only sectoral. For this reason, systemic risk assessment focuses mainly on the banking sector.*

Poland's banking sector remains resilient to the effects of the materialisation of hypothetical shocks assumed in the stress testing exercise. Even in the case of stronger macroeconomic and financial shocks than assumed in the previous editions of the Report, the banks retain their loss absorption capacity and maintain the surplus capital above all regulatory and supervisory requirements what provides room for financing the economy.

Chart 4.1. Systemic risk areas in Poland



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

Source: NBP.

Legal and regulatory uncertainty and its potential costs remain a key challenge to domestic financial stability (see Chart 4.1). The disproportion of sanctions and financial burdens imposed on banks in connection with the support and protection of borrowers as financial service consumers, observed in recent years, may negatively affect this segment of the credit market. Although the scale of this risk has decreased in key areas, it remains considerable.

Traditional bank risks, i.e. credit risk, market risk, interest rate risk and liquidity risk, pose no threat to domestic financial stability. Provisions for credit risk are low and are not likely to increase much in the nearest quarters. Liquidity and resilience to liquidity shocks of the whole sector and of individual institutions is high. FX risk exposure is low. Interest rate risk is limited, also in the bonds portfolio, as banks classify a predominant part of this portfolio as held to maturity.

The risk of Treasury bonds in the banks' balance sheets has increased recently as a result of: (i) continued increase in the share of such bonds in total assets, and (ii) a deterioration in the fiscal outlook. As a large portion of such instruments is held to maturity, the sensitivity of banks to bonds valuation risk is to some extent limited. Nevertheless, the expected significant growth in public debt increases the risk of revaluation of Treasury bonds.

Banks report no capital or liquidity constraints for lending growth. The decrease in the credit to GDP ratio in recent years largely stems from the adverse shocks limiting demand for credit. Without significant changes in this area, the loan-to-GDP ratio is unlikely to return to the pre-COVID-19 level and can be expected to stabilise instead (see Box 2.1). Higher credit growth and the increase in the loan-to-GDP ratio may be supported by the financing of large public investment projects (the Central Transport Hub, nuclear power stations), partly with bank loans. While no detailed plans in this respect are available yet, their implementation is likely to generate additional demand for credit.

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

The structural dimension of systemic risk has been an area of significant challenges to Poland's financial stability for a considerable time. Legal risk of FX housing loans has been the most important component of systemic risk in recent years. Legal risk is currently gaining more broader meaning as it also concerns regulatory instability, including that related to consumer protection in the financial system.

4.1.1. Legal risk: *persistent uncertainty*

The uncertainty of the legal environment continues to be a challenge to the functioning of Poland's financial system. This was originally reflected in the costs of the legal risk of the FX housing loans. Now it also affects other categories of the banks' credit portfolios, i.e. (i) loans for consumption, due to the regulations concerning the so-called free credit sanction, and also (ii) floating-interest rate housing loans denominated in PLN. The limited predictability of the financial and legal consequences of loan agreements creates an environment which does not promote growth in credit supply to households, thereby contributing to growing cost of credit.

The high unpredictability of Polish regulations is another dimension of uncertainty. Unstable legal and regulatory conditions make it difficult to build long-term financial services development strategies as unexpected additional costs may arise. These may stem from, among other things, new taxes on banks or draft regulations which might add to the uncertainty concerning the conditions of loan agreements. This in turn may translate into higher loan margins, hamper technological development of banks, and discourage them from tapping into new markets. Regulatory instability also affects the attractiveness of the Polish banking market to foreign investors.

4.1.1.1. Legal risk of FX housing loans: *effectively managed by banks and representing an ever-decreasing financial burden*

The banking sector's toughest period related to the legal risk of FX housing loans is over. By June 2025, the total costs due to legal risk had reached around 100 billion zlotys. The scale of future provisions for this risk will be considerably lower than in the past and such costs, coupled with other shocks, should not pose a threat to financial stability (see Chapter 2.8.).

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

The lack of an appropriate balance between potential breaches of consumer protection law and the severity of sanctions imposed on banks, with particular reference to the so-called free credit sanction, is a challenge. This makes it difficult for banks to assess the cost of credit products, which in consequence may limit the financial services offering for retail customers. 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 line of rulings (including inquiries addressed to the Supreme Court of the Republic of Poland and the Court of Justice of the European Union) make the cost of the risk hard to quantify. However, stress tests indicate that even if significant costs arose in this regard, the banking sector will remain stable. This risk is mitigated by the following factors: (i) the short limitation period for claims under the free credit sanction and (ii) the relatively short repayment period of such liabilities, coupled with a high portfolio turnover.

In this context, the draft Act on consumer credit raises concern, not least in regard to the free credit sanction.[96] The Financial Stability Committee indicated in its press release of 19 September 2025 that the statement of the FSC on the risk to the financial sector related to the application of the free credit sanction had not been adequately addressed in the draft Act. The draft Act does not contain solutions which would effectively limit the possibility of abuse of the free credit sanction.[97]

[96] https://legislacja.gov.pl/projekt/12399650.

[97] https://nbp.pl/en/press-release-of-the-financial-stability-committee-after-its-meeting-on-macroprudential-supervision-7/.

4.1.1.3. Risk of floating-rate PLN denominated loans for households: *the systemic dimension of the risk has decreased but uncertainty remains*

Legal risk associated with the portfolio of floating-rate PLN denominated loans for households, including mortgages, has narrowed after the publication of the opinion of the Advocate General of the CJEU regarding Case C-471/24[98], which confirms that there are no legal grounds to dispute the WIBOR benchmark. The interpretation of the opinion warrants the conclusion that legal risk can only materialise if a bank is found to have failed to sufficiently fulfil the obligation to provide information regarding the consequences of changes of the interest rates on loans based on the WIBOR index. The obligations to provide information referred to by the Advocate General are precisely defined. It should be noted that banks were required to fulfil these obligations under the Act on mortgage loans and KNF's recommendation. Therefore, the issue may be of an individual nature and result from procedures applied by individual banks. As a result, the risk would be less systemic and more idiosyncratic in nature.

The benchmark reform progresses. The National Working Group for benchmark reform performed a series of tasks aimed at replacing WIBOR with POLSTR and the full commitment of all of its participants, especially domestic banks, to ensuring universal adoption of the new benchmark remains the key condition of the reform success. In June 2025, GPW Benchmark started publishing the POLSTR index, the POLSTR 1M, 3M and 6M Compound Rates, and a POLSTR single-base index, as well as making the relevant benchmark documentation available on its website. As the POLSTR index within the meaning of the BMR regulation has been in use since September 2025, it is a benchmark in light of the regulation.[99] ISDA 2021 Definitions and ISDA 2021 Fallbacks Protocol have been updated by the addition to the framework agreement template of ISDA POLSTR and contingency clauses in the event of the permanent discontinuation of the WIBOR index. In addition, Bloomberg started calculating the POLSTR Compound Rate and the adjustment spread, the use of which is envisaged by the contingency

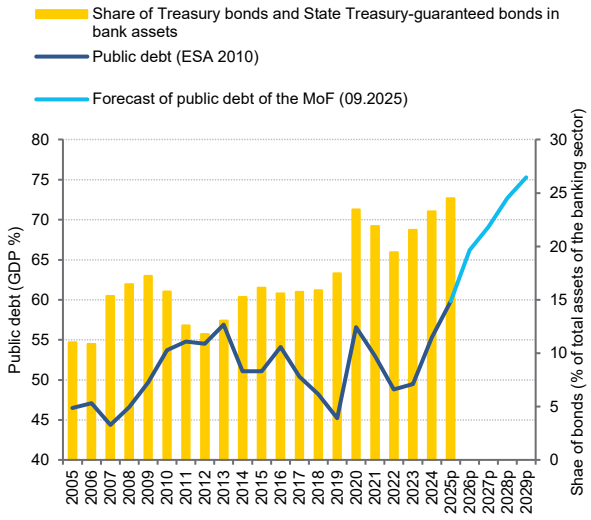
[98] The Opinion of the Advocate General of the CJEU delivered on 11 September 2025 regarding Case C-471/24 states that the national court should verify whether the consumer has given informed consent to the risk related to the use of the disputed contractual term after having received complete and accurate information. However, according to the opinion, this assessment cannot refer to the WIBOR index as such and to its method of calculation as this would go beyond the scope of Directive 93/13 of 5 April 1993 on unfair terms in consumer contracts. The opinion is available at: https://curia.europa.eu/juris/document/document.jsf?mode=DOC&pageIndex=0&docid=304262&part=1&doclang=EN&text=&dir=&occ=first&cid=9694862.

[99] According to information provided by GPW Benchmark SA, 1 September 2025 marked the effective date for the change of the method of WIG20TRsht, WIG20TRlev, mWIG40TRsh, and mWIG40TRlv indices whereby WIRON® was replaced with POLSTR® in the index calculation method (see https://www.knf.gov.pl/en/?articleId=94942&p_id=19).

clauses. According to the Road Map, the issue of Treasury securities based on POLSTR is scheduled for December 2025. The completion of this stage of the reform is very important for building confidence in the new benchmark and will mark the beginning of the establishment of a market for underlying instruments, which will then make it possible to gradually develop derivative instruments.

4.1.2. Treasury bond portfolio: *the deterioration in the fiscal outlook affects valuation risk, but sensitivity of banks remains limited*

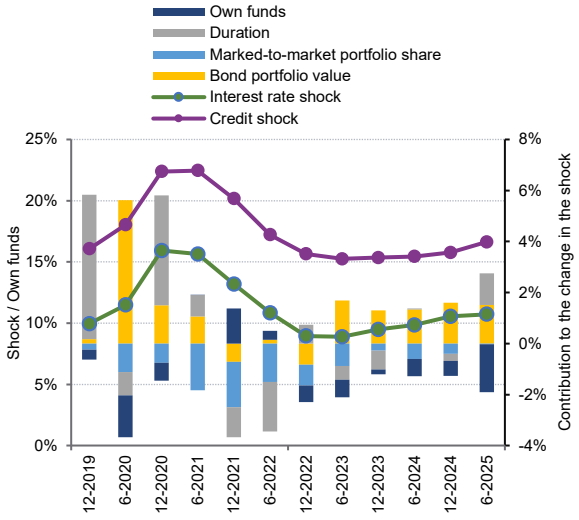
Figure 4.1. Public debt against the banks' holdings of Treasury bonds and State Treasury-guaranteed bonds



Note: Banking sector excluding BGK. Public debt means government debt according to ESA 2010. Forecast by the MF in *The Public Finance Sector Debt Management Strategy in the years 2026-2029* (September 2025).

Source: NBP, MF, Eurostat.

Figure 4.2. Sensitivity of banks' own funds to valuation risk of Treasury securities



Note: The effect of a 300 bp credit shock on own funds (right axis) takes into account fixed coupon and floating coupon bonds. Only fixed coupon bonds are taken into consideration with regard to a 300 bp interest rate shock. The bars (left axis) show the decomposition of the change in sensitivity of banks' own funds. A positive value of the bar implies a rise in sensitivity of own funds under the influence of the given factor, while a negative value denotes a drop.

Source: NBP.

The high share of Treasury bonds on banks' balance sheets has been observed in Poland for a long time. The risk of these exposures for banks is regularly mitigated by the relatively short duration and the fact that a considerable part of bonds portfolio is held to maturity. In addition, the risk of a large revaluation of Treasury bonds has been mitigated by the moderate budget deficit and public debt ratios. This assessment requires deeper reflection now, in the face of the challenges arising from the deteriorating situation of public finances.[100] The expected rapid growth in public debt (from 55.3% of GDP in 2024 to 75.3% of GDP in 2029), assuming no remedial measures are taken, means greater borrowing needs of the State and an increased supply of Treasury securities on the market. These forecasts

[100] *The Public Finance Sector Debt Management Strategy in the years 2026-2029*, Ministry of Finance, September 2025 https://www.gov.pl/attachment/f52f7248-b1f8-4ace-af1a-975271d1e81a

rely on the assumption of positive economic growth, which means that potential macroeconomic shocks could add to the increase of the debt-to-GDP ratio. In such conditions, the risk of a downward revaluation of Treasury securities grows. Nevertheless, the previous assessment of banks' sensitivity to this risk remains valid. Moreover, one should bear in mind that any potential repricing of credit risk would also cause a change in the valuation of floating-coupon securities, which would significantly increase banks' sensitivity to such a shock. In June 2025, banks' sensitivity to a hypothetical credit shock (a rise of 300 bp in bond yields) increased to around 16.5% of banks' own funds, the highest level since 2022 (see Figure 4.2). If such a shock occurred, banks' own funds would be reduced by more than 28 billion zlotys. The risk connected with the valuation of Treasury securities is not evenly distributed in the banking sector and some major entities are highly sensitive to valuation, as bulk of their portfolio is marked to market. The worsening of fiscal conditions means that this exposure of the banking sector requires particularly close monitoring.

Risk in 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 necessity 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 on 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

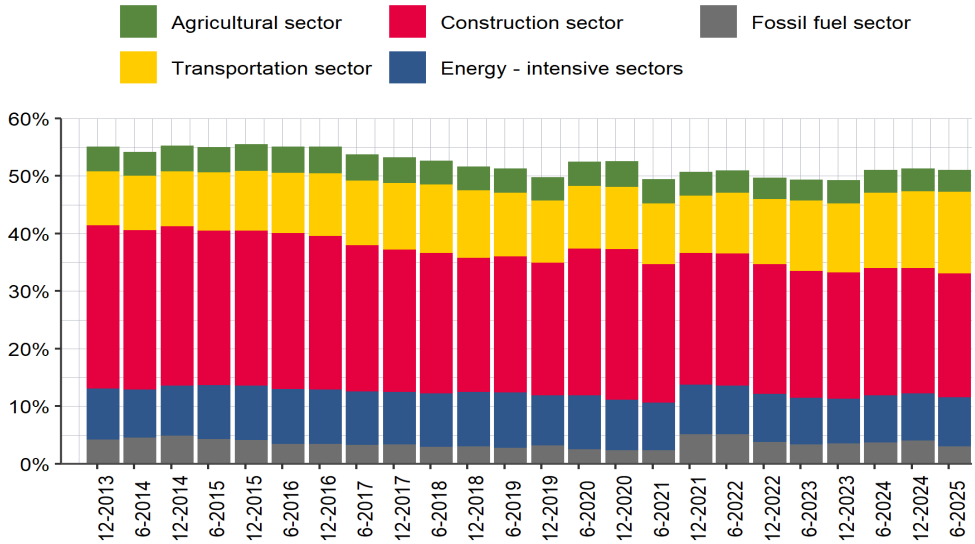
The exposure of the Polish banking sector to climate change risk[101] remains stable, at a level close to the EU average, and due to short maturity of loans, the capacity of banks to manage the risk is considerable. In June 2025, commercial banks' credit exposure to climate policy relevant sectors (CPRS)[102]

[101] Transition risk stems directly or indirectly from the process of convergence to the low-emission and more sustainable economy. Physical risk, in turn, results from the financial consequences of the changing climate, including extreme weather conditions (e.g. droughts, fires, floods), gradual climate changes, and degradation of the environment, such as air, water and soil pollution, water shortages or loss of biodiversity and deforestation.

[102] Classification based on S. Batistton et al. (2022): Climate Policy Relevant Sectors (*CPRS*) (https://www.df.uzh.ch/en/people/professor/battiston/projects/CPRS.html)

accounted for about 55% of the loan portfolio for the non-financial enterprise sector, with a dominant share of construction (approx. 22%) and transport (approx. 14%, see Figure 4.1). At the same time, CPRS exposures accounted for approx. 7% of the banking sector's assets. The share of CPRS exposures in the banks' portfolios was lower than the EU average.[103] In turn, the average maturities of the exposures to non-financial enterprises sensitive to climate change (transition) risk were 4 years compared to 5 years in the case of the EU and euro area countries, and maturities in the case of sectors that substantially contribute to climate change were similar.[104] The average maturity for the 20 most carbon-intensive non-financial enterprises was 3 years in Poland, compared to 2 years in EU/EEA countries.[105] The relatively short maturity of such loans makes it easier for banks to manage the risk.

Figure 4.3. Commercial banks' credit exposure to climate policy relevant sectors



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

Source: NBP.

[103] According to EBA estimates, the shares were 65% for Poland and 67% for the EU, respectively, at the end of 2023. The difference between the NBP and EBA estimates results from the use of different data; NBP analyses of Polish banks are more accurate, but less comparable with other countries. The most recent data available from Poland concern 2023. Calculation results: EBA (2025), ESG Dashboard: https://ebprstaewspublic01.blob.core.windows.net/public/tools-prod/documents/Big_Files/books/interactive-tools/2025/powerbi/ESG_dashboard_page.html

[104] According to Commission Delegated Regulation (EU) 2020/1818 indicating the sectors that contribute highly to climate change, identified by NACE codes from A to H and L (Commission Delegated Regulation (EU) 2020/1818 of 17 July 2020 supplementing Regulation (EU) 2016/1011 of the European Parliament and of the Council as regards minimum standards for EU Climate Transition Benchmarks and EU Paris-aligned Benchmarks).

[105] Ibidem, EBA (2025), ESG Dashboard.

Box 4.1. Market assessment of climate risk exposures (CRISK)

Apart from analysing direct exposures of financial institutions, sensitivity to climate risk can be measured using methods based on market data.[106] One of them is CRISK, which illustrates the capital shortfall resulting from sensitivity to climate risk.[107] Capital shortfall is defined as the difference between the assumed level of capital to total assets[108] and its market pricing. CRISK makes it possible to determine whether, in the market's assessment, an entity has enough capital to absorb losses arising from a climate shock (climate event). A climate shock is defined as a large drop in the valuation of the portfolio of shares of companies from the energy and mining sectors[109] constructed in such a way that its value decreases in response to climate risk). Such an event impacts the capital of each entity individually through the entity-specific sensitivity of market valuation to the climate factor.[110] Such sensitivity (so-called climate beta[111]) can also change over time.

[106] A review of the literature on the modelling of the consequences of climate change risk for financial stability can be found in Daumas, L. (2024). Financial stability, stranded assets and the low-carbon transition – A critical review of the theoretical and applied literatures. *Journal of Economic Surveys*, 38, 601–716.

[107] See Jung, H., Engle, R. F. and Berner, R. (2025). CRISK: measuring the climate risk exposure of the financial system. *Journal of Financial Economics*, 171, 104076. The capital shortfall determined by CRISK depends on the size of the entity, its leverage ratio and expected equity loss as a result of shocks, including the climate shock.

[108] In the case of European banks, it is usually assumed at 5%. The indicator is not regulatory and the capital shortfall determined on its basis does not imply bank's non-compliance with capital requirements, let alone insolvency.

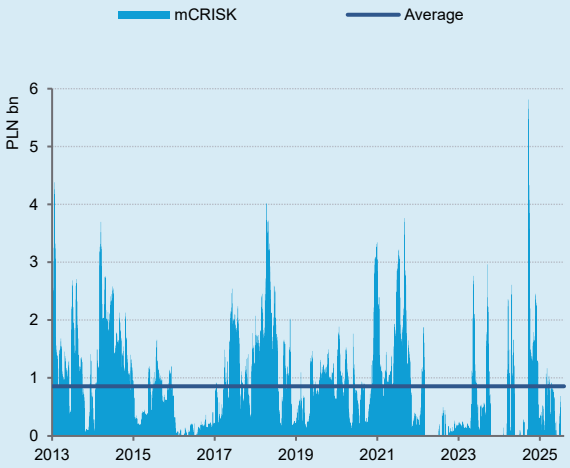
[109] The adoption of the equities portfolio rather than, for example, commodity prices, temperatures or emissions as a climate factor makes it possible to capture the response of the companies to a wide array of variables, including hedging companies against shocks. Ultimately, a financial institution has a credit exposure to a company rather than to climate variables.

[110] This approach ensures that a wide range of other conditions jointly affecting the entity's capital position is also taken into account (in the form of the market factor).

[111] It is a parameter from the Dynamic Conditional Beta model based on the DCC-GARCH variance model, see Jung et. al. (2025), op. cit.

The application of CRISK to Polish financial institutions[112] has shown that they are sensitive to climate risk only to a limited extent. While the sensitivity of the largest GPW-listed banks to general market conditions is high (market beta above 1),[113] their sensitivity to the climate factor is lower and variable. In periods of crisis, the reaction may, however, temporarily increase. The low sensitivity of banks to the climate factor may result from relatively limited (close to the EU average) credit exposures to climate policy relevant sectors.

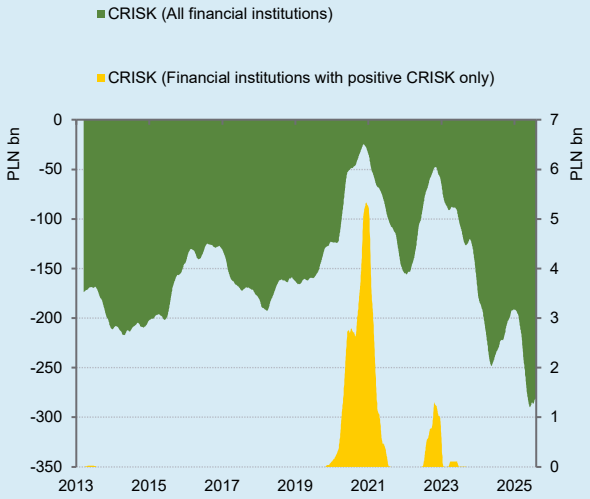
Figure 4.4. The impact of a climate shock on the valuation of the equity of financial institutions



Note: The impact of a shock in an mCRISK (marginal CRISK) approach, in other words "pure" effect of a climate shock to capital. mCRISK = CRISK with a shock – CRISK without a shock.

Source: NBP, Bloomberg data.

Figure 4.5. Capital shortfall due to climate risk (CRISK)



Note: left axis: capital shortfall (CRISK) arising from climate risk, the total for the largest financial institutions listed on GPW. Negative values mean a surplus of capital over the minimum level expected by the market (meaning no capital shortfall). Right axis – capital shortfall due to climate risk – a subtotal for the subset of institutions with a positive capital shortfall (meaning insufficient capital cover for climate risk).

Source: NBP, Bloomberg data.

[112] The application of the CRISK method according to Jung et al. (2025), op. cit. taking into account local specifics such as the market factor and the climate factor, which have been constructed on the basis of Polish stock exchange indices and the portfolio of GPW-listed energy and mining companies.

[113] This is due, among other things, to a higher financial leverage than in other companies, the pro-cyclical nature of banks' performance and the effects of liquidity and trust, which jointly justify high sensitivity. This effect is common in the literature, see Acharya, V. V., Engle, R. F. i Richardson, M. (2012) Capital Shortfall: A New Approach to Ranking and Regulating Systemic Risks. *American Economic Review: Papers & Proceedings*, 102(3), 59–64.

The low sensitivity to climate factor means that climate risk has little impact on the capital positions of financial institutions. The aggregate effect of a major climate shock[114] on the largest GPW-listed financial institutions averaged 0.85 billion zlotys in 2013-2025 (see Figure 4.4). It is the amount of a hypothetical reduction in equity as a result of a climate shock. The biggest impact of a climate shock, 6 billion zlotys, occurred in September 2024, which was the result of the flood and the expected rise in indemnity payments by insurance companies. The impact of the climate shock did not increase in the banks at the time. Despite a large temporary increase in September 2024, the relative impact of the shock was not significant – it amounted to 0.4% of the total assets of the analysed institutions and 2.4% of their Tier I capital.

On aggregate, there has been no capital shortfall due to climate risk in the largest financial institutions in recent years. The overall market assessment of the impact of climate risk on capital indicates that the level of capital in the largest financial institutions is sufficient to absorb a climate shock with a growing capital surplus (in the CRISK approach, (see Figure 4.5). A discernible capital shortfall in the sense of the CRISK approach occurred only during the COVID-19 pandemic. At the end of 2020, it amounted to 5.2 billion zlotys, or 1.5% of total assets, and 16.2% of Tier I capital of the institutions. This was due to two factors: (i) a commodity price shock which, while not arising from climate change, manifested itself in the downgrading of mining and energy companies the same way as it would have been in the event of climate shock risk, and (ii) a general economic downturn, which reduced the capitalisation of financial institutions and increased their vulnerability to shocks, including climate risk shock. In other examined institutions, the overall scale of the surplus (negative capital shortfall according to CRISK) amounted to approx. 45 billion zlotys at the time. This shows that financial institutions in Poland are not structurally highly vulnerable to climate risk.

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

Cyclical risk is at a moderate level. In the second half of 2025, its intensity declined, and its level remains within the range defined as the standard level of risk[115] (see Figure 4.6).

[114] The shock was calibrated in such a way that it corresponds to the first percentile of the distribution of the climate factor returns, which translates into a decrease in the climate factor by about 50% in the 6-month horizon.

[115] The standard risk level is defined as a range such that only periods of above-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) the fall in cyclical risk intensity readings in view of the consequences of the global financial crisis, (iii) the fall in cyclical risk intensity readings in view

Moderate cyclical risk intensity is accompanied by persistently high uncertainty of the risk measurement (see purple ribbons in Figure 4.6). Uncertainty, understood as the dispersion of the readings of the individual indicators used for the assessment of cyclical risk, first increased after the outbreak of the COVID-19 pandemic in 2020 Q1 and then went up even more after Russia's invasion of Ukraine in 2022 Q1. Since then, it has been elevated. Risk associated with this uncertainty was mitigated by the introduction, effective from September 2025, of a positive neutral countercyclical buffer (nCCyB)[116] at the rate of 1% of the total risk exposure, which is set to increase to 2% from September 2026.[117].

Figure 4.6. Cyclical risk intensity

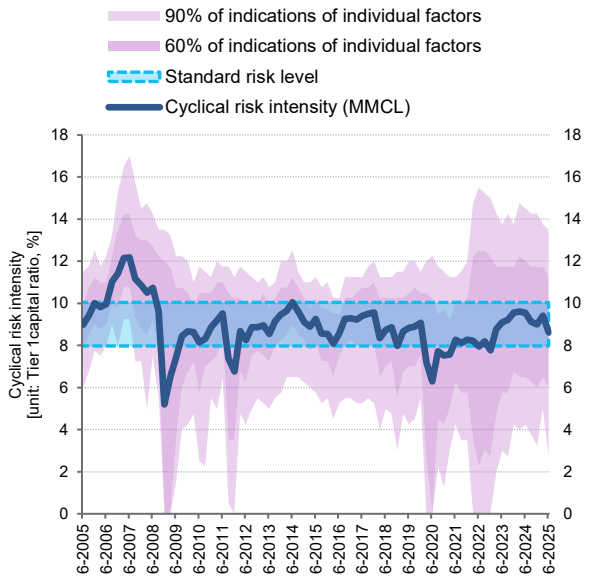
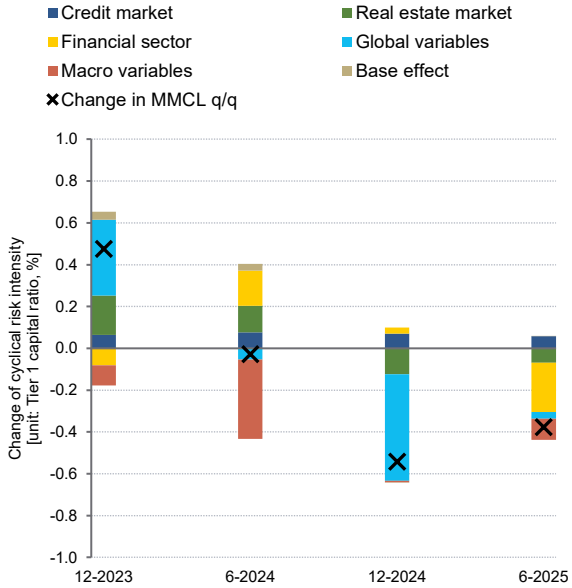


Figure 4.7. Decomposition of changes in cyclical risk intensity readings



Notes (left-hand panel, Figure 4.6): the measurement of cyclical risk intensity reflects simultaneously the current reading of cyclical risk intensity and the minimum level of the capital ratio that is adequate from the point of view of macroeconomic measures. As cyclical risk intensity grows, the amount 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. 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 the 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, see notes to Figure 4.7 in NBP, "Financial Stability Report. June 2025"

Source: NBP.

of the euro area sovereign debt crisis, (iv) the fall in cyclical risk intensity readings in view of the COVID-19 pandemic, (v) the fall in cyclical 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 $\in \langle 8\%; 10\% \rangle$.

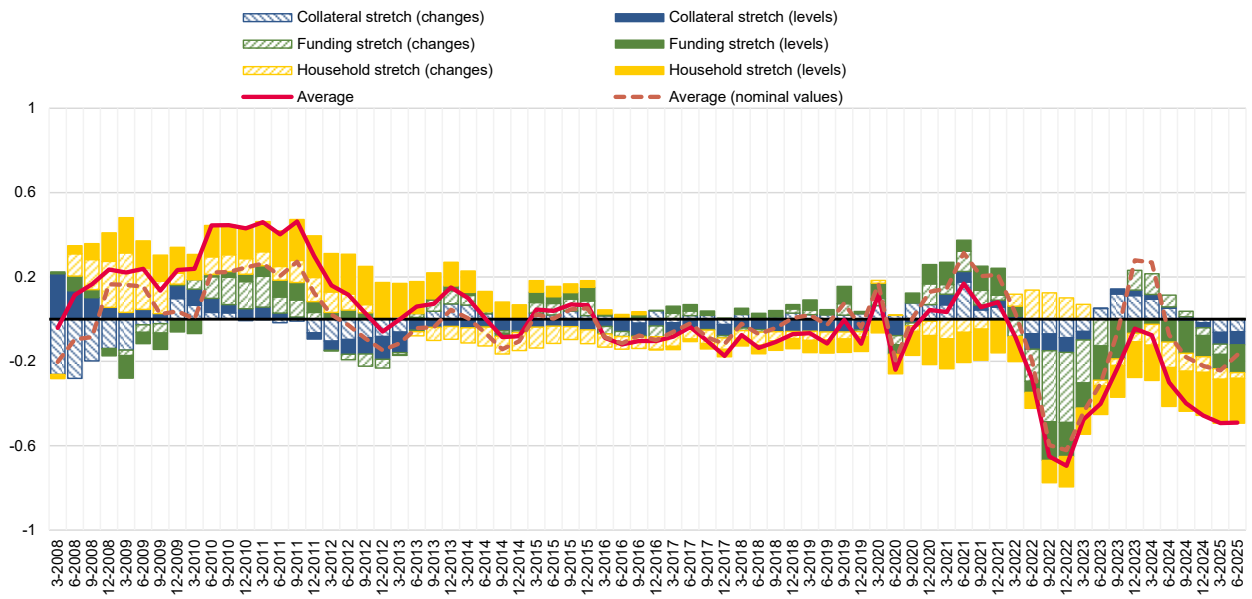
[116] Resolution 74/2024 of the Financial Stability Committee of 14 June 2024 on the countercyclical buffer rate recommends setting the nCCyB at the target rate of 2%.

[117] See the regulation of the Minister of Finance (see Dz.U. 2025 poz. 1307)

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

Systemic risk associated with the exposure of banks to the real estate market remains limited (see Figure 4.8). However, owing to their significant share in the credit portfolio of banks and cyclical character, housing loans are subject to regular monitoring. In all three analysed areas[118], i.e. (i) RRE market (ii) RRE funding, and (iii) the condition of households, the indicators making up the tensions index ran below their long-term average levels, which means that the current level of risk is relatively low compared to historical data.

Figure 4.8. Tensions associated with residential real estate funding



For explanations to this figure, see Figures 4.7 and 4.8 in "Financial Stability Report, December 2024."

Source: NBP, own study.

[118] For more about the approach to the analysis of the real estate market, see "Financial Stability Report, December 2021," Box 2.5.

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 and expenses to premium earned.

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

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.

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.

Individual entrepreneurs – natural persons conducting business on their own account, employing up to 9 persons.

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

Investment fund shares – participation units and investment certificates.

Large enterprises – enterprises employing at least 250 persons.

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

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 – 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).

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

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.

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

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 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

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 Operating Ratio
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
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
ETF	Exchange-traded fund
EU	European Union
EUR	Euro
EVE	Economic Value of Equity
FWK	Borrower Support Fund
GDP	Gross Domestic Product
GPW	Warsaw Stock Exchange

GUS	Statistics Poland
IFMC	Investment Fund Management Company
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IRS	Interest Rate Swap
KNF	Polish Financial Supervision Authority
LCR	Liquidity Coverage Ratio
LTI	Loan to Income
LTV	Loan to Value
MFI	Monetary financial institutions
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MREL-RCA	MREL Recapitalisation Amount
MREL-TREA	MREL calibrated on TREA
NBP	Narodowy Bank Polski
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
SM	Secondary market
SME	Small and medium-sized enterprise
SPE	Single Point of Entry

ST	State Treasury
TCR	Total Capital Ratio
TEM	Total Exposure Measure
TREA	Total Risk Exposure Amount
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

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