

What key trends and challenges impact Polish banking sector's financial performance?

Polish Banking Sector Analysis after 9M2024

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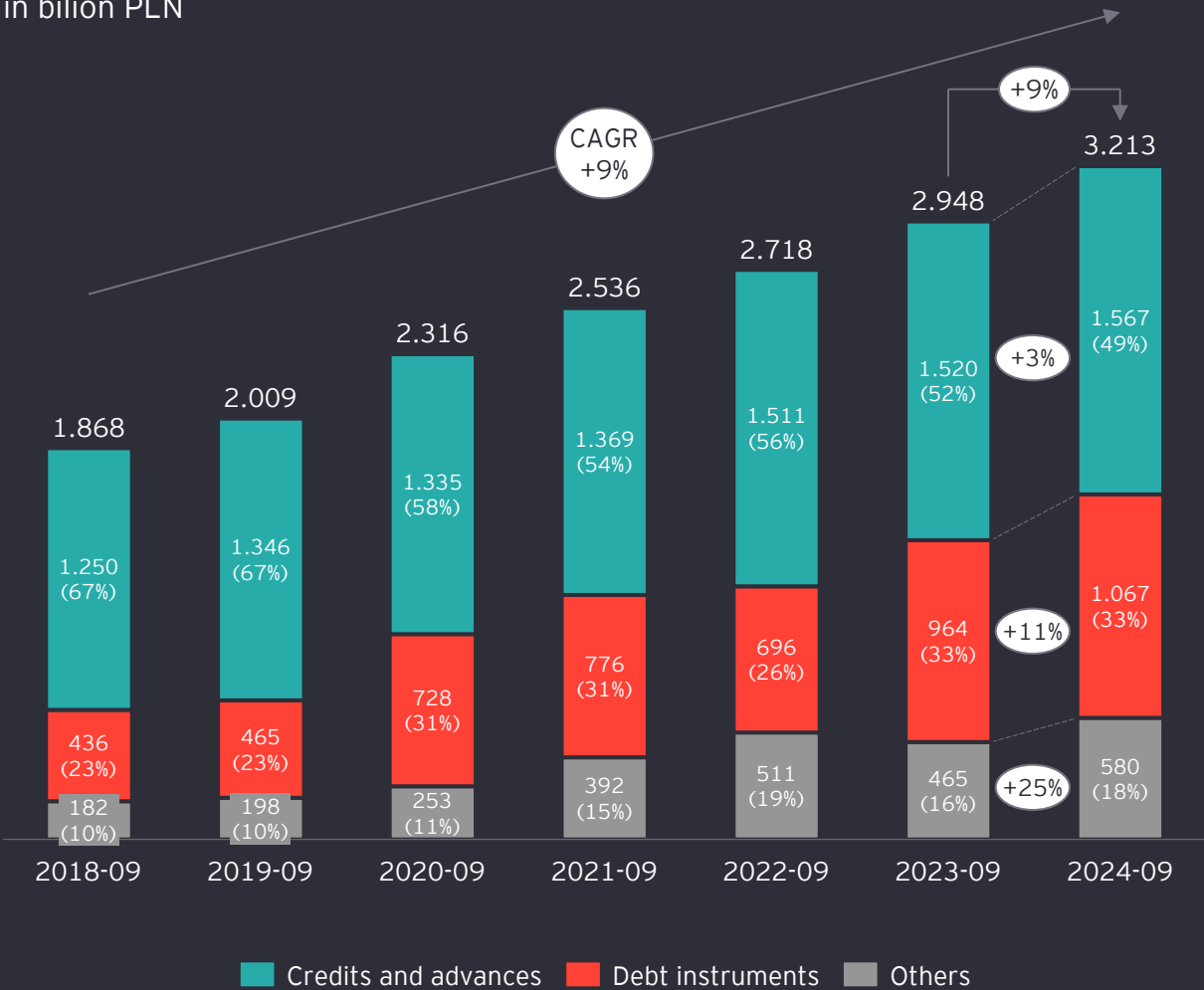


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Results of Polish banks 9M2024

Banking sector assets in Poland

in billion PLN



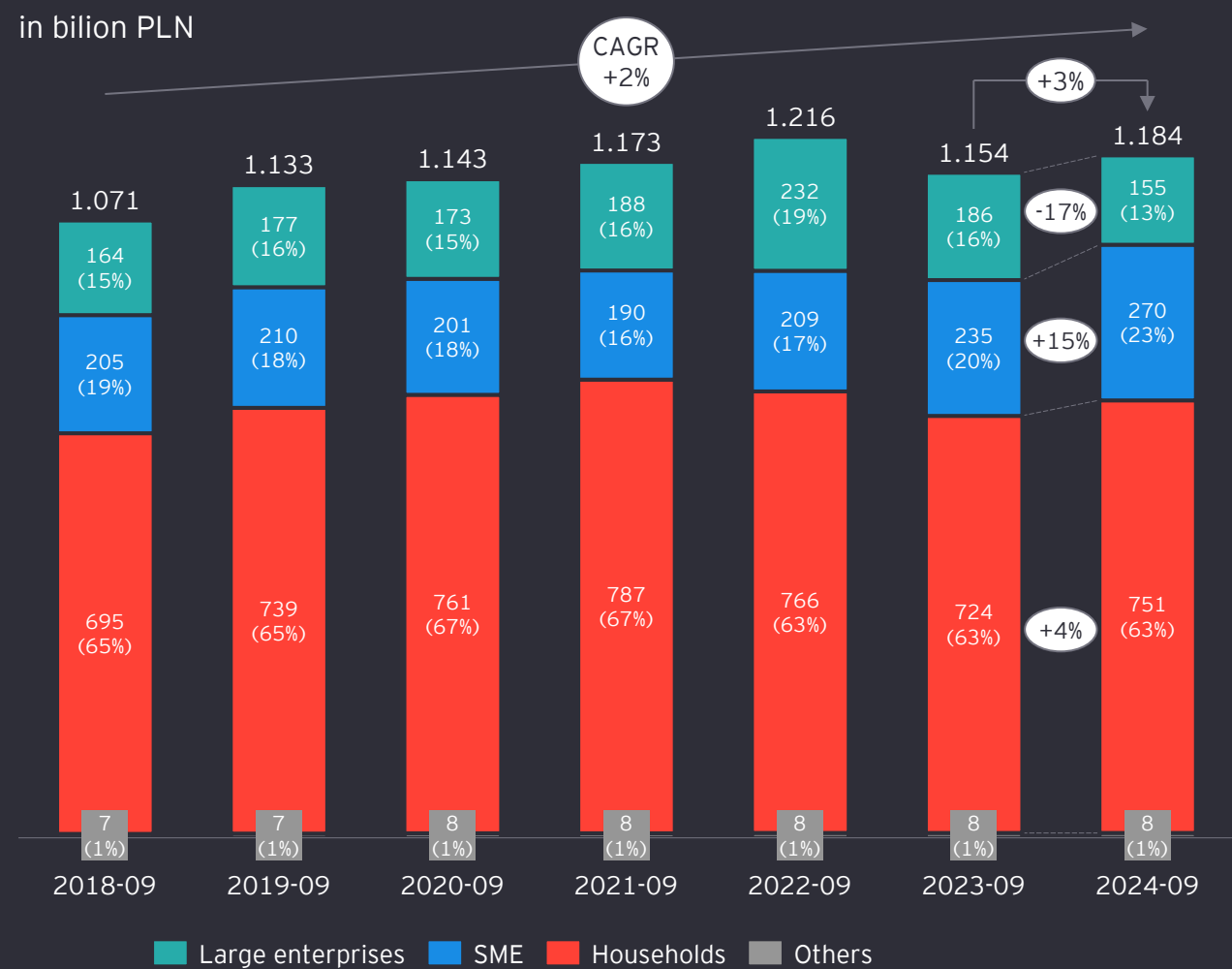
- ▶ In nominal terms, banking sector assets have been growing at an average rate of 9% per year over the last seven years.
- ▶ However, real growth is much lower - cumulative inflation between September 2018 and September 2024 amounted to 40.7%.
- ▶ The share of banking sector assets in Poland's GDP* remains in the range of 85-100%, but the ratio of loans to GDP* is falling: from 59% to 44%.
- ▶ The falling share of loans in relation to GDP may pose a significant challenge related to financing the economy.
- ▶ The decrease in the share of loans in the structure of the sector's assets is worrying, in favour of primarily debt instruments, which is the effect of the construction of the bank tax.
- ▶ The structure of debt securities is dominated by debt securities of the government and local government sector, of which approximately 94% are central government securities.
- ▶ Part of the increase in the value of the treasury bond portfolio was the result of a decline in the yields on treasury bonds in the second half of 2023.
- ▶ The value of the basic open market operations of the NBP in 9M2024 amounted to PLN 12,841 billion (+250% compared to 9M2018; CAGR: 23%).
- ▶ This situation is caused by an increase in interest rates and deepening excess liquidity in the sector.
- ▶ The remaining part of debt securities is primarily made up of securities of non-monetary financial institutions.

Source: National Bank of Poland

*Ratio calculated as assets at the end of 3Q20XX to GDP of a given year; the exception is September 2024 calculated as assets at the end of September 2024 to the sum of GDP from quarters 4Q2023-3Q2024

Non-financial sector loan entity structure

Loans measured at amortized cost and at fair value through other comprehensive income - Portfolio B



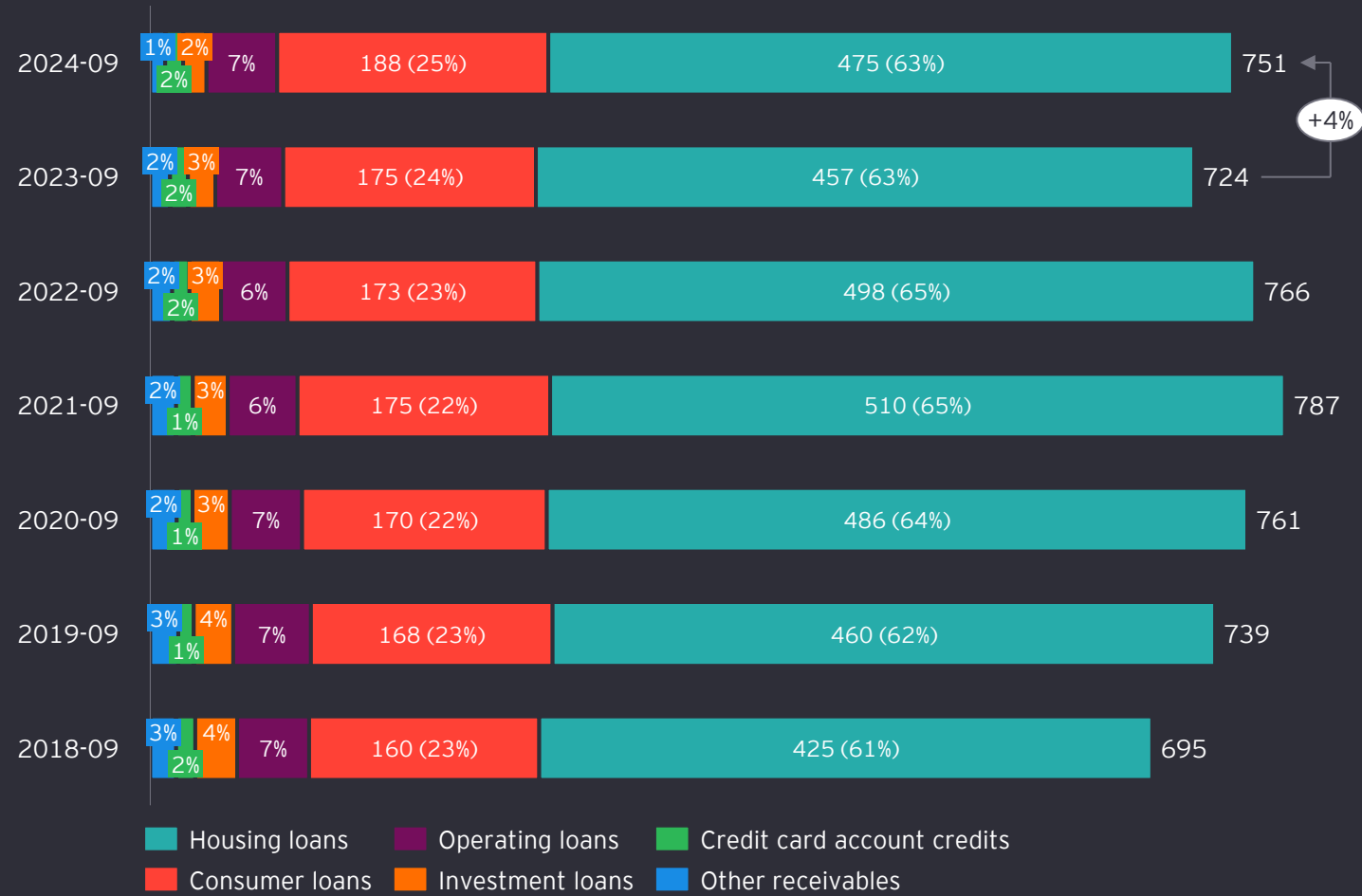
- ▶ The largest part of the non-financial sector loan portfolio remains loans to households.
- ▶ The increase in the value of the gross loan portfolio in banks was primarily due to the increase in the value of loans to SMEs and, to a lesser extent, housing and consumer loans in PLN for households.
- ▶ The data for 9M2024 clearly shows the impact of the “Safe Credit 2%” program - while between Q2 2023 and Q3 2023 the increase in the volume of loans to households amounted to PLN 2 billion, between Q2 2024 and Q3 2024 this increase amounted to PLN 11 billion.
- ▶ The lending of households was supported by several factors of a demand and supply nature: improving consumer sentiment and an increase in creditworthiness, a favourable capital and liquidity situation of banks, a good situation on the labour market and the BK2% program.
- ▶ At the same time, we observe a further decline in the volume of loans to large enterprises, with a simultaneous increase in the volume of loans to SMEs.
- ▶ The situation of enterprises allows them to use their own funds, and they were additionally strengthened during the pandemic by state support in the form of subsidized loans and grants (approx. PLN 73 billion under the PFR financial shields).
- ▶ The internationalization of economic activity means that enterprises are taking on debt to foreign entities, both from the non-financial and financial sectors. The value of liabilities of companies to foreign countries is higher than to Polish banks and constitutes almost 40% of the total debt of enterprises (data as of the end of 2023).
- ▶ Interest rates in the euro zone, the United Kingdom and the United States have begun to fall, thus reducing the attractiveness of loans available in Polish banks, which may deepen the decline in the value of the loan portfolio for large enterprises.

Source: National Bank of Poland

The structure of household loans by item

Loans measured at amortized cost and at fair value through other comprehensive income - Portfolio B

in billion PLN



- ▶ The largest part of the portfolio for retail customers is still housing loans.
- ▶ The improvement in this aspect is the result of, on the one hand, the "Safe Credit 2%" program launched in July 2023 and, on the other, the unwavering demand for housing loans, regardless of the lack of support programs, with the persistently high market prices of real estate (the average value of the requested housing loan in September 2024 was PLN 444.74 thousand; +6.6% y/y).
- ▶ Q3 2024 brought slightly better news for buyers - for the first time in many quarters, housing prices on the secondary market in provincial cities fell more often than they rose - which is the effect of realizing the expectations of sellers
- ▶ The increase in the value of consumer loans may result from the increase in instalment loans, into which unpaid BNPL payments are converted, as indicated by BIK data.
- ▶ Q3 2024 is also characterized by a certain seasonality - the increase may be caused by taking out loans for holidays and renovations.

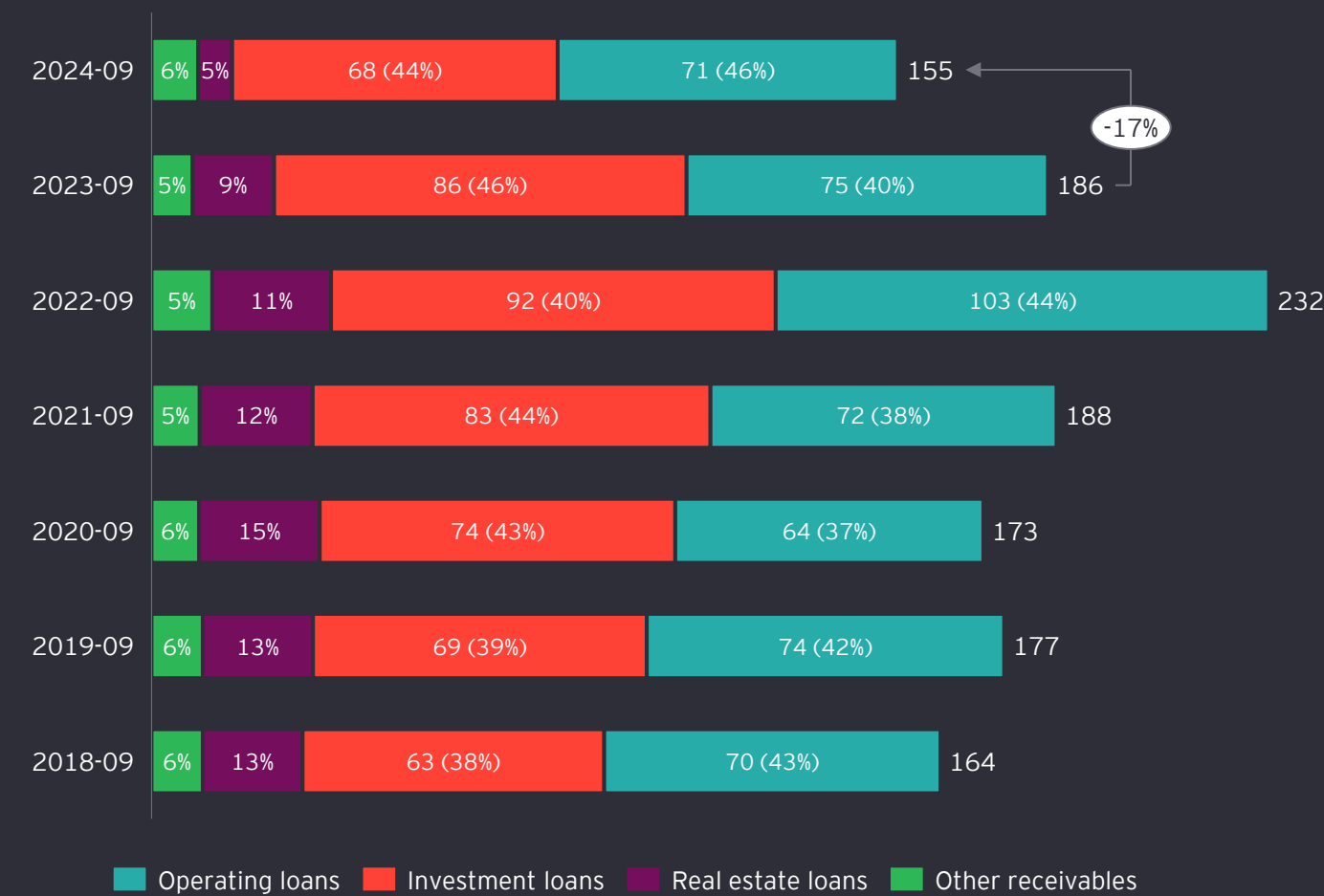
Source: National Bank of Poland

*According to KNF data, the gross balance sheet value of CHF housing loans in May 2024 decreased by 61% y/y, while their number decreased by 20% in the same period

The structure of loans for large enterprises

Loans measured at amortized cost and at fair value through other comprehensive income - Portfolio B

in billion PLN



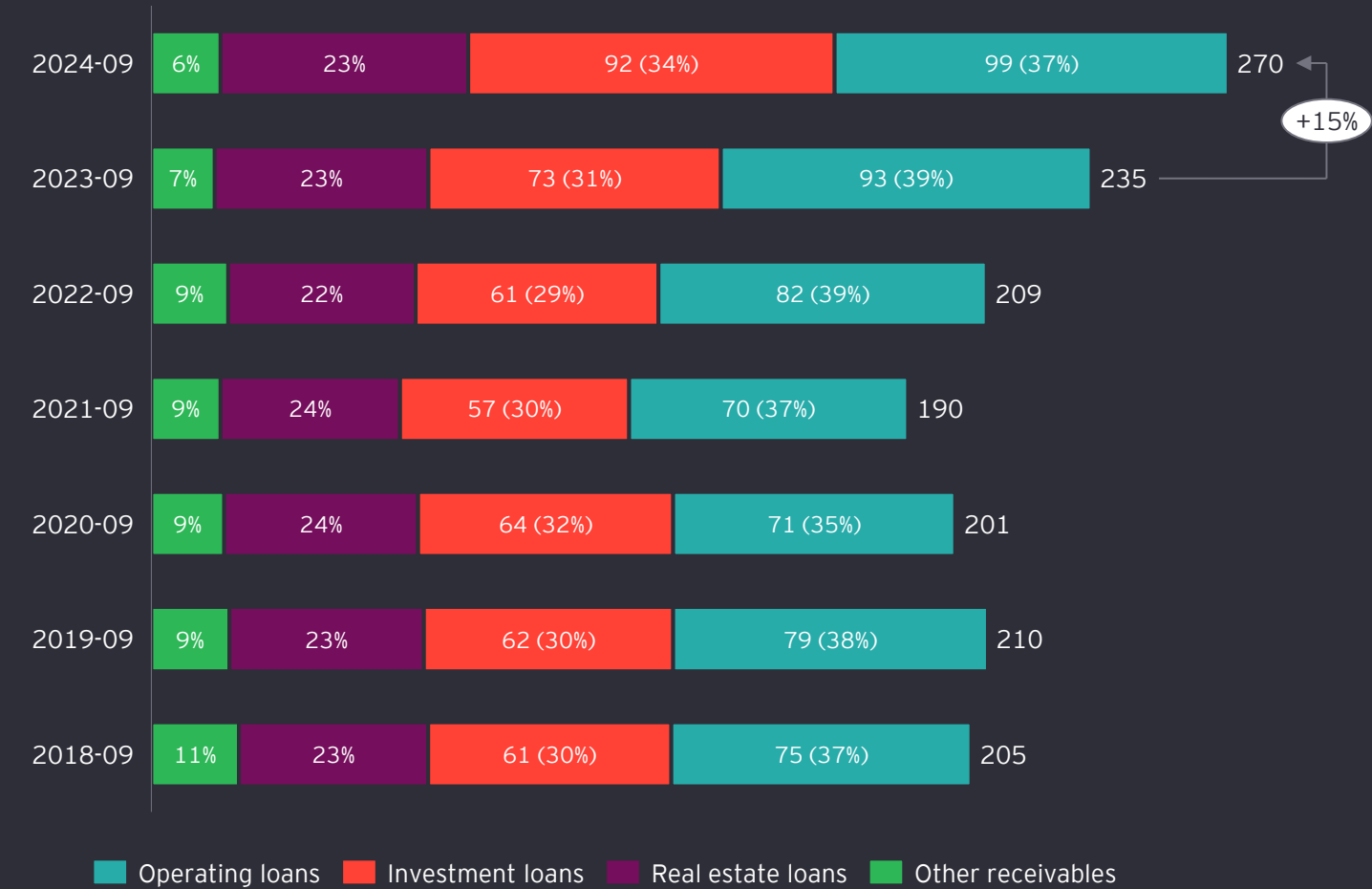
- ▶ Q3 2024 was another quarter in which we observed a decline in the value of loans to large enterprises.
- ▶ The macroeconomic and geopolitical situation in the world has caused a significant increase in uncertainty among enterprises, which is causing a decrease in the willingness of enterprises to invest.
- ▶ The deteriorating economic situation in Germany also affects the calculations of entrepreneurs in the context of their investments, especially those focusing their activities on export.
- ▶ Macroeconomic data indicate a continuing stagnation in infrastructure construction, most likely caused by a transitional period in access to EU funds. Therefore, the situation may improve in the new year.
- ▶ At the same time, a factor negatively affecting the growth of the portfolio of loans to enterprises are the persistently restrictive conditions for granting loans, both long- and short-term.
- ▶ The restrictions related to financing industries characterized by high ESG risk also have an impact on banks' credit policy.
- ▶ The increase in demand may be reinforced in the future by public investments related to KPO.
- ▶ According to a survey of credit committee chairmen, demand for credit for large enterprises increased in Q3 2024 - mainly for mergers and acquisitions.

Source: National Bank of Poland

The structure of SME loans

Loans measured at amortized cost and at fair value through other comprehensive income - Portfolio B

in billion PLN

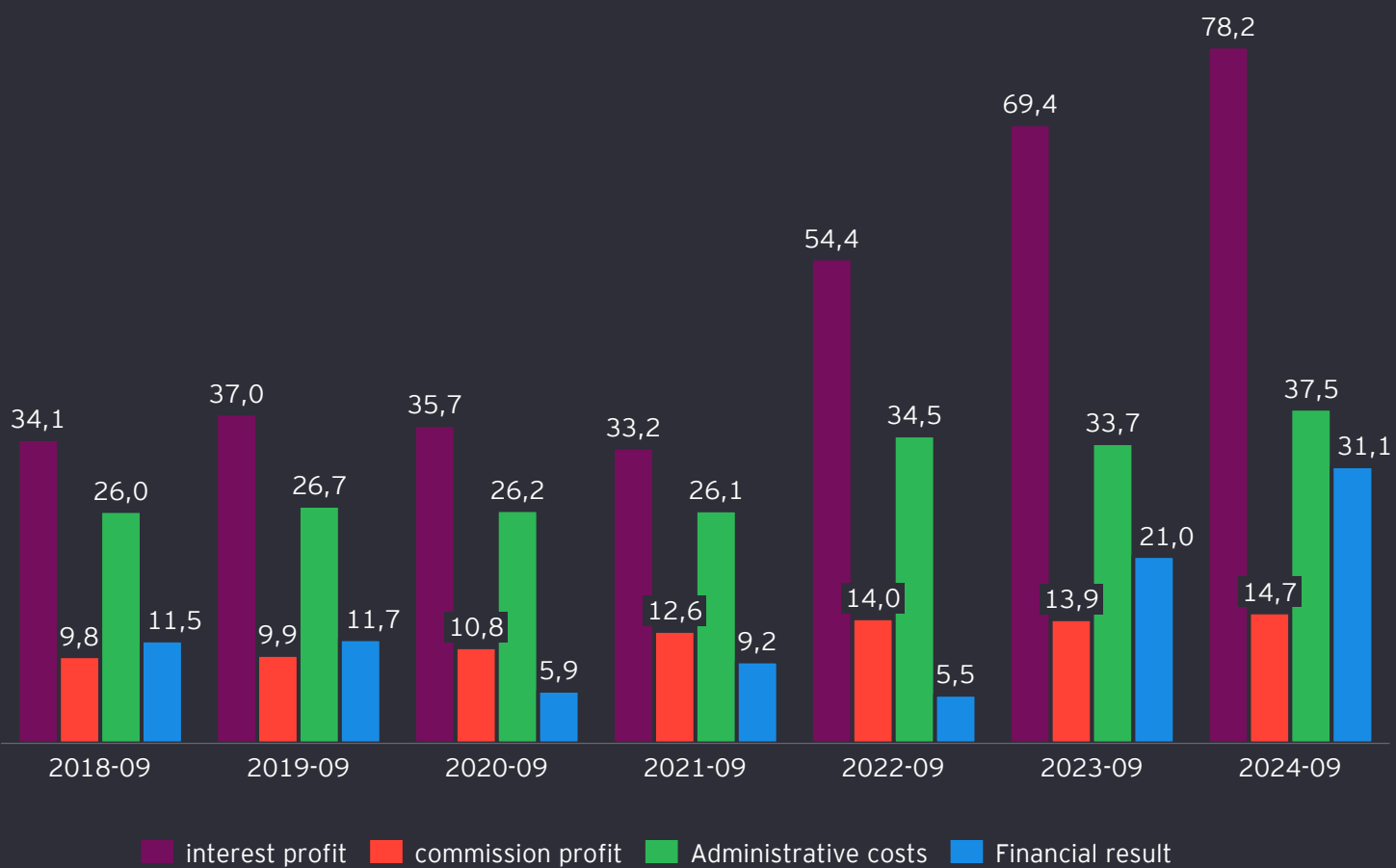


Source: National Bank of Poland

- ▶ The planned easing of credit conditions due to the intensifying competition for business clients between banks can be viewed optimistically.
- ▶ in Q3 2024, banks relaxed the criteria of their credit policy for SMEs long-term loans for the first time since Q4 2021, which is justified by the increase in competitive pressure from other banks.
- ▶ The banks' credit policy is influenced by restrictions related to financing industries characterized by high ESG risk.
- ▶ As in the case of large enterprises, the increase in demand may be strengthened in the future by public investments related to KPO.
- ▶ Some banks, e.g. ING Bank Śląski, observe a deterioration in the quality of the credit portfolio, which results from the situation of entrepreneurs in the face of the uncertain macroeconomic and geopolitical situation.
- ▶ In Q3 2024, banks observed an increase in demand for short-term loans for SMEs, while the demand for long-term loans decreased.

Profit and loss account of Polish banking sector

in billion PLN



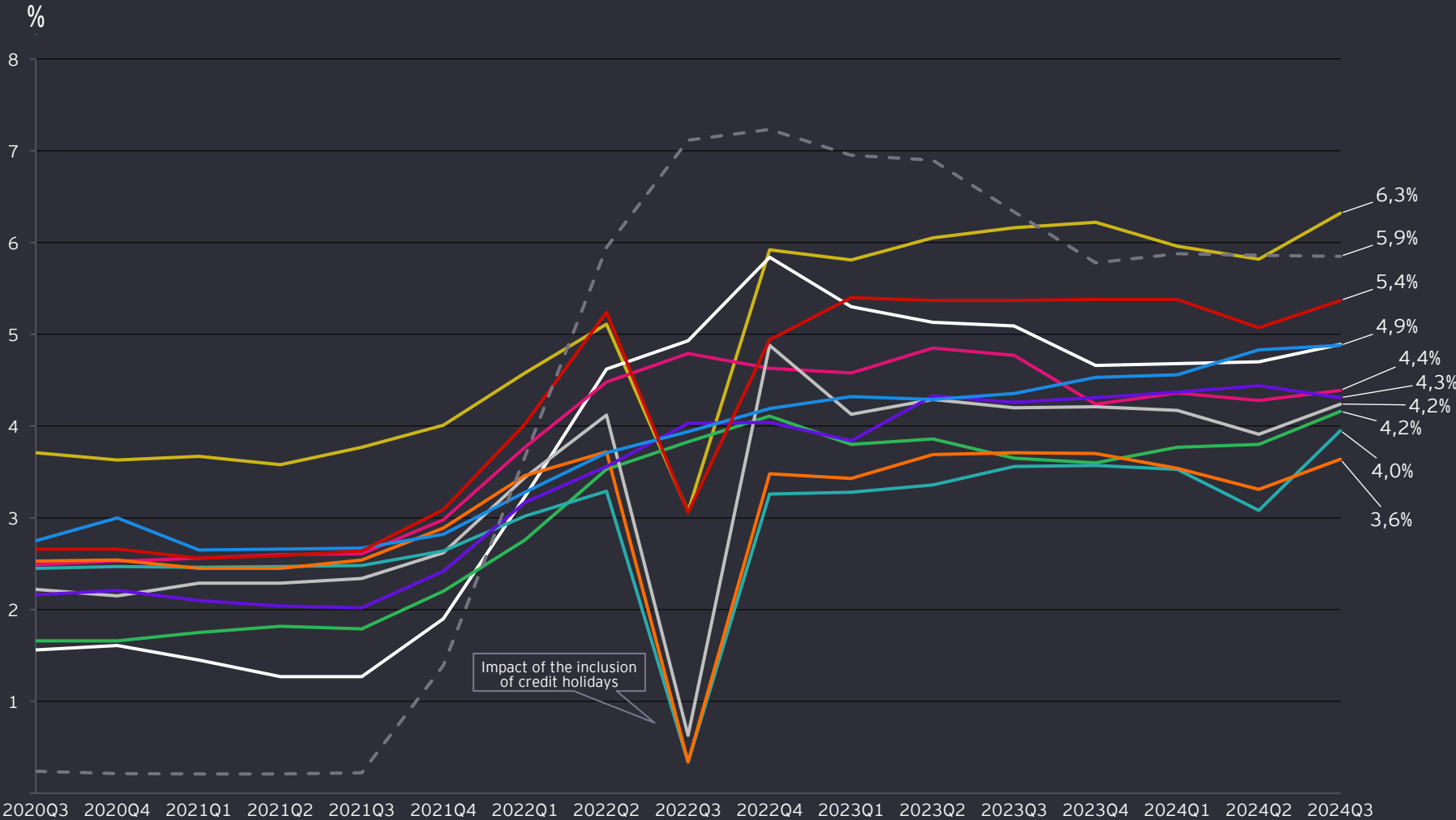
Source: National Bank of Poland

- ▶ The record high profits of the banking sector resulted in achieving the ROA level from 2011-2012 after many years.
- ▶ The increase in the result was mainly influenced by the increase in interest rates, which, given the dominance of variable interest loans in the banks' portfolios, significantly contributed to the increase in the interest income.
- ▶ The increase in wage costs related to the increase in nominal wages in the economy as well as the need to maintain highly qualified talent have a negative impact on the banks' result.
- ▶ The challenge, similarly to the entire economy, is the persistently high price of electricity.
- ▶ The fiscal and regulatory burdens (including "credit holidays", SOBK) also have a negative impact on the banks' results.
- ▶ The results are also weakened by the issuance of debt instruments included in the MREL requirement, because the interest rate on such instruments is much higher than the interest rate on customer deposits.

WSE-listed Polish banks' quarterly results 9M2024 / 3Q2024

Net interest margin quarterly

3Q2024

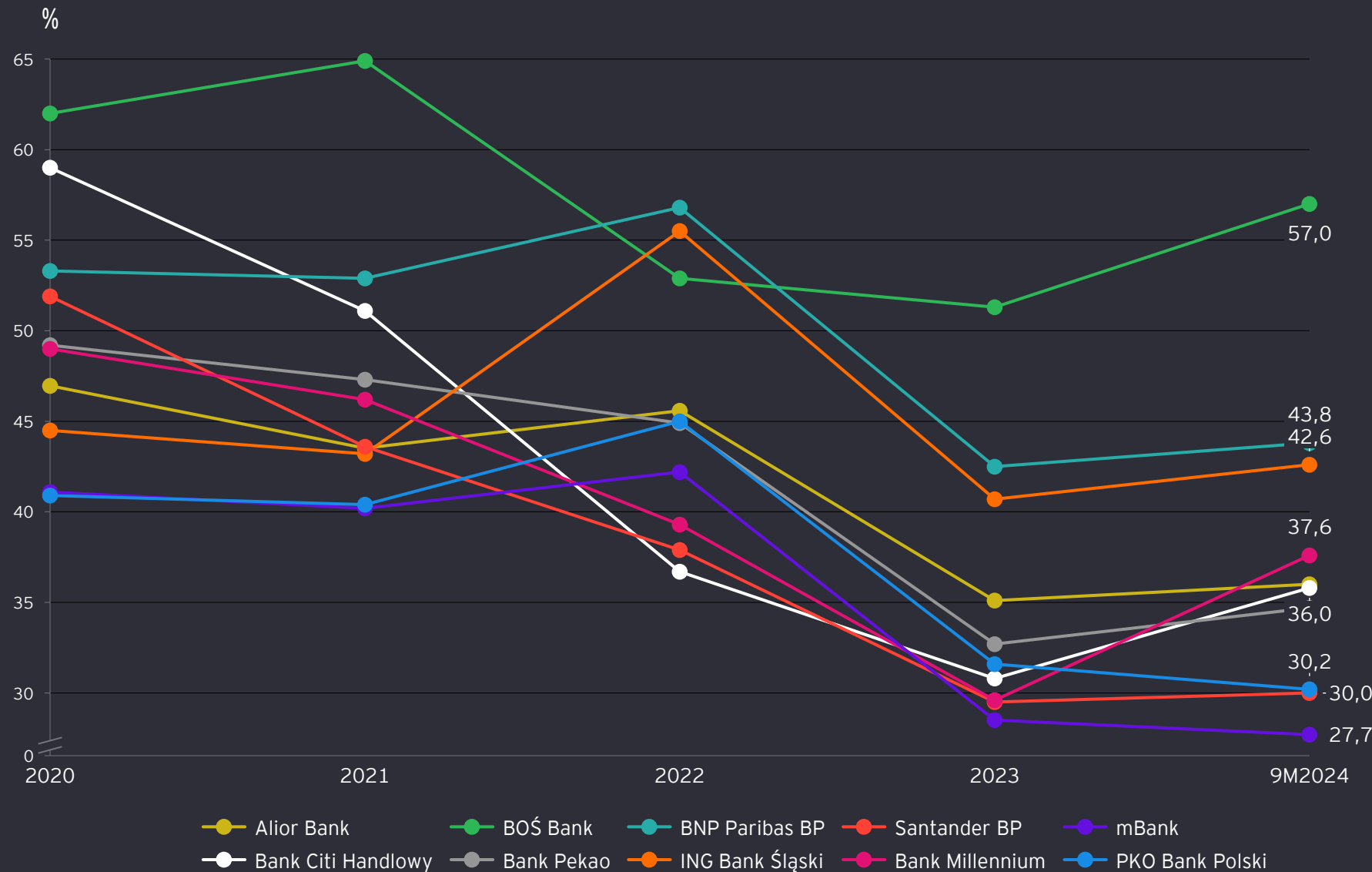


- ▶ The interest income of most Polish banks improved in Q3 2024 (except for mBank).
- ▶ The largest yoy increase was recorded by BNP Paribas and PKO BP, which managed to improve net interest margin thanks to further optimization of the cost of financing, improvement of the result on derivatives and management of excess liquidity.
- ▶ The persistently higher level of NIM of Alior Bank results from the product mix, i.e. the high share of instalment loans in the portfolio.

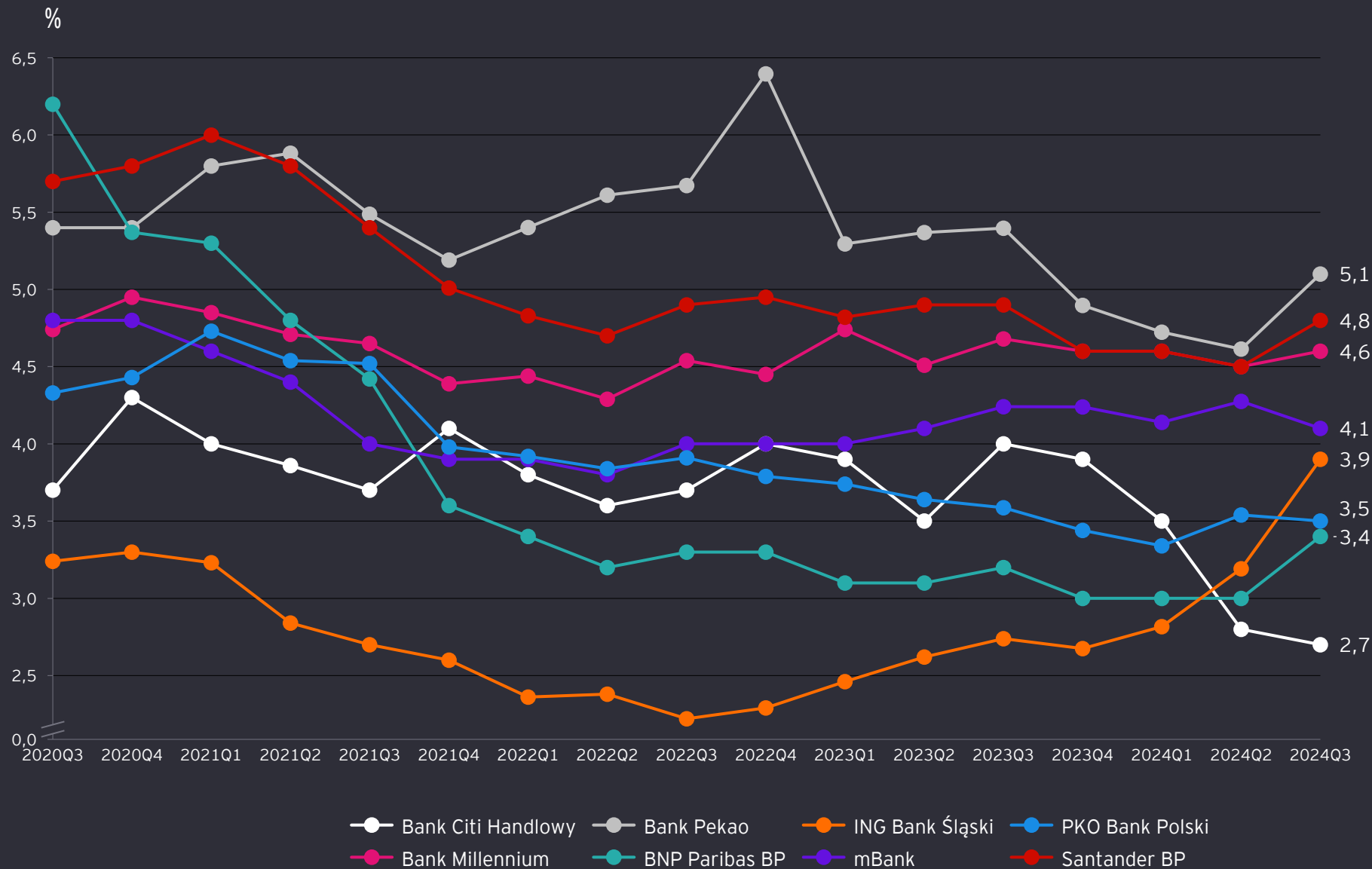
Alior Bank Bank Millennium Bank Pekao ING Bank Śląski PKO Bank Polski WIBOR 3M
Bank Citi Handlowy BOŚ Bank BNP Paribas BP mBank Santander BP



Cost to Income Ratio - C/I - annualized



- ▶ Despite the smaller than expected effects of the credit holidays, the operating costs of banks in all categories are growing faster than their income
- ▶ The growth of costs in the sector is driven by the growth of employee costs
- ▶ The significant increase in Bank Millennium's C/I ratio results from one-off costs, such as credit holidays or lawsuits and voluntary settlements with Swiss franc borrowers. After excluding these factors, the C/I would amount to 30.8%
- ▶ At BOŚ Bank, the increase in the ratio was influenced by one-off events - reclassification of the credit portfolio and increased write-offs



- ▶ The NPL ratio among most Polish banks remains at a relatively safe level below 5% and has remained stable in recent quarters.
- ▶ Pekao SA was the only bank to record an NPL ratio above 5% in Q3 2024. The deterioration in the NPL ratio resulted from the recognition of default for several corporate clients.
- ▶ The increase in the ratio in the case of ING Bank Śląski after Q4 2023 is mainly due to the deterioration in the quality of the portfolio in the corporate segment.
- ▶ In the entire banking sector, the share of overdue loans for large companies increased by 2.8 p.p. y/y

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