WEEKLY ANALYSIS

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End of the year brought a decline in profitability of banks

- The fourth quarter of last year brought continued improvements in the quality of banks' assets, but also a deterioration of profitability as a result of rising operating costs and a strong increase in the cost of value adjustments.

- The share of non-performing loans in total loans (NPLs) decreased in the observed period by 0.3 p. p. q-o-q amounting to 3.0%, the lowest level since data are available. The share of loans to the private sector fell to 5.6% driven for the most part by the decline in loans to households, supported by the growth of sold receivables (€47 million). The share of non-performing loans is thus reduced by 0.5 p. p. in the portfolio of loans to households to 5.0%, with cash loans recording the greatest improvement (-0.6 p.p. to 6.7%) due to a drop in the amount of NPL which is probably largely the result of sales. Housing loans fell share-wise by 0.3 p.p. to 2.2% owing to robust growth in new placements driven by a subsidy scheme and favourable housing market prospects and a slight decrease in the volume of NPLs.

NPL share in household loans fell to 5.0%

- After a sharp decline in previous quarters, the share of NPLs in loans to non-financial corporations stagnated (at 6.4%) due to the almost equal dynamics of the increase in the amount of NPLs and lending. The NPL volume growth was recorded for the first time after ten consecutive quarters of decline and was largely caused by an increase in Manufacturing and Construction, which are struggling with strong growth in prices of commodities, materials and energy. The shares of non-performing loans in loans placed by these two activities thus increased at a quarterly level by 0.8 and 0.6 p.p. respectively to 11.0 and 11.2%. At the same time, Trade and Accommodation and food service activities continue to record a downward trend owing to the successful season behind us and a greater possibility of transferring higher prices of inputs to the final consumer.

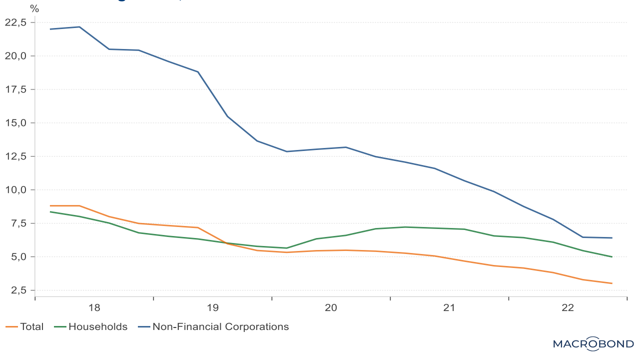
NPL share in loans to non-financial corporations stagnated at 6.4%

- As in previous periods, the result of banks' operations in the last quarter of last year was largely shaped by the movement of value adjustment costs. Namely, after profiting due to the release of provisions in the first nine months, the cost in the last quarter resulted in a minus of €172 million at the year level (+23.3% year-on-year). Combined with 0.9% lower net operating profit, overall net profit of credit institutions fell by 4.0%, and profitability decreased thus returns on assets and equity reached 1.0% and 8.2% respectively (-0.2 and -0.6 p.p., respectively year-on-year).

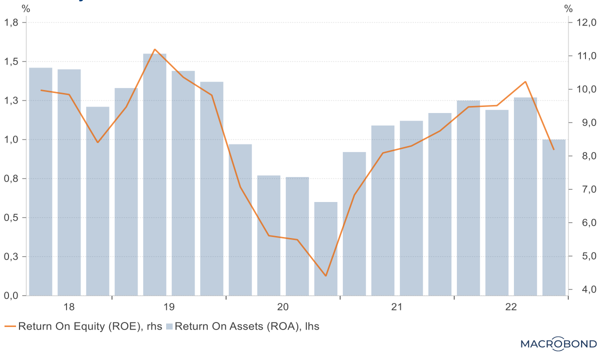
Returns on assets and equity decreased to 1.0% and 8.2% respectively

- Lower net operating profit resulted from a faster increase in operating costs (9.3% year-on-year) than operating income (4.2%) due to increased energy prices and costs related to the introduction of the euro. Within gross operating income, the most significant is a 13.6% increase in net income from fees and commissions, while net interest income after the fall in the first three quarters recorded a recovery at the end of the year and an increase of 3.8% at the level of 2022, which primarily resulted from increased income from credit institutions (interest rate growth).
- This year, we expect asset quality to stagnate because we estimate that weakening inflationary pressures and continuing credit growth (albeit at a much more moderate pace) will balance weaker GDP growth and tightening financing conditions that draw the ratio to a higher level. The profitability of credit institutions could be maintained at the same levels; although the increase in lending interest rates raises income and operating costs fall because there is no adverse cost effect from the introduction of the euro and inflation weakens, lower growth in economic activity puts pressure on the generation of other income, for example from fees, and it is joined also by a precipitous decrease in foreign exchange trading income.

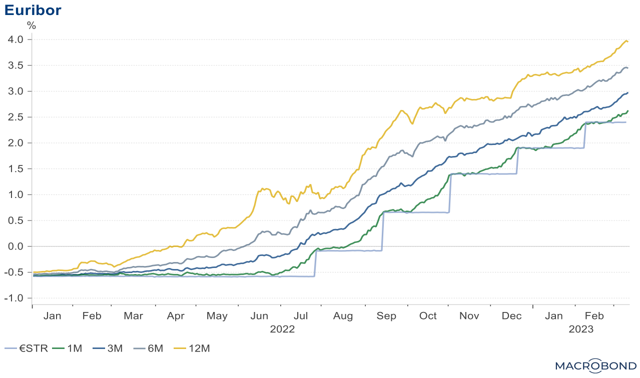
Non-Performing Loans, share in total

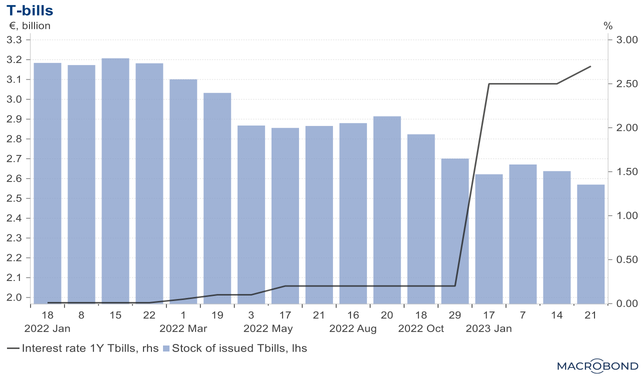


Profitability of Credit Institutions



- Chair Powell's speech before the U.S. Congress prompted a strengthening of the dollar by indicating the possibility of a stronger interest rate hike at the upcoming meeting of the Federal Open Market Committee. The week concluded with an exchange rate of $1.0586 to the euro, down by 0.3% w-o-w.
- Ahead of this week's ECB meeting, Euribor continued to grow. The past week it increased up to 10 b. p. w-o-w, with 3M and 6M reaching 3.0 and 3.4% respectively on Friday.
- The positive trend of Crobex continued, closing the week up by 0.8% w-o-w, i.e., at 2,270.8 points, with the most significant sectoral indices recording a varied performance (CROBEXindustry +4.9% to 1,328.1, CROBEXnutris +0.1% to 799.4, CROBEXtourist -2.9% to 4,054.3). Crobis was revised downwards by 0.1% to 93.9 points.





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