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Banks: BFG Raises 2022 Deposit Guarantee Fees

Banks, Poland

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Poland's Bank Guarantee Fund (BFG) this morning announced that it was expecting Polish banks to pay in total contributions of PLN 3,701 million in 2022, of which PLN 2,008 million going to the Deposit Guarantee Scheme (an increase from PLN 1,000m in 2021 and PLN 1,575m in 2020) and PLN 1,693m to be paid into the Bank Resolution Scheme (vs. PLN 1,230m in 2021 and PLN 1,600m in 2020).

The BFG stressed in its press release that 2022 marked a return to regular procedures now that Polish banks have mostly recovered from pandemic impacts.

The BFG has set the target level of deposit guarantee contributions at 2.6% of total covered deposits, to be reached by 2034 vs. 1.83% today. At the same time, the target for resolution fees is 1.2% by 2030 vs. 0.94% today.

The BFG also mentions in its announcement the ongoing work on an Institutional Protection Scheme (IPS) for commercial banks that entails a potential reduction in the target level of contributions to the Deposit Guarantee Scheme to 1.6%.

Summing up, the 2022 BFG levy on the banking sector has come out slightly above our PLN 3.4bn forecast and the average market estimate of PLN 3.5bn. However, if we apply the higher fees to our models for rated banks, we see that we have to make only very small adjustments to our 2022 earnings expectations that do affect our bullish view on the sector as a whole.

Estimated impact of BFG contribution increase on rated banks

(PLN m)	Total Sector	PKO	PEO	SPL	ING	MIL	ALR	BHW	BNP
2021 Fees									
Deposit Guarantee Scheme	1,000	171.4	168.8	139.7	112.1	69.5	57.8	12.5	53.2
Resolution Fund	1,230	253.3	117.6	154.1	132.6	48.6	48.4	64.7	90.1
Total	2,230	424.6	286.5	293.8	244.7	118.1	106.2	77.2	143.4
2022 Fees									
Deposit Guarantee Scheme	2,008	344.1	339.0	280.5	225.1	139.5	116.1	25.0	106.9
Resolution Fund	1,693	348.6	161.9	212.1	182.5	66.9	66.6	89.1	124.1
Total	3,701	692.7	500.9	492.6	407.6	206.5	182.8	114.1	230.9
mBank estimates									
Deposit Guarantee Scheme	2,075	555.6	226.6	231.9	221.9	147.6	127.4	24.6	114.2
Resolution Fund	1,330	245.9	172.9	188.7	103.4	48.4	53.9	70.1	104.7
Total	3,405	801.5	399.5	420.6	325.3	195.9	181.3	94.7	218.9
Difference*									
Deposit Guarantee Scheme	-67	-211	112	49	3	-8	-11	0	-7
Resolution Fund	363	103	-11	23	79	19	13	19	19
Total	296	-109	101	72	82	11	1	19	12

Source: BFG, mBank *Difference between actual contributions and our initial estimates

**List of abbreviations and ratios contained in the report:**

EV (Enterprise Value) – Equity Value + Net Debt; **EBIT** – Earnings Before Interest and Taxes; **EBITDA** – EBIT + Depreciation & Amortisation; **Net Debt** – Borrowings + Debt Securities + Interest-Bearing Loans - Cash and Cash Equivalents; **P/E** (Price/Earnings) – Price Per Share Divided by Earnings Per Share; **P/CE** (Price to Cash Earnings) – Price Per Share Divided by Earnings + Depreciation & Amortisation; **P/B** (Price to Book Value) – Price Per Share Divided by Book Value Per Share; **P/CF** (Price to Cash Flow) – Price Divided by Cash Flow from Operations; **ROE** (Return on Equity) – Earnings Divided by Shareholders' Equity; **ROCE** (Return on Capital Employed) – EBIT x (Average Assets - Current Liabilities); **ROIC** (Return on Invested Capital) – EBIT x (1-Tax Rate) / (Average Equity + Minority Interest + Net Debt); **FCFF** (Free Cash Flow to Firm) – Cash Flow from Operations - CAPEX - Lease Payments; **FCFE** (Free Cash Flow to Equity) – Free Cash Flow to Firm - Net Interest Expense (incl. Debt + Leases) - Lease Payments

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