

## EuroRating affirmed 'A-' credit rating with a stable outlook assigned to the bank PKO BP S.A.

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for the issuer
Name of the rated entity	PKO Bank Polski S.A.
Type of the rated entity	bank
Type of the credit rating	long-term, international scale
Date of rating affirmation	22.03.2024
Rating level	A-
Rating outlook	stable

**Warsaw, 22 March 2024 – EuroRating credit rating agency has revised the credit rating for the bank PKO BP S.A. The rating has been affirmed at 'A-' with a stable outlook.**

### KEY RATING DRIVERS

**High regulatory capital ratios:** Despite a decrease in equity value and its share in the balance sheet total between 2020 and 2022, regulatory capital ratios remained consistently at high and safe levels. At the end of 2023 TCR ratio amounted to 18.7% (6.1 percentage points above the minimum level set by the financial supervisor) and Tier 1 ratio to 17.8% (7.2 percentage points above the required minimum).

**Declining share of loans in assets:** Since 2019 PKO BP's total loan portfolio has been stagnant. At the same time, total assets have been steadily increasing, leading to a gradual decline in the share of loans in the bank's total assets. At the end of 2023 this ratio fell to an unprecedented low level of 49%. While this trend suggests a lower exposure to high-risk assets, it also results in a reduction in the share of high-margin assets within the bank's portfolio.

**Good quality of the loan portfolio:** In recent years the non-performing loans (NPL) ratio has been on a downward trend. At the end of 2023 it descended to its lowest recorded level of 3.4%, which is below the sector average.

**Very high liquidity:** Since 2017 the value of deposits has been growing much faster than the loan portfolio. This has led to a continuous increase in the excess of deposits over loans. At the end of 2023 deposits exceeded the value of loans by over 60%, which means that the bank is characterized by high excess liquidity.

**Satisfactory return on assets:** PKO BP consistently generates positive and relatively high net results. Apart from the pandemic crisis in 2020, the Return on Assets (ROA) ratio has maintained a relatively high level of 0.8-1.2%. Nevertheless, it is noteworthy that ROA could have seen considerable

improvement in recent years, if not for the adverse effects of provisions made for legal risks associated with foreign currency mortgage loans.

**Portfolio of foreign currency mortgage loans:** PKO BP had a substantial nominal portfolio of foreign currency mortgage loans. In recent years, the bank faced a significant risk of losses associated with these loans. This risk stemmed from a surge in lawsuits filed by clients and unfavourable court rulings for banks. In 2023 the number of legal proceedings against the bank increased from 19.5 thousand to 30.5 thousand. As a result, the bank was forced to increase its reserves for legal risk associated with foreign currency mortgages by PLN 5.4 billion. However, as a result, the gross value of this loan portfolio decreased to PLN 4.8 billion (compared to PLN 9.4 billion at the end of 2022). Simultaneously, the coverage ratio of these loans with reserves increased from 50% to 86%.

**Long history and dominant market position:** PKO BP was established in 1919 and is the largest commercial bank in Poland. Since 2004 the bank has been listed on the Warsaw Stock Exchange and is included in the WIG20 index of the largest companies.

**Relatively high probability of support:** Despite the fact, that the State Treasury owns only slightly less than 30% of PKO BP's shares, due to the bank's scale of operations and crucial role in the national financial system, EuroRating assesses the probability of state support for the bank in a crisis situation as relatively high.

**Relatively good diversification of operations:** The bank operates in servicing corporate, institutional and retail clients, as well as engaging in investment and brokerage activities.

## STABLE RATING OUTLOOK

The stable rating outlook means that, according to the current EuroRating's estimates, the rating assigned to the bank should most likely remain unchanged in the horizon of the next 12 months.

## MAIN FACTORS THAT COULD LEAD TO A RATING CHANGE

The most significant potential factors that could (individually or collectively) lead to a positive rating action (change of the rating outlook to positive and/or rating upgrade), EuroRating includes: generating high positive financial results by the bank; a significant increase in the equity value and its share in the balance sheet total, and maintaining regulatory capital ratios at very high levels; a long-term increase in assets profitability; as well as the elimination of risks related to foreign currency mortgage loans.

The most significant potential factors that could (individually or collectively) lead to a downgrade of current credit rating (and/or to a change of the rating outlook to negative): potential decline in equity value and/or its share in the balance sheet total; a significant decrease in regulatory capital ratios; a material deterioration in the bank's financial performance (including, in particular, the generation of a net loss); as well as significant deterioration in the quality of the loan portfolio.

**BEST/WORST RATING SCENARIO**

The full range of best- and worst-case scenarios for all rating categories spans from 'AAA' to 'D'. Historical long-term statistics on rating migrations (changes between individual rating classes) for entities rated by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics> (annexes No. 6-9).

## REGULATORY DISCLOSURES

### Information on the EuroRating credit rating agency

EuroRating is a fully independent international credit rating agency operating since 2007, specializing in assessing the credit risk of enterprises and financial institutions. EuroRating Sp. z o.o. is formally registered by the European Securities and Markets Authority (ESMA) as a credit rating agency authorized to issue public credit ratings throughout the European Union (in accordance with the Regulation of the European Parliament and of the Council No. 1060/2009 on credit rating agencies) and is under direct supervision of ESMA.

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### Methodology

The presented credit rating for the bank PKO BP S.A. is an issuer credit rating – it is a general assessment of the creditworthiness of the assessed entity and concerns the credit risk of its senior, unsecured and unsubordinated financial obligations.

The presented credit rating has been assigned in accordance with the Regulation (EC) No. 1060/2009 of the European Parliament and of the Council on credit rating agencies.

The methodology used in this rating was "Credit rating methodology for banks" published in June 2023 and available at: <https://www.eurorating.com/en/ratings/methodology/credit-risk-assessment-methodology>

The rating scale of the EuroRating credit rating agency as well as detailed rating definitions are published at: <https://www.eurorating.com/en/ratings/rating-scale>

Historical default statistics for entities assessed by EuroRating are published in the report on rating statistics, available at: <https://www.eurorating.com/en/ratings/statistics>

EuroRating's definition of default as well as definitions of rating notations can be found in the agency's website at: <https://www.eurorating.com/en/ratings/methodology/definition-of-default>

Credit ratings assigned by the EuroRating credit rating agency are not solely estimates of the probability of default of a rated entity, but represent a total estimated assessment of a risk of loss (i.e. the ultimate loss of part or all of the receivables along with any interest) by the creditors of the rated entity in the event of its default. Ratings assigned by EuroRating therefore express a combination of the estimated probability of default of the rated entity and the estimated level of loss of receivables by its creditors in the event of an actual default (Loss Given Default).

### Public status of the credit rating / terms of use

The presented credit rating for the bank PKO BP S.A. is a public rating. The date of the first publication of the rating, the current rating level and the full rating history are published on the EuroRating's website in the section "Credit ratings", in the relevant tab on the rated entity/security.

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**Solicitation status and main sources of information**

The rating assigned to the bank PKO BP S.A. was not solicited by the rated entity or any related third parties. The rated entity did not participate in the rating process and the EuroRating had no access to internal documents or the management of the rated entity. The analytical process relied solely on publicly available information. Key sources of information included: interim financial statements, presentations and reports from the rated entity, along with media coverage of the economy and relevant industries, as well as public information about the rated entity itself. The assigned credit rating was presented to the rated entity in advance and issued without any changes resulting from this disclosure.

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