

EuroRating affirmed 'A-' credit rating with a stable outlook assigned to Bank Handlowy S.A.

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for the issuer
Name of the rated entity	Bank Handlowy S.A.
Type of the rated entity	bank
Type of the credit rating	long-term, international scale
Date of rating affirmation	28.02.2024
Rating level	A-
Rating outlook	stable

Warsaw, 28 February 2024 – EuroRating credit rating agency has revised the credit rating for Bank Handlowy S.A. The rating has been affirmed at 'A-' with a stable outlook.

KEY RATING DRIVERS

Strong capital position of the bank: Despite the decline from 16.1% to 11.4% between 2018 and 2022, the share of equity in the balance sheet total remained at a relatively high and safe level. In 2023 the value of this ratio increased again to 13.3%.

Very high regulatory capital ratios: Bank Handlowy's business model assumes a low share of loans in assets and this results in a low value of risk-weighted assets. Combined with a relatively high share of equity in the balance sheet total, this has resulted in the consistently very high levels of regulatory capital ratios. At the end of 2023 both the TCR and Tier 1 ratios amounted to 23.6%

Low share of loans in assets: From 2020 to 2023, the value of loans in relation to the total assets of the bank decreased from a moderate level of 45.7% at the end of 2019 to a low level of 27.3% at the end of 2023. Consequently, the bank currently maintains minimal exposure to risks associated with the granted loans.

High quality of the loan portfolio: The share of non-performing loans (NPLs) in the total loan portfolio has remained consistently at very low levels of 3-4% in recent years, which is lower than the average for the banking sector. The coverage of NPLs by reserves is also high (exceeds 70%).

High liquidity: The bank consistently maintains a significantly higher value of collected deposits than granted loans. In the years 2020-2023, this surplus further increased and at the end of 2023 deposits were 2.7-times higher than loans. This means that the bank is characterized even by high over liquidity.

High return on assets: The Return on Assets (ROA) ratio of Bank Handlowy has remained consistently high (except for the pandemic year 2020). Additionally, among others as a result of the rise of NBP interest rates, the bank's ROA experienced a significant surge in the years 2022-2023, reaching record-high levels (the ratio amounted to 3.2% at the end of 2023).

No risk from foreign currency mortgages: Bank Handlowy did not grant foreign currency mortgages to retail clients. As a result, it is one of the few large banks in the Polish banking sector that is not affected by the problem of costs related to the legal risk of this type of loans.

Long history of operation and very large scale of activity: Bank Handlowy started operating in 1870 and is the oldest commercial bank in Poland, as well as one of the oldest banks in Europe. Since 1997, the bank's shares have been listed on the Warsaw Stock Exchange and the bank is a member of the WIG20 index, representing the largest Polish companies. Bank Handlowy is one of the largest lenders in Poland.

High probability of support: Since 2001, Bank Handlowy has been part of the global financial group Citigroup, which owns 75% of the bank's shares. EuroRating assesses that in the event of a crisis, the probability of receiving support from the majority shareholder is high.

Planned sale of the bank's retail division: Citigroup has been planning to sell the retail business of Bank Handlowy for some time. As a result, the bank is expected to focus mainly on corporate banking. However, specific details are currently unavailable. It is also difficult to assess at this point how the bank's financial situation will look after the separation and sale of the retail business.

High dividend payouts: In recent years, the bank has consistently paid out high dividends, often amounting to 100% of net profit. As a result, the value of equity did not increase until 2021 and remained at a constant level of approximately PLN 6.8-7.5 billion. In 2024 a dividend payment of around PLN 1.5 billion is planned. The remaining part of the record net profit for 2023 (which amounted to PLN 2.3 billion) is to be allocated to core capital to fulfil regulatory obligations.

STABLE RATING OUTLOOK

The stable rating outlook means that, according to the current EuroRating's estimates, the rating assigned to the company 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: continuing to generate high financial results by the bank; lower dividend payout ratios in relation to generated profits; further growth in equity value and its share in the balance sheet total; maintaining a very good quality of the loan portfolio and a low share of loans in assets; as well as maintaining regulatory capital ratios at very high levels.

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): a significant decline in the bank's financial results (including, in particular, the possible generation of a net loss); a decrease in the value of equity and/or its share in the balance sheet total; a significant decrease in the level of regulatory capital ratios; a deterioration in the quality of the loan portfolio; and a potential deterioration of the bank's overall credit risk profile as a result of the separation and sale of the retail business.

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 Bank Handlowy 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 Bank Handlowy 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 Bank Handlowy 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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