

EuroRating affirmed 'A-' credit rating with a stable outlook assigned to the bank Bank Gospodarstwa Krajowego

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for the issuer
Name of the rated entity	Bank Gospodarstwa Krajowego
Type of the rated entity	bank
Type of the credit rating	long-term, international scale
Date of rating affirmation	25.04.2024
Rating level	A-
Rating outlook	stable

Warsaw, 25 April 2024 – EuroRating credit rating agency has revised the credit rating for the bank Bank Gospodarstwa Krajowego. The rating has been affirmed at 'A-' with a stable outlook.

KEY RATING DRIVERS

Inability to file for bankruptcy: Bank Gospodarstwa Krajowego (BGK) is not a commercial company and it operates under a special law as a state-owned bank in accordance with Polish banking regulations. As a result, BGK is not subject to bankruptcy proceedings. Its credit risk is therefore closely intertwined with the financial health of the Polish state.

High probability of support: As a fully state-owned bank, BGK can rely on a very high likelihood of financial support from the Polish Treasury in the event of such need. Additionally, in case of liquidity issues, the bank possesses a strong ability to issue debt (including guaranteed by the Treasury) and can count on support from the National Bank of Poland.

Strong capital position: BGK consistently maintains a high or very high level of equity to the balance sheet total ratio (as of the end of 2023, it amounted to 18%). Additionally, the bank's regulatory capital ratios remain consistently high (as of the end of 2023, the TCR and Tier 1 ratios reached 31.6%).

Low share of loans in assets: Since 2020, the proportion of loans in the bank's total assets has remained at very low levels. As of the end of 2023, it amounted to 19.1%.

High liquidity: For several years, BGK has maintained a significant surplus of collected deposits over the value of the loans portfolio. Since 2020, deposits have consistently exceeded the value of loans by more than three times, indicating that the bank is even characterized by high excess liquidity.

Consistently positive profitability: Bank Gospodarstwa Krajowego consistently achieves positive net results. While these were relatively low in relation to the bank's assets until 2021, the sharp increase in NBP interest rates over the past two years has led to a significant rise in the bank's net profit and ROA ratio - reaching a record level of 1.7% in 2023.

Long history of operation: Bank Gospodarstwa Krajowego has been operating since 1924 and is the only Polish state-owned bank. BGK bonds have been listed on the public market for many years.

Focus on the public sector: BGK, in carrying out tasks assigned to it by the state, largely focuses on financing projects in the public sector. This market segment is characterized by relatively low risk and provides considerable stability and predictability.

Political risk: As a state-owned bank, directly influenced by the government, BGK is subject to strong political influences. This results in relatively frequent changes in the top management of the bank, often due to political shifts in the country. This also entails the risk that government authorities may directly or indirectly influence the determination of the bank's strategy, its development directions, and decisions made by the bank's bodies. Consequently, actions and programs assigned to the bank may adversely affect its financial results and/or balance sheet position.

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

Among the most significant potential factors that could (individually or collectively) lead to a positive rating action (change in the rating outlook to positive and/or credit rating upgrades) for Bank Gospodarstwa Krajowego, EuroRating includes: an increase in Poland's financial credibility and a decrease in the country's credit risk; maintaining a high proportion of equity in the balance sheet total and high regulatory capital ratios; as well as the continuation of generating high financial results.

The potential most significant factors that could (individually or collectively) lead to a negative rating action (such as a change in the rating outlook to negative and/or a credit rating downgrade) according to the agency include: a decrease in Poland's financial credibility and an increase in the country's credit risk; significant reduction in the value of equity and/or a substantial decrease in its proportion to the balance sheet total; significant lowering of regulatory capital ratios; potential involvement of the bank by the Polish Treasury in risky or unprofitable government programs, or in rescuing state-owned companies from bankruptcy; as well as a potential significant decrease in the bank's financial results (particularly generating losses).

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.

EuroRating holds the ECAI (External Credit Assessment Institution) status in the European Union, pursuant to the Regulation of the European Parliament and of the Council No. 575/2013 on prudential requirements for credit institutions and investment firms (CRR Directive). The credit ratings (including unsolicited ratings) assigned by EuroRating are valid throughout the European Union and can be used for regulatory purposes under EU legislation by all financial institutions or any other entities and are entirely equal to credit ratings issued by other credit rating agencies registered by ESMA.

Methodology

The presented credit rating for the bank Bank Gospodarstwa Krajowego 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 Bank Gospodarstwa Krajowego 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.

The terms of use for credit ratings issued by EuroRating are published on the agency's website at: <https://www.eurorating.com/en/ratings/about-credit-ratings/terms-of-use>

Solicitation status

The rating assigned to the bank Bank Gospodarstwa Krajowego 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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