

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

Public / Private rating	public
Continued / One off rating	continued (monitored rating)
Category	rating for the issuer
Name of the rated entity	Bank Pekao S.A.
Type of the rated entity	bank
Type of the credit rating	long-term, international scale
Date of rating affirmation	06.03.2024
Rating level	A-
Rating outlook	stable

**Warsaw, 6 March 2024 – EuroRating credit rating agency has revised the credit rating for the Bank Pekao S.A. The rating has been affirmed at 'A-' with a stable outlook.**

### KEY RATING DRIVERS

**Strong capital position of the bank:** The value of the balance sheet total of Bank Pekao has grown faster than the value of equity (which also slightly decreased in 2021-2022). Despite this, the equity to the balance sheet total ratio has consistently maintained at a satisfactory level. The profits earned in 2023 have led to an increase of this ratio to 9.9%.

**High regulatory capital ratios:** Bank Pekao stands out with its high and stable regulatory capital ratios. At the end of 2023, the total capital ratio (TCR) remained at 16.8% and the Tier 1 ratio at 15.2%. Both ratios significantly exceed the Polish Financial Supervision Authority (KNF) requirements by 5.7 percentage points and 5.3 percentage points, respectively.

**Moderate share of loans in assets:** The share of customer loans in the bank's total assets has been systematically decreasing since 2015. At the end of 2023, it amounted to only 53%, which is already a relatively low level. This indicates that the bank maintains a moderate exposure to the risks of the loans it has granted.

**Good quality of the loan portfolio:** The ratio of non-performing loans (NPLs) to gross total loans has been close to the average for the banking sector in recent years, indicating its relatively low level (at the end of 2023 it amounted to 6.4%). EuroRating also considers the high NPL coverage ratio by reserves as a positive factor, reaching approximately 70% as of the end of 2023.

**High liquidity:** Since 2016, the ratio of deposits collected to loans granted has been on an upward trend. At the end of 2023, this ratio reached 1.45, indicating that the bank exhibits a relatively high level of liquidity.

**Improved financial results:** The overall long-term profitability of Bank Pekao's assets should be assessed as good. Following the less favourable years of 2020-2022, during which ROA fluctuated between 0.5-0.9%, the ratio surged to its highest point in at least ten years, reaching 2.2% in 2023.

**High cost efficiency:** Bank Pekao demonstrates a high level of cost efficiency. Until 2022, the Cost/Income ratio remained at a stable and low level of around 42-47%. In 2023, the ratio fell to a record low value of 32.7% (taking into account the contribution to the Bank Guarantee Fund and the Commercial Bank Guarantee System). The bank's current efficiency ratio positions it at the forefront of the banking sector.

**Negligible Swiss franc mortgage portfolio:** Pekao is among the banks with minimal exposure to the economic and legal risks associated with the foreign currency mortgage portfolio. The net value of this portfolio currently amounts to around PLN 390 million, which represents only 0.2% of the total loan portfolio and 0.1% of the bank's total assets.

**Relatively high probability of support:** Despite the widespread ownership structure of Bank Pekao, a substantial portion of shares (almost one-third in total) is under the control of institutions affiliated with the State Treasury (PZU S.A. and PFR S.A.). Consequently, considering the bank's size and its significance in the banking sector, EuroRating evaluates the likelihood of the bank receiving support in a crisis scenario as relatively high.

**Long operating history and very large scale of operations:** Bank Pekao has been operating since 1929. Since 1998, the bank's shares have been listed on the Warsaw Stock Exchange. The bank is a member of the WIG20 index of the largest companies. In terms of assets (which amounted to PLN 305.7 billion at the end of 2023), Bank Pekao is the second largest bank in Poland.

**Relatively good diversification of operations:** The Bank operates in the area of serving corporate, institutional and retail clients, as well as investment and brokerage activities. The Group also includes companies offering financial services such as leasing, factoring and real estate financing.

## 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: further increase of the value of equity and its share in the balance sheet total; maintaining regulatory capital ratios at high levels; generating high positive financial results by the bank; reduction of the share of non-performing loans in the total loans portfolio; and an increase of the creditworthiness of Poland (decrease of the credit risk of government bonds).

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 deterioration of financial results (including, in particular, the generation of losses); the bank making excessively high dividend payouts and any significant decline in the equity to the balance sheet total ratio and/or regulatory capital ratios; as well as a potential strong deterioration in economic conditions and a substantial increase of the proportion of non-performing loans.

**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 Pekao 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 Pekao 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.

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 Pekao 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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