Bank Polski

Capital Adequacy and Other Information of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Subject to Disclosure as at 30 September 2024

Disclosure

Quarterly

Semi-annual

Annual

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1 INTRODUCTION

The report “Capital Adequacy and Other Information of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Subject to Disclosure as at 30 September 2024”, hereinafter referred to as the “Report”, was prepared in accordance with:

- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms, hereinafter referred to as the “CRR”, taking into account acts amending the CRR,
- Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council (hereinafter “Regulation 2021/637”), taking into account acts amending Regulation No 2021/637,
- Guidelines EBA/GL/2020/12 amending Guidelines EBA/GL/2018/01 of 4 August 2017 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) as regards the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds in order to ensure compliance with the CRR “quick fix” in response to the COVID-19 pandemic.

Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna, hereinafter referred to as “PKO Bank Polski S.A.” or the “Bank”, meeting the definition of a large institution within the meaning of Article 4(1)(146) of the CRR, in accordance with Article 13(1) and Article 433a of the CRR, announces information on capital adequacy referred to in Part Eight of the CRR on an annual, semi-annual and quarterly basis in a separate document.

This Report has been prepared in accordance with the Bank’s internal regulations concerning the information policy of PKO Bank Polski S.A. regarding capital adequacy and other information subject to disclosure (hereinafter: “The information policy”) shared on the Bank’s website (www.pkobp.pl).

Unless otherwise indicated, the figures presented in the Report are expressed in PLN million. Any differences in totals and percentages result from rounding amounts off to PLN million and rounding percentages off to one place after the decimal point.

The Report has been prepared taking into account all data available as at 30 September 2024. The Report addresses the requirements of the regulations described above insofar as they relate to the Bank and the Bank’s Group. Lack of a reference to a particular article means that the related disclosures are not applicable. This Report was subject to an internal verification by the Bank’s Internal Audit Department.

According to the CRR, prudential consolidation is used for capital adequacy purposes; unlike consolidation in accordance with the International Financial Reporting Standards, covers only subsidiaries that meet the definition of an institution, financial institution or any ancillary services enterprise.

2 Own funds

For capital adequacy purposes, own funds are calculated in accordance with the provisions of the Banking Law, Part Two of the CRR and the secondary legislation for the CRR.

The own funds of the Bank's Group include Common Equity Tier 1 capital and Tier 2 capital. No elements of Additional Tier 1 capital are identified in the Bank's Group.

Table 2.1 Key Ratios [Template EU KM1]

		a	b	c	d	e
		30.09.2024	30.06.2024	31.03.2024	31.12.2023	30.09.2023
Available own funds (amounts)						
1	Common Equity Tier 1 (CET1) capital	42 841	42 097	41 575	41 727	42 867
2	Tier 1 capital	42 841	42 097	41 575	41 727	42 867
3	Total capital	44 516	43 908	43 520	43 807	45 083
Risk-weighted exposure amounts						
4	Total risk-weighted exposure amount	246 877	245 475	238 795	234 835	222 680
Capital ratios (as a percentage of risk-weighted exposure amount)						
5	Common Equity Tier 1 ratio (%)	17,35%	17,15%	17,41%	17,77%	19,25%
6	Tier 1 ratio (%)	17,35%	17,15%	17,41%	17,77%	19,25%
7	Total capital ratio (%)	18,03%	17,89%	18,22%	18,65%	20,25%
Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)						
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 7d	Total SREP own funds requirements (%)	8,00%	8,00%	8,00%	8,00%	8,00%
Combined buffer requirement (as a percentage of risk-weighted exposure amount)						
8	Capital conservation buffer (%)	2,50%	2,50%	2,50%	2,50%	2,50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)	0,00%	0,00%	0,00%	0,00%	0,00%
9	Institution specific countercyclical capital buffer (%)	0,04%	0,04%	0,04%	0,04%	0,03%
EU 9a	Systemic risk buffer (%)	0,00%	0,00%	0,00%	0,00%	0,00%
10	Global Systemically Important Institution buffer (%)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 10a	Other Systemically Important Institution buffer	2,00%	2,00%	2,00%	2,00%	2,00%
11	Combined buffer requirement (%)	4,54%	4,54%	4,54%	4,54%	4,53%
EU 11a	Overall capital requirements (%)	12,54%	12,54%	12,54%	12,54%	12,53%
12	CET1 available after meeting the total SREP own funds requirements (%)	10,03%	9,89%	10,22%	10,65%	12,25%
Leverage ratio						
13	Leverage ratio total exposure measure	550 005	542 490	529 757	534 167	503 541
14	Leverage ratio	7,79%	7,76%	7,85%	7,81%	8,51%
Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)						
EU 14a	Additional own funds requirements to address the risk of excessive leverage (%)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 14b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 14c	Total SREP leverage ratio requirements (%)	3,00%	3,00%	3,00%	3,00%	3,00%
Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)						
EU 14d	Leverage ratio buffer requirement (%)	0,00%	0,00%	0,00%	0,00%	0,00%
EU 14e	Overall leverage ratio requirement (%)	3,00%	3,00%	3,00%	3,00%	3,00%
Liquidity Coverage Ratio						
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	161 759	154 453	147 216	136 709	123 560
EU 16a	Cash outflows - Total weighted value	79 676	78 384	77 823	76 232	75 126
EU 16b	Cash inflows - Total weighted value	13 496	14 144	14 318	13 852	13 937
16	Total net cash outflows (adjusted value)	66 180	64 240	63 504	62 380	61 189
17	Liquidity coverage ratio (%)	244,5%	240,3%	231,7%	218,7%	201,9%
Net Stable Funding Ratio						
18	Total available stable funding	413 872	402 335	391 809	393 004	377 789
19	Total required stable funding	263 562	258 633	255 657	250 969	253 050
20	NSFR ratio (%)	157,0%	155,6%	153,3%	156,6%	149,3%

3 Own funds requirements and risk-weighted exposure amounts

Pursuant to the CRR, the Bank's Group calculates own funds requirements for the following types of risk:

1) credit risk – under the standardized approach (pursuant to Part Three, Title II, Chapter 2 of the CRR),
2) operational risk:
   a) under the *AMA* approach – in respect of the Bank's operations, including the operations of the foreign branch in Germany and the foreign branch in the Czech Republic,
   b) under the *BIA* approach (pursuant to Part Three, Title III of the CRR) – in respect of the operations of the foreign branch in Slovakia and in respect of the operations of the entities in the Bank's Group subject to prudential consolidation.
3) market risk (pursuant to Part Three, Title IV, Chapters 2-4 of the CRR):
   a) foreign exchange risk – calculated under the basic approach,
   b) commodity risk – calculated under the simplified approach,
   c) equity instruments risk – calculated under the simplified approach,
   d) specific debt instrument risk – calculated under the basic approach,
   e) general debt instrument risk – calculated under the duration-based approach,
   f) remaining risks other than delta risk (non-delta risk) – calculated under the scenario approach for options for which the Bank uses its own valuation models and under the delta plus approach for the remaining options.
4) other risks:
   a) settlement/delivery risk – calculated under the approach specified in Part Three, Title V, of the CRR,
   b) counterparty credit risk, including the exposures to the central counterparty (CCP) – calculated under the standard method specified in Part Three, Title II, Chapter 6 of the CRR,
   c) credit valuation adjustment (CVA) risk – calculated under the approach specified in Part Three, Title VI of the CRR,
   d) exceeding the large exposures limit – calculated under the approach specified in Part Four of the CRR.

The total own funds requirement for the Bank's Group is the sum of the aforementioned own funds requirements for individual types or risk.

In calculating the own funds requirement for counterparty credit risk, the Bank uses contractual netting pursuant to the CRR (Articles 295–298).

Table 3.1 Overview of total risk exposure amounts [Template EU OV1]

		Total risk exposure amounts (TREA)		Total own funds requirements
		a	b	c
		30.09.2024	30.06.2024	30.09.2024
1	Credit risk (excluding CCR)	210 203	206 065	16 816
2	Of which the standardised approach	210 203	206 065	16 816
3	Of which the Foundation IRB (F-IRB) approach	-	-	-
4	Of which: slotting approach	-	-	-
EU-4a	Of which: equities under the simple riskweighted approach	-	-	-
5	Of which the Advanced IRB (A-IRB) approach	-	-	-
6	Counterparty credit risk - CCR	5 216	4 756	417
7	Of which the standardised approach	4 749	4 344	380
8	Of which internal model method (IMM)	-	-	-
EU-8a	Of which exposures to a CCP	6	5	1
EU-8b	Of which credit valuation adjustment - CVA	459	404	37
9	Of which other CCR	2	4	0
15	Settlement risk	-	-	-
16	Securitisation exposures in the non-trading book (after the cap)	-	-	-
17	Of which SEC-IRBA approach	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA approach	-	-	-
EU-19a	Of which 1 250 %	-	-	-
20	Position, foreign exchange and commodities risks (Market risk)	2 056	2 062	164
21	Of which the standardised approach	2 056	2 062	164
22	Of which IMA	-	-	-
EU-22a	Large exposures	-	-	-
23	Operational risk	29 403	32 592	2 352
EU-23a	Of which basic indicator approach	4 445	4 445	356
EU-23b	Of which standardised approach	-	-	-
EU-23c	Of which advanced measurement approach	24 958	28 147	1 997
24	Amounts below the thresholds for deduction (subject to 250% risk weight) (For information)	9 282	11 031	743
29	**Total**	**246 877**	**245 475**	**19 750**

4 LIQUIDITY RISK INCLUDING FINANCING RISK

Liquidity risk is the risk of inability to settle liabilities as they become due as a result of absence of liquid assets. Lack of liquidity may result from inappropriate structure of the balance sheet, mismatch of cash flows, not received payments from counterparties, sudden withdrawal of cash by customers or other market events.

The purpose of liquidity risk management is to ensure the necessary level of funds needed to settle current and future liabilities (including potential ones), taking into account the nature of the activities conducted and the needs which may arise as a result of changes in the market environment, by appropriately shaping the structure of the balance sheet and off-balance sheet liabilities.

Quantitative information presenting the liquidity risk profile of the Bank's Group.

Table 4.1 Quantitative information of LCR (Liquidity Coverage Ratio) [Template EU LIQ1]

		a	b	c	d	e	f	g	h
		Total unweighted value (avg)				Total weighted value (avg)			
EU 1a	Quarter ending on	30.09.2024	30.06.2024	31.03.2024	31.12.2023	30.09.2024	30.06.2024	31.03.2024	31.12.2023
EU 1b	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					161 759	154 453	147 216	136 709
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	293 580	287 853	281 541	271 908	22 069	21 702	21 352	20 728
3	Stable deposits	211 769	206 734	200 583	192 611	10 588	10 337	10 029	9 631
4	Less stable deposits	81 786	81 094	80 933	79 271	11 455	11 341	11 298	11 071
5	Unsecured wholesale funding	105 881	102 817	99 617	96 839	36 920	35 551	34 449	33 445
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	30 091	29 679	28 596	27 491	7 187	7 093	6 833	6 566
7	Non-operational deposits (all counterparties)	74 273	71 915	69 895	68 346	28 217	27 235	26 491	25 877
8	Unsecured debt	1 516	1 224	1 125	1 002	1 516	1 224	1 125	1 002
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	91 179	89 945	88 311	85 894	15 646	16 137	16 299	16 518
11	Outflows related to derivative exposures and other collateral requirements	4 397	5 177	5 722	6 402	4 397	5 177	5 722	6 402
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	86 782	84 767	82 588	79 492	11 249	10 960	10 577	10 115
14	Other contractual funding obligations	3 160	3 080	3 773	3 536	2 191	2 158	2 906	2 735
15	Other contingent funding obligations	7 231	7 064	6 872	6 808	2 850	2 835	2 816	2 806
16	TOTAL CASH OUTFLOWS					79 676	78 384	77 823	76 232
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	508	451	1 140	1 400	20	15	61	84
18	Inflows from fully performing exposures	13 125	13 818	13 990	13 421	11 420	12 134	12 409	11 935
19	Other cash inflows	2 055	1 995	1 848	1 832	2 055	1 995	1 848	1 832
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					-	-	-	-
EU-19b	(Excess inflows from a related specialised credit institution)					-	-	-	-
20	TOTAL CASH INFLOWS	15 688	16 263	16 978	16 653	13 496	14 144	14 318	13 852
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	15 688	16 263	16 978	16 653	13 496	14 144	14 318	13 852
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					161 759	154 453	147 216	136 709
22	TOTAL NET CASH OUTFLOWS					66 180	64 240	63 504	62 380
23	LIQUIDITY COVERAGE RATIO					244,5%	240,3%	231,7%	218,7%

The liquidity coverage ratio is determined individually by each entity in the Bank's Group which is required to determine this ratio as well as on a consolidated basis.

The Bank maintains a high and safe level of high quality unencumbered liquid assets which constitute a collateral in case extreme liquidity scenarios (a liquidity surplus) materialize. Easily disposable assets include: cash (less the minimum balance maintained at the ATMs and in the Bank's branches), funds in the Bank's nostro accounts (excluding the average level of the mandatory reserve), interbank deposits placed with other banks and liquid securities.

As at the end of September 2024, the outflows in respect of derivative instruments calculated in accordance with the CRR amounted to approx. PLN 1.0 billion, whereas the impact of the unfavorable market conditions scenario on derivative instruments, financing transactions and other agreements accounted for approx. 0.3% of the total unweighted outflows recognized in the liquidity coverage ratio.

As at the end of September 2024, the Bank's Group had 2 currencies for which the ratio of the value of liabilities in a given currency to the total value of liabilities in all currencies amounted to at least 5%: PLN and EUR. The Bank's Group had an LCR above 100% for all currencies in total and for PLN.

The structure of the Bank's sources of financing was described in the Bank's annual financial statements as at and for the year ended 31 December 2023 (Note 63. Liquidity risk management). The Bank follows a strategy which consists of using the stable part of the deposit base as the basic source of financing in all currencies. Issues of bonds denominated in EUR and PLN as well as covered bonds denominated in EUR and PLN also constitute a significant part of financing for the Bank and the Bank's Group (especially in the case of foreign currencies). Surplus financing obtained on the market in a given currency (issues of securities) are manage using derivative transactions (mainly CIRS and FX swaps), taking into account liquidity needs in this currency.

5 IMPACT OF TRANSITIONAL ARRANGEMENTS ON CAPITAL ADEQUACY

PKO Bank Polski S.A. Capital Group applies the following transitional solutions in the calculation of own funds:

- transitional adjustment to minimize the impact of implementing IFRS 9 on own funds in the calculation of own funds, in accordance with Article 473 a of the CRR,
- Temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income (in accordance with Article 468 of the CRR).

5.1 The transitional adjustment concerns minimizing the impact of the application of IFRS 9 on own funds

On 1 January 2018, IFRS 9 "Financial Instruments", which replaced IAS 39 "Financial Instruments", entered into force. Changes were made to the classification and measurement of financial instruments, recognition and calculation of their impairment. International Accounting Standard 39 is still used in the field of hedge accounting.

The impact of the implementation of IFRS 9 on own funds and capital adequacy measures is governed by Article 473 of the CRR. According to this regulation, banks are allowed to apply transitional provisions in respect of own funds and increase the common equity capital Tier 1 connected with the implementation of a new impairment model until the end of 2024, whereas the adjustment ratio decreases on a period-by-period basis.

The Bank decided that in the light of Article 473a(7a) of the CRR, it would apply an option according to which the adjustment mitigating the impact of the introduction of IFRS 9 on own funds would receive a risk weight equal to 100% and the resulting value would be added to the total exposure, which would allow for the impact of adjustments due to implementation of IFRS 9 on own funds and capital adequacy measures to be spread over time.

5.2 Temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income

According to Article 468 of the CRR (as amended by the aforementioned Regulation 2024/1623) banks were allowed to apply provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income. This approach enables excluding from the calculation of the Bank's common equity position the portion of the unrealized gains and losses accumulated from 31 December 2019 included in the balance sheet under "changes in fair value of debt instruments measured at fair value through OCI" corresponding to exposures to central governments, regional governments or local authorities, and to public sector entities, excluding those financial assets that are impaired due to credit risk.

Table 5.1 Comparison of the Bank's Group own funds and capital ratio and leverage ratio with and without the application of IFRS 9 transitional arrangements and corresponding expected credit losses. [Template IFRS 9]

		30.09.2024	30.06.2024	31.03.2024	31.12.2023	30.09.2023
Available capital (amounts)						
1	Common Equity Tier 1 capital (CET1)	42 841	42 098	41 575	41 727	42 868
2	Common Equity Tier 1 (CET1) capital if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	42 092	41 349	40 888	40 354	41 495
2a	Common Equity Tier 1 capital (CET1) if the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive according to Article 468 of the CRR	42 481	42 098	41 575	41 727	42 868
3	Tier 1 capital (T1)	42 841	42 098	41 575	41 727	42 868
4	Tier 1 capital if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	42 092	41 349	40 888	40 354	41 495
4a	Tier 1 capital if the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income according to Article 468 of the CRR	42 481	42 098	41 575	41 727	42 868
5	Total capital	44 516	43 909	43 520	43 807	45 084
6	Total capital, if the IFRS 9 transitional or similar expected loan losses were not applied	43 767	43 160	42 833	42 434	43 711
6a	Total capital, if the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income according to Article 468 of the CRR	44 156	43 909	43 520	43 807	45 084
RWAs (amounts)						
7	Total RWAs	246 877	245 463	238 795	234 835	222 680
8	Total RWAs if the IFRS 9 transitional or similar expected credit losses were not applied	246 126	244 714	238 113	233 465	221 317
Capital ratios						
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	17,35%	17,15%	17,41%	17,77%	19,25%
10	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	17,10%	16,90%	17,17%	17,28%	18,75%
10a	Common Equity Tier 1 capital (as a percentage of the risk exposure amount) if the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income, according to Art. 468 of the CRR	17,21%	17,15%	17,41%	17,77%	19,25%
11	Tier 1 capital (as a percentage of the risk exposure amount)	17,35%	17,15%	17,41%	17,77%	19,25%
12	Tier 1 capital (as a percentage of the risk exposure amount) if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	17,10%	16,90%	17,17%	17,28%	18,75%
12a	Tier 1 capital (as a percentage of the risk exposure amount) if there was no provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income, according to Article 468 of the CRR	17,21%	17,15%	17,41%	17,77%	19,25%
13	Total capital (as a percentage of the risk exposure amount)	18,03%	17,89%	18,22%	18,65%	20,25%
14	Total capital (as a percentage of the risk exposure amount) if the IFRS 9 transitional or similar expected credit losses were not applied	17,78%	17,64%	17,99%	18,18%	19,75%
14a	Total capital (as a percentage of the risk exposure amount), if there was no provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income, according to Article 468 of the CRR	17,89%	17,89%	18,22%	18,65%	20,25%
Leverage ratio						
15	The leverage ratio total exposure measure	550 005	542 490	529 757	534 196	503 541
16	Leverage ratio	7,79%	7,76%	7,85%	7,81%	8,51%
17	The leverage ratio if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	7,66%	7,63%	7,73%	7,57%	8,26%

If transitional solutions were not applied regarding:

- partial reversal of the impact of IFRS 9 in accordance with Article 473a of the CRR Regulation, the Bank's Tier 1 capital would amount to PLN 39,696 million, the total capital PLN 41,371 million, the Tier 1 capital ratio would be 18.80%, the total capital ratio would be 19.60% and the leverage ratio would be 7.95%
- Temporary treatment of unrealized gains and losses measured at fair value through other comprehensive income in accordance with Article 468 of the CRR Regulation, the Bank's Tier 1 capital would amount to PLN 40,025 million, total capital would amount to PLN 41,700 million, the Tier 1 capital ratio would be 18.90%, the total capital ratio would be 19.69% and the leverage ratio would be 8.01%

Representation by the Management Board of PKO Bank Polski S.A.

The Management Board of PKO Bank Polski S.A.:

- represents that, to the best of its knowledge, the information has been prepared in compliance with the internal control processes;
- represents that, to the best of its knowledge, the adequacy of risk management arrangements at PKO Bank Polski S.A. ensures that the risk management systems used are appropriate to the risk profile and strategy of the Bank and the Bank's Group;
- approves this Report "Capital Adequacy and other information subject to disclosure of the Group of Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna as at 30 September 2024", which includes information on risk, discusses the overall risk profile of the Bank and the Bank's Group related to the business strategy and includes key indicators and figures that provide external stakeholders with a holistic view of the risk management of PKO Bank Polski S.A. and the PKO Bank Polski S.A. Group, including interactions between the Bank's risk profile and risk tolerance expressed in the form of strategic tolerance limits determined by the Management Board and approved by the Supervisory Board.

Signatures of the Management Board of PKO Bank Polski S.A on the original version.