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Bank Polski

Capital Adequacy and Other Information of the Powszechna Kasa Oszczędności Bank Polski Spółka Akcyjna Group Subject to Disclosure as at 30 September 2023

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 2023”, 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 2023. 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.

(IN PLN MILLION)

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
		30.09.2023	30.06.2023	31.03.2023	31.12.2022	31.12.2022	30.09.2022
Available own funds (amounts)					transformed*	published	
1	Common Equity Tier 1 (CET1) capital	42 867	40 621	37 327	38 255	38 139	37 579
2	Tier 1 capital	42 867	40 621	37 327	38 255	38 139	37 579
3	Total capital	45 083	42 973	39 813	40 839	40 723	40 216
Risk-weighted exposure amounts							
4	Total risk-weighted exposure amount	222 680	216 690	214 229	229 507	229 095	234 653
Capital ratios (as a percentage of risk-weighted exposure amount)							
5	Common Equity Tier 1 ratio (%)	19,25%	18,75%	17,42%	16,67%	16,65%	16,01%
6	Tier 1 ratio (%)	19,25%	18,75%	17,42%	16,67%	16,65%	16,01%
7	Total capital ratio (%)	20,25%	19,83%	18,58%	17,79%	17,78%	17,14%
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%	0,11%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0,00%	0,00%	0,00%	0,00%	0,00%	0,06%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	0,00%	0,00%	0,00%	0,00%	0,00%	0,08%
EU 7d	Total SREP own funds requirements (%)	8,00%	8,00%	8,00%	8,00%	8,00%	8,11%
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%	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%	0,00%
9	Institution specific countercyclical capital buffer (%)	0,03%	0,03%	0,02%	0,02%	0,02%	0,01%
EU 9a	Systemic risk buffer (%)	0,00%	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%	0,00%
EU 10a	Other Systemically Important Institution buffer	2,00%	2,00%	2,00%	2,00%	2,00%	1,00%
11	Combined buffer requirement (%)	4,53%	4,53%	4,52%	4,52%	4,52%	3,51%
EU 11a	Overall capital requirements (%)	12,53%	12,53%	12,52%	12,52%	12,52%	11,62%
12	CET1 available after meeting the total SREP own funds requirements (%)	12,25%	11,83%	10,58%	9,78%	9,78%	9,04%
Leverage ratio							
13	Leverage ratio total exposure measure	503 541	492 072	471 988	454 588	454 373	461 082
14	Leverage ratio	8,51%	8,26%	7,91%	8,42%	8,39%	8,15%
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%	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%	0,00%
EU 14c	Total SREP leverage ratio requirements (%)	3,00%	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%	0,00%
EU 14e	Overall leverage ratio requirement (%)	3,00%	3,00%	3,00%	3,00%	3,00%	3,00%
Liquidity Coverage Ratio							
15	Total high-quality liquid assets (HQLA) (Weighted value - average)	123 560	115 038	107 117	105 952	105 952	107 757
EU 16a	Cash outflows - Total weighted value	75 126	77 346	78 610	79 289	79 289	77 469
EU 16b	Cash inflows - Total weighted value	13 937	13 580	13 326	12 969	12 969	11 928
16	Total net cash outflows (adjusted value)	61 189	63 766	65 284	66 320	66 320	65 541
17	Liquidity coverage ratio (%)	201,9%	181,4%	165,2%	161,0%	161,0%	166,4%
Net Stable Funding Ratio							
18	Total available stable funding	377 789	370 688	352 594	341 616	341 500	339 087
19	Total required stable funding	253 048	248 525	255 040	259 678	259 678	263 805
20	NSFR ratio (%)	149,3%	149,2%	138,3%	131,6%	131,5%	128,5%

* impact of IFRS 17 included

(IN PLN MILLION)

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
		30.09.2023	30.06.2023	30.09.2023
1	Credit risk (excluding CCR)	190 865	183 558	15 269
2	Of which the standardised approach	190 865	183 558	15 269
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	5 162	5 261	413
7	Of which the standardised approach	4 639	4 779	371
8	Of which internal model method (IMM)	-	-	-
EU-8a	Of which exposures to a CCP	-	5	-
EU-8b	Of which credit valuation adjustment - CVA	519	474	41
9	Of which other CCR	4	2	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 %	1	2	-
20	Position, foreign exchange and commodities risks (Market risk)	1 446	2 971	116
21	Of which the standardised approach	1 446	2 971	116
22	Of which IMA	-	-	-
EU-22a	Large exposures	-	-	-
23	Operational risk	25 208	24 901	2 017
EU-23a	Of which basic indicator approach	4 044	4 044	324
EU-23b	Of which standardised approach	-	-	-
EU-23c	Of which advanced measurement approach	21 163	20 856	1 693
24	Amounts below the thresholds for deduction (subjectto 250% risk weight) (For information)	11 303	12 922	904
29	**Total**	**222 680**	**216 690**	**17 814**

* In row EU-19a, the own funds requirement for securitisation exposures in the non-trading book is presented with application of own funds deduction according to Part Three, Title II, Chapter 5 of CRR. The amount of the requirement reduces the Bank's funds, hence it does not generate exposure to (RWA) with a risk weight of 1250%.

(IN PLN MILLION)

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, the disclosure of which is required by external regulations, in particular Regulation 2021/637, is presented below.

Quantitative information

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	30.09.2023	30.06.2023	31.03.2023	31.12.2022	30.09.2023	30.06.2023	31.03.2023	31.12.2022
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)					123 560	115 038	107 117	105 952
CASH - OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	260 776	248 059	236 064	228 793	19 978	19 011	17 958	17 136
3	Stable deposits	183 749	174 759	167 732	163 906	9 187	8 738	8 387	8 195
4	Less stable deposits	76 999	73 270	68 300	64 855	10 763	10 244	9 541	8 909
5	Unsecured wholesale funding	95 948	99 836	103 671	105 411	33 112	35 199	37 542	38 593
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	27 147	26 920	27 339	28 309	6 492	6 444	6 553	6 802
7	Non-operational deposits (all counterparties)	67 729	71 895	75 090	75 795	25 549	27 734	29 746	30 484
8	Unsecured debt	1 072	1 021	1 243	1 307	1 072	1 021	1 243	1 307
9	Secured wholesale funding					-	-	-	-
10	Additional requirements	83 177	80 225	77 614	75 419	16 447	16 313	16 159	16 011
11	Outflows related to derivative exposures and other collateral requirements	6 690	7 032	7 226	7 405	6 690	7 032	7 226	7 405
12	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
13	Credit and liquidity facilities	76 487	73 193	70 387	68 014	9 757	9 281	8 933	8 606
14	Other contractual funding obligations	3 548	5 148	6 170	7 203	2 792	4 156	4 723	5 707
15	Other contingent funding obligations	6 351	5 523	4 408	3 232	2 797	2 667	2 227	1 842
16	TOTAL CASH OUTFLOWS					75 126	77 346	78 610	79 289
CASH-INFLOWS									
17	Secured lending (e.g. reverse repos)	1 336	1 281	456	297	83	79	27	6
18	Inflows from fully performing exposures	13 502	12 646	11 661	10 390	12 057	11 186	10 203	8 928
19	Other cash inflows	1 797	2 316	3 096	4 035	1 797	2 316	3 096	4 035
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	16 635	16 243	15 213	14 722	13 937	13 580	13 326	12 969
EU-20a	Fully exempt inflows	-	-	-	-	-	-	-	-
EU-20b	Inflows subject to 90% cap	-	-	-	-	-	-	-	-
EU-20c	Inflows subject to 75% cap	16 635	16 243	15 213	14 722	13 937	13 580	13 326	12 969
TOTAL ADJUSTED VALUE									
EU-21	LIQUIDITY BUFFER					123 560	115 038	107 117	105 952
22	TOTAL NET CASH OUTFLOWS					61 189	63 766	65 284	66 320
23	LIQUIDITY COVERAGE RATIO					201,9%	181,4%	165,2%	161,0%

Qualitative information

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 2023, the outflows in respect of derivative instruments calculated in accordance with the CRR amounted to approx. PLN 1.1 billion, whereas the impact of the unfavorable market conditions scenario on derivative instruments, financing transactions and other agreements accounted for approx. 1.0% of the total unweighted outflows recognized in the liquidity coverage ratio.

As at the end of September 2023, 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 2022 (Note 66. 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 used to manage the Bank's foreign currency liquidity needs, using derivative transactions (mainly CIRS and FX swaps).

(IN PLN MILLION)

5 IMPACT OF TRANSITIONAL ARRANGEMENTS ON CAPITAL ADEQUACY

The PKO Bank Polski S.A. Group applies transitional adjustment to minimize the impact of implementing IFRS 9 on own funds in the calculation of own funds, in accordance with Article 473a of the CRR.

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, and hedge accounting.

The impact of the implementation of IFRS 9 on own funds and capital adequacy measures is governed by Article 473a 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.

Until the end of 2022, the Group applied, according to Article 468 of the CRR, the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income in connection with the COVID-19 pandemic. This approach enabled 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 4 Comparison of the institution's own funds and capital ratio and leverage ratio with and without the application of IFRS 9 transitional arrangements and corresponding expected credit losses and with and without the transitional treatment pursuant to Article 468 of the CRR [Template IFRS 9]

		30.09.2023	30.06.2023	31.03.2023	31.12.2022*	31.12.2022	30.09.2022**
Available capital (amounts)				transformed	published		
1	Common Equity Tier 1 capital (CET1)	42 868	40 621	37 327	38 255	38 139	37 579
2	Common Equity Tier 1 (CET1) capital if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	41 495	39 419	36 348	36 439	36 414	35 989
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	42 868	40 621	37 327	36 757	36 661	36 030
3	Tier 1 capital (T1)	42 868	40 621	37 327	38 255	38 139	37 579
4	Tier 1 capital if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	41 495	39 419	36 348	36 439	36 414	35 989
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	42 868	40 621	37 327	36 757	36 661	36 030
5	Total capital	45 084	42 973	39 813	40 839	40 723	40 216
6	Total capital, if the IFRS 9 transitional or similar expected loan losses were not applied	43 711	41 771	38 834	39 023	38 998	38 626
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	45 084	42 973	39 813	39 341	39 245	38 667
RWAs (amounts)							
7	Total RWAs	222 680	216 690	214 229	229 507	229 095	234 653
8	Total RWAs if the IFRS 9 transitional or similar expected credit losses were not applied	221 317	215 500	213 158	227 449	227 037	232 587
Capital ratios							
9	Common Equity Tier 1 capital (as a percentage of the risk exposure amount)	19,25%	18,75%	17,42%	16,67%	16,65%	16,01%
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	18,75%	18,29%	17,05%	16,02%	16,04%	15,47%
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	19,25%	18,75%	17,42%	16,04%	16,03%	15,38%
11	Tier 1 capital (as a percentage of the risk exposure amount)	19,25%	18,75%	17,42%	16,67%	16,65%	16,01%
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	18,75%	18,29%	17,05%	16,02%	16,04%	15,47%
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	19,25%	18,75%	17,42%	16,04%	16,03%	15,38%
13	Total capital (as a percentage of the risk exposure amount)	20,25%	19,83%	18,58%	17,79%	17,78%	17,14%
14	Total capital (as a percentage of the risk exposure amount) if the IFRS 9 transitional or similar expected credit losses were not applied	19,75%	19,38%	18,22%	17,16%	17,18%	16,61%
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	20,25%	19,83%	18,58%	17,17%	17,16%	16,51%
Leverage ratio							
15	The leverage ratio total exposure measure	503 541	492 072	471 988	454 588	454 373	461 082
16	Leverage ratio	8,51%	8,26%	7,91%	8,42%	8,39%	8,15%
17	The leverage ratio if the IFRS 9 transitional arrangements or similar expected credit losses were not applied	8,26%	8,03%	7,72%	8,05%	8,05%	7,84%
17a	The leverage ratio if the provisional treatment of unrealized gains and losses measured at fair value through other comprehensive income, according to Article 468 of the CRR	8,51%	8,26%	7,91%	8,09%	8,07%	7,82%

* impact of IFRS17 taken into account
** the change in relation to published data concerns exclusion from Tier 2 instruments of bonds held by PKO Towarzystwo Ubezpieczeń S.A. and PKO Życie Towarzystwo Ubezpieczeń S.A.