

Research Update:

# Polish Development Fund ParentCo PFR S.A. Assigned 'A-' Foreign Currency and 'A' Local Currency Ratings; Outlook Stable

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S&PGR Rated Polish Development Fund (PFR) 'A-' FC 'A' LC

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## Overview

- Polish Development Fund (PFR) group is the 100% state-owned development institution, which coordinates and implements development and economic support programs on behalf of the Polish government.
- We believe that there is an almost certain likelihood that PFR group would receive extraordinary support from the government, if needed, and equalize the group credit profile with our ratings on Poland.
- We consider PFR S.A the group's parent company, given its direct and indirect control of the group's subsidiaries,
- We therefore assigned our 'A-/A-2' foreign currency and 'A/A-1' local currency ratings to PFR S.A.
- The stable outlook on PFR S.A. mirrors that on Poland.

## Rating Action

On June 23, 2021, S&P Global Ratings assigned its 'A-/A-2' long- and short-term foreign currency and 'A/A-1' long- and short-term local currency issuer credit ratings to PFR S.A. The outlook on the long-term ratings is stable.

## Rationale

We rate PFR S.A. (the parent company of the group) under our Group Rating Methodology and criteria for government-related entities (GREs). We believe that there is an almost certain likelihood that the Polish government would provide timely and adequate extraordinary support to

PFR group to enable its debt service, if needed, and equalize the group credit profile (GCP) with our ratings on Poland (foreign currency A-/Stable/A-2; local currency A/Stable/A-1). Our assessment of the likelihood of extraordinary support reflects our view of PFR group's:

- Integral link to the government, demonstrated by the state's 100% ultimate ownership, its regular capital injections, and explicit timely, irrevocable, and unconditional state guarantees against PFR group's bonded debt. The government defines and approves PFR group's long-term strategy and maintains close oversight of its activities. We also understand that PFR group holds a unique status as the state institution in charge of coordinating activities of all other development institutions in Poland; and
- Critical public-policy role for Poland as the government's prime public development institution, a role that cannot be readily undertaken by a private entity. Apart from its original mandate of catalyzing private investment, PFR group has been used by the government to implement several unique policy projects, including emergency support to private sector entities, promotion of the private pension savings scheme and, more recently, the provision of sizable financial support to the private sector amid the COVID-19 pandemic. PFR group's assets currently represent about 3.2% of Poland's GDP, making it one of the country's largest GReEs.

We treat PFR S.A. as the group's parent given its direct and indirect control of all group subsidiaries, namely its ability to direct their strategy and dispose their cash flow. PFR S.A. concentrates over 90% of the group's capital and assets. We therefore believe that the creditworthiness of PFR S.A. is closely tied to that of the consolidated group and rate it at the level of the GCP and ultimately the sovereign.

## **Mandate and activities: Poland's key development institution with a broad mandate in critical policy areas**

Established in 2016, PFR group's core function was initially focused on fostering private sector development by direct (equity) and indirect investment across a wide range of sectors, including technology, infrastructure, and energy. Over the years, the group's mandate has broadened and now includes the following areas:

- Bridging infrastructure gaps in the Polish economy (including transport, municipal, and digital infrastructure);
- Venture capital market development (direct investment and via existing private sector venture capital funds);
- Facilitating the government's pension reform by managing a long-term pension savings scheme; and
- Fostering investment in affordable housing and developing the housing rental market.

More broadly, however, we believe that in its current form the group de-facto represents the government's key arm for implementing unique policy projects. For example, the institution was instrumental for the execution of the government's strategy of increasing domestic ownership of the financial system by acquiring a stake in Poland's second largest bank, Bank Pekao SA, in 2016-2017 when former key shareholder UniCredit decided to exit the market. In 2019, the institution was mandated with the provision of infrastructure for the development of the private pillar of the Polish pension system. The reform introduces an auto-enrolled long-term retirement saving program managed by private sector asset managers and co-funded by the state. PFR is a public operator of the system, providing the infrastructure for financial institutions (which PFR

also formally authorizes to participate) and employees/employers interested in taking part.

Furthermore, and most importantly, in 2020, the government used PFR group, via parent company PFR S.A., as its prime tool to mitigate the economic fallout from the COVID-19 pandemic under the Financial Shield stimulus program. Over 2020–2021, PFR S.A. has provided partially nonrepayable liquidity loans for micro, small and midsize, and large firms of over Polish zloty (PLN) 70 billion (3.2% of GDP). Up to 75% of loans can be forgiven if businesses retain employment. The program has been funded by PFR S.A.-issued bonds, fully guaranteed by the government

We believe that the size and the type of projects the institution has been historically implementing make it almost irreplaceable by any other GRE or private sector entity. Although the COVID-19-related program will be gradually unwound in the coming years, our baseline scenario is that the state will continue utilizing PFR group for critical policy programs in the future.

### **Ownership structure: The state fully owns PFR and guarantees its public debt**

Since its establishment, PFR group's members have been joint stock companies. The government ultimately owns 100% of the group's parent PFR S.A., via direct control of 99.7% of its shares through the state treasury and a 0.3% stake via the government-owned Polish development bank (BGK). We do not expect the ownership structure to change and anticipate that PFR S.A. will remain fully state-owned.

The government appoints its representatives to the supervisory board, which in turn appoints the management board of PFR S.A. At present, a few senior government officials sit on the supervisory board. PFR S.A. is not subject to the prudential regulation of the Polish central bank.

PFR's capital group currently includes the parent company (PFR S.A.), which concentrates the majority of its capital and assets, and several subsidiaries and controlled entities. Among others, these include: PFR TFI--involved in managing specialized closed-end funds and open-end funds dedicated to Poland's Employee Capital Plan (private pension savings scheme); PFR Ventures--the fund of funds manager, providing financing via venture capital funds; PFR Nieruchomosci--the affordable housing rental construction and program manager; and PFR Portal PPK--the operator of the employee capital program related to the pension reform.

We also understand that PFR S.A. is mandated by the government to coordinate the activities of other development institutions, with PFR's CEO serving as the chairman of a wider association of all development institutions in Poland.

The government has provided timely, irrevocable, and unconditional budget guarantees against all debt issued by PFR S.A. since 2020 in relation to the COVID-19 support program. This debt represents over 95% of PFR's total commercial debt, with the remainder being the investment loan from the state-controlled bank (provided for the Bank Pekao stake acquisition) and the liquidity facility granted by the same bank. We also understand that the government will likely continue extending guarantees for PFR S.A.'s future borrowings, including in those cases when the institution assumes potential new public policy projects. About 27% of PFR's bonds are held by the National Bank of Poland (NBP), which purchased them (together with government bonds) on the secondary market under its quasi-quantitative easing program in 2020 and 2021.

### **Track record of support: Regular capital injections amid additional channels of government support**

The government made several equity injections into PFR group in the past few years. In 2020–2021, shareholders' equity is projected to increase multiple times to about PLN12 billion,

compared with PLN 3.2 billion in 2019. We understand the government is willing to make further injections to support the fund's activities in the future.

Apart from capital support and state guarantees, other channels of potential extraordinary support include the exemption of PFR from dividend payments to the budget, lending from other state-owned and controlled financial institutions, as well as continued bond purchases by NBP.

Because we equalize the GCP with that on the sovereign, we do not consider the group stand-alone credit profile to be a rating driver. This reflects our view that the likelihood of extraordinary government support to service debt is almost certain, and we currently do not consider this support subject to transition risk.

The institution's funding base comprises shareholders' equity, interbank loans, and bonds issued under the pandemic-related stimulus program. The debt repayment profile is relatively heavy, with over half of the bonds coming due in 2024-2025. We understand that the government will support PFR to fulfill its obligations on time and in full by explicitly budgeting for corresponding subsidies in its annual budget and channeling them to the institution ahead of debt maturities.

## **Outlook**

The stable outlook reflects our view that the likelihood of extraordinary support by the Polish government for PFR group will remain almost certain. In particular, we expect that the group will obtain further public policy responsibilities as the COVID-19 pandemic and the government's fiscal response recedes.

### **Downside scenario**

We might take a negative rating action--even if the sovereign rating is unchanged--if we conclude that PFR group's policy role for and/or its link with the Polish government weakens. For example, this could be signaled by the erosion of the group's public-policy mandate, perhaps reflected by the rapid contraction of its balance sheet after it completes government programs related to the COVID-19 pandemic against limited prospects for new government mandates; and/or by PFR's increased involvement (via its PFR TFI subsidiary) in managing private investors funds (e.g. private pension savings)--a function that could be undertaken by private sector entities in the competitive market.

### **Upside scenario**

A positive rating action would be subject to an equivalent rating action on Poland.

## **Related Criteria**

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## **Related Research**

- Poland, April 5, 2021

## **Ratings List**

### **New Rating; CreditWatch/Outlook Action**

#### **Polish Development Fund (PFR S.A.)**

Issuer Credit Rating	
Foreign Currency	A-/Stable/A-2
Local Currency	A/Stable/A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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