

PKO BP's participation in CEBS stress tests

PKO Bank Polski SA (PKO BP) as the only Polish bank directly participated in the 2010 EU-wide stress testing exercise coordinated by the Committee of European Banking Supervisors (CEBS) in cooperation with the European Central Bank (ECB) and the Polish Financial Supervision Authority (KNF).

The stress test complements risk management procedures and regular stress testing program set up in PKO BP according to the Basel Committee on Banking Supervision recommendations (under the Pillar 2 framework of the Basel II) and the Capital Requirements Directive (CRD) requirements, as well as the Polish law.

PKO BP concedes the results of the stress test conducted on the EU level. KNF has held discussions of the results of the stress tests with the bank.

The exercise was conducted based on the scenarios, methodology and key assumptions provided by CEBS¹. **As a result of the assumed adverse scenario², the PKO BP's estimated consolidated Tier 1 capital ratio would change to 15.7% in 2011 compared to 13.3% as of end of 2009.** Under the adverse scenario, an additional sovereign risk scenario would have a further impact of **0.3** percentage point on the estimated Tier 1 capital ratio, bringing it down to **15.4%** at the end of 2011, compared with the regulatory minimum of 4%³.

The results of the stress indicate a buffer of EUR 2 825 million of the Tier 1 capital against the threshold of 6%⁴ of Tier 1 capital adequacy ratio for PKO BP, agreed exclusively for the purposes of this exercise⁵.

Given that the stress test was carried out under a number of key common simplifying assumptions (e.g. constant substantial positions in the balance sheet), the information on benchmark scenarios is provided only for comparison purposes and should in no way be interpreted as a forecast.

The results of the adverse scenario should not be considered as representative of the current situation or possible present capital needs. The stress test exercise does not provide forecasts of expected outcomes since the adverse scenarios include plausible but extreme assumptions which are therefore not very likely to materialize.

¹ More information on the CEBS website: <http://www.c-ebs.org/>.

² Scenario assumes GDP decrease, increase of unemployment and short and long term interest rates in 2010 and 2011. More detailed parameters can be found on CEBS website: <http://www.c-ebs.org/>.

³ Minimal level of Tier 1 capital, which is the relation of Tier 1 to risk weighted assets, according to CRD directive.

⁴ Minimal level of Tier 1 capital adequacy ratio adopted for the purpose of stress test exercise.

⁵ The 6 % threshold should by no means be interpreted as a regulatory minimum nor as a capital target reflecting the risk profile of the institution determined as a result of the supervisory review process in Pillar 2 of the CRD.

Background for CEBS stress testing exercise

The objective of the 2010 EU-wide stress test exercise is to assess the overall resilience of the EU banking sector and the banks' ability to absorb further possible shocks on credit and market risks, including sovereign risks.

The exercise has been conducted on a bank-by-bank basis for a sample of 91 EU banks from 20 EU Member States, covering at least 50% of the banking sector in terms of total consolidated assets in each of the 27 EU Member States, using commonly agreed macro-economic scenarios (benchmark and adverse) for 2010 and 2011, developed in close cooperation with the ECB and the European Commission.

The condition of the Polish banking sector

The Polish financial system remains one of the most stable in Europe. Net profit of the banking sector in Poland amounted to EUR 1,13 billion in the January 2010 to May 2010 period (21% increase year on year). During this period the Polish banks' Tier 1 capital increased by 6.6% to reach EUR 23.9 billion.

Moreover, the solvency ratio increased from 13.3% at the end of 2009 to 13.7% at the end of May 2010. The solvency ratio for all of the banks in Poland was higher than the regulatory minimum of 8% and the percentage of banks with the ratio higher than 10% in the funds accounted for 96.6% of the sector.