

Participation of Powszechna Kasa Oszczędności Bank Polski SA (PKO Bank Polski) in European stress tests

Powszechna Kasa Oszczędności Bank Polski SA (PKO Bank Polski) was subject to the latest edition of stress tests conducted by the European Banking Authority (EBA), in cooperation with the Komisja Nadzoru Finansowego (Polish Financial Supervision Authority), the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB).

The EU-wide stress test, carried out across 91 banks covering over 65% of the EU banking system total assets, seeks to assess the resilience of European banks to severe shocks and their specific solvency to hypothetical stress events under certain restrictive conditions. The assumptions and methodology were established to assess banks' capital adequacy against a 5% Core Tier 1 capital benchmark and are intended to restore confidence in the resilience of the banks tested. The tests were carried out on the basis of restrictive macroeconomic assumptions (covering GDP growth, unemployment rate, inflation, interest rates, exchange rates and changes in real-estate prices) prepared by the ECB for each of the EU countries. The stress test has been carried out using a static balance sheet assumption as of December 2010. The stress test does not take into account future business strategies and management actions.

The baseline scenario established for the tests was based on economic forecasts of the European Commission of autumn 2010, while the adverse scenario assumed the following economic events in the years 2011-2012: a series of internal shocks in the European Union (connected with, among others, the ongoing sovereign debt crisis of the eurozone states), worldwide negative demand shock, originating in the United States, and the depreciation of the US dollar against other currencies.

As a result of the assumed shock, the estimated consolidated Core Tier 1 capital ratio of PKO Bank Polski would change to 12.2% under the adverse scenario in 2012 compared to 11.8% as of end of 2010 (including retained profit for 2010). At the same time, the minimum benchmark of 5% established by the organisers of the stress tests would be exceeded considerably.

The condition of the Polish banking sector

Despite the financial crisis, the Polish banking sector remained stable and profitable. Currently, the banking sector continues to steadily improve its financial performance, strengthening its capital base by increasing core capital and, in accordance with national prudential regulations, minimizing exposure to credit risk.

The Polish banking sector net profit amounted to PLN 6.2 billion (up 39% y/y) within first five months of 2011. During this period, bank capital increased by 2.4% to PLN 107.1 billion (up 6.4% y/y). At the end of May 2011, the average capital adequacy ratio was 13.82% in comparison with 13.71% one year earlier.

The Core Tier 1 capital ratio amounted to 12.5% (in comparison with 10% in 2008), above the 5% which was the ratio used in European Union stress tests.

Additional information

The detailed results of the stress test under the baseline and adverse scenarios as well as information on PKO Bank Polski credit exposures and exposures to central and local governments are provided in the accompanying disclosure tables based on the common format provided by the EBA.

The stress test was carried out based on the EBA common methodology and key common assumptions (e.g. constant balance sheet, uniform treatment of securitisation exposures) as published in the EBA Methodological note. Therefore, the information relative to the baseline scenarios is provided only for comparison purposes. Neither the baseline scenario nor the adverse scenario should in any way be construed as a bank's forecast or directly compared to bank's other published information.

See more details on the scenarios, assumptions and methodology on the EBA website:

<http://www.eba.europa.eu/EU-wide-stress-testing/2011.aspx>

Website of the Ministry of Finance: www.mf.gov.pl