Bank Polski

Dividend

Annual Report 2017

On 13 April 2017, the Management Board of PKO Bank Polski SA passed a resolution on presenting to the Annual General Meeting of the Bank recommendations as to the appropriation of profit generated for the period from 1 January 2016 to 31 December 2016 of PLN 2,888.3 million, as follows:

- PLN 2,850.0 million to be transferred to supplementary capital;
- PLN 38.3 million to be transferred to reserves;

The recommendation of the Management Board concerning appropriation of the Bank's profit for 2016 obtained a positive opinion from the Bank's Supervisory Board.

On 22 June 2017, the Annual General Meeting of the Bank made the decision concerning the appropriation of the Bank's profit for the year 2016, and designated the profit – in line with the recommendations of the Bank's Management Board – to supplementary capital and reserves, without designating any amount for payment of dividend. The Resolution of the Annual General Meeting of the Bank concerning appropriation of profit for 2016 is also consistent with the recommendations of the PFSA, which recommended increasing own funds to the Bank by retaining the entire profit generated by PKO Bank Polski SA in 2016.

Dividend policy

The dividend policy of the Bank and the Bank's Group is specified in the "Principles for management of capital adequacy and equity in PKO Bank Polski SA and in the PKO Bank Polski SA Group."

The objective of the dividend policy is to optimally shape the Bank's and the Group's capital structure, taking into account the return on capital employed and its cost, capital requirements related to development, accompanied by the necessity to ensure an appropriate level of the capital adequacy ratios.

The dividend policy assumes stable dividend payments in a long term in keeping with the principle of prudent management of the Bank and the Bank's Group, and a policy for making payments out of the capital surplus above the minimum capital adequacy ratios arising from the commonly binding provisions of the law and regulatory requirements, and the minimum level of capital ratios set by the Polish Financial Supervision Authority for the purpose of dividend payment by the Bank.

The dividend policy takes into account factors related to the operations of the Bank and the Bank's Group companies, and in particular the supervisory requirements and recommendations concerning capital adequacy.

The recommendations of the PFSA concerning payment of dividend for 2017

On 24 November 2017, the Polish Financial Supervision Authority adopted a position on the dividend policy for commercial banks. The criteria for the payment of dividend in 2018 for commercial banks for 2017 set out in the position of the PFSA are as follows:

The PFSA recommends that dividend only be paid by those banks that meet all of the criteria listed below:

- they are not in the process of carrying out a recovery programme;
- they have been positively assessed under the supervisory review and assessment process (BION) – a final BION assessment of not less than 2.5;
- their leverage ratio (LR) is higher than 5%;
- their Tier 1 (T1) capital ratio is not lower than the required minimum plus 1.5 p.p.: 6% +75%*add-on + combined buffer requirement +1.5%;
- their total capital ratio (TCR) is not lower than the required minimum plus 1.5 p.p.: 8% + add-on + combined buffer requirement +1.5%.

The PFSA recommends that banks which meet all of the above criteria can pay out up to 50% of the net profit generated for 2017.

The PFSA recommended that up to 75% of the profit generated could be paid out by the banks which meet all the above criteria, such as the requirement concerning the security buffer at the target level, i.e. 2.5% of the total risk exposure; and up to 100% could be paid out by banks that meet all the above criteria, including as part of the capital requirements, the bank's sensitivity to the unfavourable macroeconomic scenario.

Moreover, the PFSA indicated that the banks engaged in foreign currency loans should adjust the dividend rate based on two additional criteria:

- Criterion 1 (K1) – which relies on the share of foreign currency housing loans for households in the entire portfolio of amounts due from the non-financial sector;
- Criterion 2 (K2) – based on the share of foreign currency housing loans granted in the years 2007 and 2008 in the portfolio of foreign currency housing loans for households.

The PFSA recommended applying appropriate adjustments, depending on the size of the portfolio held by the bank:

- Criterion 1:

  - banks with a share of over 10% – adjustment of the dividend rate by 20 p.p.
  - banks with a share of over 20% – adjustment of the dividend rate by 30 p.p.
  - banks with a share of over 30% – adjustment of the dividend rate by 50 p.p.
- Criterion 2:
  - banks with a share of over 20% – adjustment of the dividend rate by 30 p.p.
  - banks with a share of over 50% – adjustment of the dividend rate by 50 p.p.

The level of capital ratios required for the Bank to be able to pay 75% out of the profit generated, referred to in the PFSA's position is as follows:

- on a consolidated level:
  - T1 capital ratio = 14.21%
  - total capital ratio TCR = 16.36%
- on a stand-alone level:
  - T1 capital ratio = 14.25%
  - total capital ratio TCR = 16.41%

As at 31 December 2017, the ratios were as follows:

- on a consolidated level:
  - T1 capital ratio = 16.50%
  - total capital ratio TCR = 17.37%
- on a stand-alone level:
  - T1 capital ratio = 18.62%
  - total capital ratio TCR = 19.59%
  - Criterion 1 = 16.09%
  - Criterion 2 = 44.89%

After taking into account the adjustments of the dividend rate for Criteria 1 and 2, according to the data as at 31 December 2017, the Bank meets the requirements for paying out dividend of up to 25% of the net profit for 2017.

In accordance with the practice adopted by the PFSA in the years 2015 and 2016, the Bank expects to receive individual recommendations from the PFSA regarding payment of dividend.

On 9 March 2017, PKO Bank Polski SA obtained an individual recommendation from the PFSA to retain the entire profit generated in the period from 1 January 2016 to 31 December 2016.

On 22 June 2017, the Annual General Shareholders' Meeting of PKO Bank Polski SA passed a resolution (No. 7/2017, Resolution on Profit Allocation) on the allocation of profit of PKO Bank Polski SA earned in 2016, according to which the entire profit of PLN 2 888 million was allocated to the equity as follows:

- supplementary capital of PLN 2 850;
- other reserves of PLN 38 million;

Retaining the profit for 2016 of PLN 2 888 million resulted effectively in an increase in own funds of PLN 1 299 million, because part of the profit generated in the period from 1 January 2016 to 30 September 2016 of PLN 1 589 million was already allocated to own funds upon the consent of the PFSA in 2016.

The general principle of the Bank's dividend policy is the stable execution of dividend payments over a long period in keeping with the principle of prudent management of the Bank and the Bank's Group, in line with the Bank's and Group's financial capabilities, taking into account the PFSA requirements and recommendations in respect of dividend policy. The applicable dividend policy assumes the possibility of making distributions from the surplus of the capital over the minimum level of capital ratios defined by the PFSA for dividend distribution purposes.