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9 December 2021

KNF's stance on the dividend policy in 2022

During a session on 9 December 2021, the Polish Financial Supervision Authority (KNF) unanimously approved its stance on the dividend policy of commercial banks, cooperative banks and affiliation banks, insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings, mutual fund management companies, universal pension fund management companies and brokerage houses in 2022. Each one of these sectors will receive recommendations in the form of a letter from the Chairman of KNF.

The direct aim of KNF's dividend policy is to ensure stability of the Polish financial sector through adaptation of the capital base of the supervised entities to the level of their risk and protection of the recipients of the financial services provided by such entities.

Commercial banks

Considering:

- the solid capital base of banks despite the period of pandemic
- the low impact of the employed transitional periods, which, among others, mitigate the impact of the pandemic on the banks' capital position
- the low share of the active moratoria remaining in the banks

and

- the continued uncertainty as to the development of the pandemic situation
- the risk related to the foreign currency housing loan portfolio – the dynamic increase in the number of litigations and amounts claimed
- the credit risk related to the increase in the interest rates

KNF considers it necessary to adopt the following principles of the dividend policy of commercial banks in 2022:

1. An amount of up to 50% of the 2021 profit may be paid only by banks that meet the following criteria simultaneously:
    a) banks that are not implementing a remedial program[1];
    b) banks that are evaluated positively under the Supervisory Review and Evaluation Process (SREP) (final SREP score no lower than 2.5);

[1] Remedial proceedings program / implemented remedial plan

c) banks that have a leverage ratio (LR) higher than 5%[2];

d) banks that have a Tier I (CET1) core capital ratio no lower than the required minimum:
4.5% + 56%*P2R requirement[3] + merged buffer requirement[4];

e) banks that have a Tier I (T1) capital ratio no lower than the required minimum:
6% + 75%*P2R requirement + merged buffer requirement;

f) banks that have a total capital ratio (TCR) no lower than the required minimum:
8% + P2R requirement + merged buffer requirement;

2. An amount of up to 75% of the 2021 profit may be paid only by banks that meet the criteria for the payment of 50% simultaneously, taking into account, as part of the capital criteria, the bank's sensitivity to an unfavorable macroeconomic scenario[5].

3. An amount up to 100% of the 2021 profit may be paid only by banks that meet the criteria for the payment of 75% simultaneously, taking into account, as part of the capital criteria, the bank's sensitivity to a specific unfavorable macroeconomic scenario regarding an increase in the interest rates and its impact on credit risk[6].

   The criteria specified in items 1–3 shall be satisfied by the bank both on the standalone and on the consolidated level.

4. For banks having a material portfolio of foreign currency housing loans[7] the dividend yield shall be adjusted additionally in accordance with the following criteria:

[2] An obligation for banks to maintain a leverage ratio of at least 3% came into force on 28 June 2021. The 5% level required by KNF takes into account additional 2 p.p. of a conservative supervisory buffer, which a bank shall fulfil after the payment of dividend, if any (after meeting further criteria).

[3] Pillar II Requirement (P2R), i.e. additional regulatory capital requirement. At present, imposed for covering the foreign currency loan risk.

[4] In the dividend policy, the systemic risk buffer, repealed due to the pandemic by the Regulation of the Minister of Finance of 18 March 2020 (Journal of Laws of 2020, Item 473), shall be taken into account in the current amount (3%).

[5] Bank's sensitivity to an unfavorable macroeconomic scenario, measured with the results of supervisory stress tests (P2G recommendation for comprehensive stress tests) defined as: relative change in CET1 calculated between the lowest CET1 level in the scenario's horizon and the CET1 on the test commencement, taking into account supervisory adjustments.

[6] Bank's sensitivity to unfavorable macroeconomic scenarios, measured with the results of supervisory stress tests (P2G recommendations), defined as:

- in the part regarding comprehensive supervisory stress tests: relative change in CET1 calculated between the lowest CET1 level in the scenario's horizon and the CET1 on the test commencement, taking into account supervisory adjustments, referred in proportion to scale, assuming the maximum P2G level of 3%;
- in the part regarding the exposure to credit risk related to the increase in the interest rates: relative highest change in CET1 calculated between the CET1 level in the reference and the stress scenarios, taking into account supervisory adjustments, referred in proportion to scale, assuming the maximum P2G level of 1.5%;

The total P2G recommendation level is the sum of recommendations arising from individual stress tests.

[7] Banks with the percentage of foreign currency housing loans for households exceeding 5% in their portfolio of receivables from the non-financial sector.

a) Criterion 1 – based on the percentage of foreign currency housing loans for households in the overall portfolio of receivables from the non-financial sector:
    - banks whose percentage exceeds 5% – adjust the dividend yield by 20 p.p.
    - banks whose percentage exceeds 10% – adjust the dividend yield by 40 p.p.
    - banks whose percentage exceeds 20% – adjust the dividend yield by 60 p.p.
    - banks whose percentage exceeds 30% – adjust the dividend yield by 100 p.p.;

b) Criterion 2 – based on the percentage of loans extended in 2007 and 2008 in their portfolio of foreign currency housing loans for households:
    - banks whose percentage exceeds 20% – adjust the dividend yield by 30 p.p.
    - banks whose percentage exceeds 50% – adjust the dividend yield by 50 p.p.,

with the total adjustment value (max. 100%) being the sum of adjustments arising from both criteria.

KNF also considers it necessary that no other actions will be taken, in particular, actions falling outside the scope of their ongoing business and operating activity that could lead to lowering their capital base, without prior consultation with the regulatory authority. This applies also to any dividend payment from retained earnings and to any repurchase of treasury shares. KNF expects that each such operation will be preceded by a consultation with the regulatory authority and will be subject to its outcome.

Cooperative banks and affiliation banks

KNF considers it necessary to adopt the following principles of the dividend policy of cooperative banks and affiliation banks in 2022:

1. Affiliation banks shall apply the general assumptions of the dividend policy – the same ones as in the case of other commercial banks.
2. Regardless of the criteria specified in item 3, dividends shall not be paid by cooperative banks with the C/I ratio exceeding 85%.
3. Dividend payment in other cooperative banks shall be effected on the following principles:

a) An amount of up to 10% of the 2021 profit may be paid by cooperative banks that meet the following criteria jointly:
    - banks that fail to implement corrective measures (banks that were not under an obligation to implement remedial plans referred to in Article 141m of the Banking Law or collective remedial plans referred to in Article 141o of the Banking Law and failed to implement any of the remedial options defined in the remedial plan),

- banks that are evaluated positively under the Supervisory Review and Evaluation Process (SREP) (final SREP score no lower than 2.5, banks that have a leverage ratio (LR) higher than 5%, a total capital ratio (TCR) no lower than 12.0%, a Tier 1 (T1) capital ratio no lower than 10.0% and a CET1 common equity tier ratio no lower than 8.5%
- banks that do not use the possibility to reduce the basis for setting up special-purpose provisions;

b) An amount of up to 5% of the 2021 profit may be paid by cooperative banks that meet the following criteria jointly:
   - banks that fail to implement corrective measures (banks that were not under an obligation to implement remedial plans referred to in Article 141m of the Banking Law or collective remedial plans referred to in Article 141o of the Banking Law and failed to implement any of the remedial options defined in the remedial plan),
   - banks that are evaluated positively under the Supervisory Review and Evaluation Process (SREP) (final SREP score no lower than 2.5, banks that have a leverage ratio (LR) higher than 5%, a total capital ratio (TCR) no lower than 12.0%, a Tier 1 (T1) capital ratio no lower than 10.0% and a CET1 common equity tier ratio no lower than 8.5%;

c) An amount of up to 3% of the 2021 profit may be paid by cooperative banks that meet the following criteria jointly:
   - banks that fail to implement corrective measures (i.e. banks that were not under an obligation to implement remedial plans referred to in Article 141m of the Banking Law or collective remedial plans referred to in Article 141o of the Banking Law and failed to implement any of the remedial options defined in the remedial plan),
   - banks that are evaluated positively under the Supervisory Review and Evaluation Process (SREP) (final SREP score no lower than 2.5, that have a leverage ratio (LR) higher than 5%, a total capital ratio (TCR) no lower than 10.5%, a Tier 1 (T1) capital ratio no lower than 8.5% and a CET1 common equity tier ratio no lower than 7.0% – in the case of cooperative banks operating in institutional systems of protection;

d) An amount of up to 2% of the 2021 profit may be paid by cooperative banks that meet the following criteria jointly:
   - banks that fail to implement corrective measures (i.e. banks that were not under an obligation to implement remedial plans referred to in Article 141m of the Banking Law or collective remedial plans referred to in Article 141o of the Banking Law and failed to implement any of the remedial options defined in the remedial plan),
   - banks that are evaluated positively under the Supervisory Review and Evaluation Process (SREP) (final SREP score no lower than 2.5),
   - banks that have a leverage ratio (LR) higher than 5%, a total capital ratio (TCR) no lower than 10.5%, a Tier 1 (T1) capital ratio no lower than 8.5% and a CET1 common equity tier ratio no lower than 7.0% – in the case of cooperative banks not operating in institutional systems of protection;

e) An amount of up to 1% of the 2021 profit may be paid by cooperative banks that meet the following criteria jointly:
   - banks that fail to implement corrective measures (i.e. banks that were not under an obligation to implement remedial plans referred to in Article 141m of the Banking Law or collective remedial plans referred to in Article 141o of the Banking Law and failed to implement any of the remedial options defined in the remedial plan),
   - banks whose score under the Supervisory Review and Evaluation Process (SREP) ranges from 2.51<=final SREP score<=3.25,
   - banks that have a leverage ratio (LR) higher than 5%, a total capital ratio (TCR) no lower than 10.5%, a Tier 1 (T1) capital ratio no lower than 8.5% and a CET1 common equity tier ratio no lower than 7.0%.

4. Regardless of the foregoing principles, in connection with the COVID-19 pandemic and the possibility of deterioration of the banks' economic and financial standing in 2022, cooperative banks satisfying the criteria for dividend payment from the 2021 profit should consider retaining the profit in entirety and earmarking it to strengthen the capital base.
5. KNF will individually address those cooperative banks that do not meet the criteria to pay a dividend from their 2021 net profit.

Insurance undertakings, reinsurance undertakings and insurance-and-reinsurance undertakings

KNF considers it necessary to adopt the following principles of the dividend policy of insurance undertakings, reinsurance undertakings and insurance-and-reinsurance undertakings in 2022:

Dividend may be paid only by the undertakings that meet all of the following criteria for distributions from the 2020 and 2021 profits:

1. They have received a good[8] or satisfactory[9] SREP risk score for 2020.

2. In the various quarters of 2021 they reported no shortage of own funds to cover the capital requirement (defined as the maximum of the minimum capital requirement (MCR) and the solvency capital requirement (SCR)).

3. In 2021 they were not covered by a short-term financial plan or the remedial plan referred to in Articles 312 and 313 of the Insurance and Reinsurance Activity Act of 11 September 2015.

[8] The risk score was given according to the macro scale (good score, i.e. 1.00 (from 1.00 to 1.74); satisfactory score, i.e. 2.00 (from 1.75 to 2.49); score raising concerns, i.e. 3.00 (from 2.50 to 3.24); unsatisfactory score, i.e. 4.00 (from 3.25 to 4)).

[9] as above

4. As at 31 December 2021, own funds, without deducting the expected dividends, were at the level of at least 175% of the capital requirements for insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings operating in section I and at least 150% of the capital requirements for insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings operating in section II.

   Insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings satisfying the above criteria may pay a dividend in the maximum amount of 100% of the profit generated in 2020 (taking into account dividends paid from the 2020 profit so far) and 50% of the profit generated in 2021, however the coverage of capital requirements (after deducting the expected dividends from own funds) as at 31 December 2021, and for the quarter in which the dividend was paid, will be at the level of at least 175% for insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings operating in section I and at least 150% for insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings operating in section II.

   Insurance undertakings, reinsurance undertakings, insurance-and-reinsurance undertakings satisfying the above criteria, when deciding on the level of dividends, should take into account their additional capital needs within the period of 12 months from the approval date of the 2021 financial statements, which may result, among others, from changes in the market and legal environment, in particular from the high degree of uncertainty about the future evolution of the coronavirus pandemic, hence the possible further adverse consequences for the insurance, reinsurance and insurance-and-reinsurance undertakings.

Mutual fund management companies

KNF considers it necessary to adopt the following principles of the dividend policy of mutual fund management companies in 2022:

A. An amount of up to 75% of their 2021 net profit may be paid only by mutual fund management companies that meet the following criteria simultaneously:

   I. in 2021 and during the period from the outset of 2022 up to the date of adopting the resolution on distributing the 2021 profit, the mutual fund management company did not breach the regulations on statutory capital requirements,

   II. the mutual fund management company obtained the final SREP score of 1 or 2,

   III. the measures taken, including the method of profit distribution, will not lead to a reduction in the mutual fund management company’s liquid assets minus the value of treasury shares below the level forming 150% of the capital requirement binding upon the management company. In turn, in respect of a mutual fund management company that manages target date funds in accordance with the Employee Capital Accumulation Schemes Act, the profit distribution cannot at the same time lead to a reduction in the liquid assets held by that management company minus the value of treasury shares, below the level of 150% of the requirement stemming from Article. 59 sec. 1 item 2 of the Employee Capital Accumulation Schemes Act,

IV. the profit distribution will not cause the capital requirements coverage ratio to fall below 1.5, where the capital requirements coverage ratio is computed as the quotient of the management company's equity and the capital requirements level in force.

B. An amount of up to 100% of their 2021 net profit may be paid only by mutual fund management companies that meet the following criteria simultaneously:

I. the mutual fund management company satisfies criteria I–III listed in letter A,

II. the profit distribution will not cause the capital requirements coverage ratio to fall below 2, where the capital requirements coverage ratio is computed as the quotient of the management company's equity and the capital requirements level in force.

C. An amount exceeding 100% of their 2021 net profit taking into account the unpaid part of the net profit may be paid only by mutual fund management companies that meet the following criteria simultaneously:

I. the mutual fund management company satisfies criterion I listed in letter B,

II. the mutual fund management company obtained the final SREP score of 1,

III. the profit distribution will not cause the capital requirements coverage ratio to fall below 2.5, where the capital requirements coverage ratio is computed as the quotient of the management company's equity and the capital requirements level in force.

Additionally, when making the decision pertaining to the amount of the distribution, mutual fund management companies should take into account:

- their additional capital needs within a 12 month outlook from the time of approving the 2021 financial statements such that the method of profit distribution does not exert an influence on the ability to meet capital requirements in subsequent months,
- the amount of the financial result from the current year,
- claims reported by participants of the mutual funds against the management company in connection with improper management of mutual funds during the period from the date of adopting the last resolution on profit distribution.

Universal pension fund management companies

KNF considers it necessary to adopt the following principles of the dividend policy of universal pension fund management companies in 2022:

A. An amount of up to 100% of their 2021 net profit may be paid only by universal pension fund management companies that meet the following criteria simultaneously:

   I. the universal pension fund management company has received a final SREP score of 1 or 2,

   II. in 2021 and during the period from the outset of 2022 up to the date of adopting the resolution on distributing profit, no situation has transpired in which the universal pension fund management company would fail to satisfy statutory capital requirements,

   III. as at 31 December 2021 the equity of a universal pension fund management company plus the value of the Indemnity Fund attributable to the management company represents no less than 1% of the net asset value of all pension funds managed by the management company,

   IV. as at 31 December 2021 the value of liquid assets[10] of a universal pension fund management company plus the value of the Indemnity Fund attributable to the management company represents no less than 1% of the net asset value of all pension funds managed
   by the management company.

B. An amount exceeding 100% of their 2021 net profit may be paid only by universal pension fund management companies that meet the following criteria simultaneously:

   I. the universal pension fund management company has received a final SREP score of 1 (good),

   II. the universal pension fund management company satisfies criteria II–IV listed in letter A,

   III. the payment amount may not cause that in 2022 the amount of liquid assets of the universal pension fund management company plus the value of the Indemnity Fund attributable to the management company represents less than 1.75% of the net asset value of all pension funds managed by the management company.

[10] The following are deemed to be liquid assets: securities issued by the State Treasury or National Bank of Poland, securities guaranteed or secured by the State Treasury or National Bank of Poland, receivables from an open-end pension fund by virtue of the fee charged to the contribution and the management fee, cash and other cash assets and other current financial assets.

Additional non-numerical criteria:

- the payment of a dividend may not lead to a reduction in equity and the value of liquid assets, respectively, plus the value of the funds in the Indemnity Fund attributable to the management company below the level specified in criterion III and criterion IV in letter A as at the dividend payment date and within the 12 month outlook from the time of approving the 2021 financial statements, subject to criterion III in letter B.
- when making the decision pertaining to the distribution of profit, the management company shall incorporate its additional capital needs within a 12 month outlook from the time of approving the 2021 financial statements associated with the management of target date funds in accordance with the Employee Capital Accumulation Schemes Act.
- when making the decision on the method of profit distribution, the management company shall take into account the claims reported by participants of the pension funds against the management company in connection with improper management of pension funds during the period from the date of adopting the last resolution on profit distribution.

Brokerage houses

KNF considers it necessary to adopt the following principles of the dividend policy of brokerage houses in 2022:

A. An amount of up to 75% of their 2021 net profit may be paid by brokerage houses that meet the following criteria simultaneously:

I. for brokerage houses subject to the capital adequacy norms in accordance with Regulation (EU) No 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment firms and amending Regulations (EU) No 1093/2010, (UE) No 575/2013, (UE) No 600/2014 and (UE) No 806/2014 (OJ L 314 of 05.12.2019, as amended, hereinafter referred to as “Regulation No 2019/2033”), as at 31 December 2021:
   a) the ratio specified in Article 9(1)(a) of Regulation No 2019/2033 was at least 75%;
   b) the ratio specified in Article 9(1)(b) of Regulation No 2019/2033 was at least 112.5%;
   c) the ratio specified in Article 9(1)(c) of Regulation No 2019/2033 was at least 175%.

Entities that apply transitional provisions referred to in Part Nine of Regulation No 2019/2033 for the purposes of the dividend policy shall set the aforementioned ratios without applying said transitional provisions.

II. the brokerage house obtained the final SREP score of 1 or 2;

III. in 2021 and up to the date of approving the financial statements and adopting the resolution on profit distribution for 2021 the brokerage house has not violated the provisions regarding capital requirements set forth in 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 and amending Regulation (EU) No. 648/2012 (OJ L 176 of 27.06.2013, as amended, hereinafter referred to as “Regulation No 575/2013) and in Regulation No 2019/2033 and in the Financial Instruments Trading Act (Journal of Laws of 2021, Item 1595, as amended) and the provisions regarding liquidity requirements set forth in Regulation No. 2019/2033.

B. An amount of up to 100% of their 2021 net profit may be paid by brokerage houses that meet the following criteria simultaneously:

I. the brokerage house meets the criteria listed in letter A, and met the criteria listed in letter A item I also at the end of Q2 and Q3 2021.

II. for brokerage houses that are subject to the capital adequacy standards in accordance with Regulation No 575/2013 as at 31 December 2021:
a) the Tier 1 common equity ratio is at least 6%;
b) the Tier 1 equity ratio is at least 9%;
c) the total capital ratio is at least 14%;

III. for brokerage houses that are not subject to the capital adequacy standards in accordance with Regulation No 575/2013 as at 31 March 2021, the ratio of equity to total assets was at least 50%;

C. An amount exceeding 100% of their 2021 net profit may be paid by brokerage houses that meet the following criteria simultaneously:

I. the brokerage house meets the criteria enumerated in letter A item I and III and recorded a net profit for 2021;

II. the last supervisory score awarded in the SREP process is 1;

III. for brokerage houses that adopt a resolution to pay a dividend
a) the ratio specified in Article 9(1)(a) of Regulation No 2019/2033 may not, as a result of adoption of the resolution to pay a dividend, drop below 150%;

b) the ratio specified in Article 9(1)(b) of Regulation No 2019/2033 may not, as a result of adoption of the resolution to pay a dividend, drop below 187.5%;
c) the ratio specified in Article 9(1)(c) of Regulation No 2019/2033 may not, as a result of adoption of the resolution to pay a dividend, drop below 250%.

Entities that apply transitional provisions referred to in Part Nine of Regulation No 2019/2033 for the purposes of the dividend policy shall set the aforementioned ratios without applying said transitional provisions.

Satisfaction of the conditions referred to in condition C is required also in the case of applying for a permit to purchase treasury shares.

Additionally, when making the decision pertaining to the amount of the dividend, brokerage houses shall take into account:

- their additional capital needs within a 12 month outlook from the time of approving the 2021 financial statements, and the current financial standing of the brokerage house at the time of approval of the financial statements and adoption of the resolution on distribution of the 2021 profit, in particular the amount of the recorded financial result of the brokerage house;
- the necessity to bump up the ratios referred to in letter A item I by the amount of additional capital requirements, in the case of brokerage houses obliged to maintain such requirements under the applicable laws or a decision of the regulatory authority.

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