

14 December 2023

### **KNF's stance on the dividend policy in 2024**

The Polish Financial Supervision Authority ("KNF"), during the meeting on 14 December 2023, unanimously adopted a position on the dividend policy of commercial banks, cooperative and association banks, insurance undertakings, reinsurance undertakings, insurance and reinsurance undertakings, investment fund companies, universal pension fund management companies and brokerage houses in 2024. Each sector will receive a letter from the Chairman of the KNF with recommendations.

The direct objective of the KNF's dividend policy is to ensure the stability of the Polish financial sector by adjusting the capital base of supervised entities to the level of risk they bear, and to protect the recipients of financial services of these entities.

#### **Commercial banks**

The KNF deems it necessary to adopt the following dividend policy rules for commercial banks in 2024.

1. An amount of up to 50% of the 2023 profit can only be paid out by banks that meet the listed criteria at the same time, i.e., these banks:
  - a) are not implementing a recovery program;
  - b) are positively evaluated within the framework of the Survey and Supervisory Assessment (final SREP score no worse than 2.5);
  - c) have the LR Group's financial leverage ratio at a level no higher than 5%<sup>1</sup>;
  - d) have a Tier 1 share capital (CET1) capital ratio of not less than the required minimum:  
 $4,5\% + 56,25\% * P2R^2$  requirement + combined buffer requirement + P2G<sup>3</sup>;

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<sup>1</sup> On 28 June 2021, the obligation for banks to maintain a leverage ratio of at least 3% came into force. The 5% level required by the KNF includes the additional 2 p.p. that the bank should maintain above the regulatory minimum for a possible dividend payment (once further criteria are met).

<sup>2</sup> Pillar II Requirement (P2R) or Additional Regulatory Capital Requirement – currently given to cover risks associated with foreign currency loans.

<sup>3</sup> Pillar II Guidance (P2G) or supplementary capital recommendation – measures a bank's vulnerability to an adverse macroeconomic scenario using the results of supervisory stress tests. Sensitivity is defined as: the relative change in CET1 calculated between the lowest level of CET1 in the scenario horizon and CET1 at the start of the test, including supervisory adjustments.

- e) have a Tier 1 (T1) capital ratio not lower than the required minimum:  $6\% + 75\% * P2R$  requirement + combined buffer requirement + P2G;
  - f) have a total capital ratio (TCR) not lower than the required minimum:  $8\% + P2R$  requirement + combined buffer requirement + P2G.
2. An amount of up to 75% of the 2023 profit can only be paid out by banks that meet the criteria for the 50% payout, and at the same time whose portfolio of receivables from the non-financial sector has good credit quality (share of NPL, including debt instruments, at a level not exceeding 5%).

The criteria outlined in items 1 and 2 should be met by the bank at both the individual level and the consolidated level, as of the end of 2023 and on the date of the Shareholder Meeting decision to pay dividends.

The maximum dividend payable on profit earned in 2023 is capped at 75% due to the expectation of strengthening the capital base to absorb the possible materialization of risks accumulated in the environment of the Polish banking sector.

3. For banks with a significant portfolio of foreign currency mortgage loans<sup>4</sup> the dividend rate should be further adjusted according to the following criteria.
- a) Criterion 1 – based on the share of foreign currency mortgage loans to households granted to unhedged borrowers<sup>5</sup> in the total portfolio of receivables from the non-financial sector:
    - i. banks with a shareholding of more than 5% – dividend rate adjustment of 20 bps,
    - ii. banks with a shareholding of more than 10% – dividend rate adjustment of 40 bps,
    - iii. banks with a shareholding of more than 20% – dividend rate adjustment of 60 bps,
    - iv. banks with a shareholding of more than 30% – dividend rate adjustment of 100 bps.
  - b) Criterion 2 – based on the share of loans granted in 2007 and 2008 in the portfolio of foreign currency mortgage loans to households:
    - i. banks with a shareholding of more than 20% – dividend rate adjustment of 30 bps,
    - ii. banks with a shareholding of more than 50% – dividend rate adjustment of 50 bps,

with the total value of the adjustment (maximum 75%) being the sum of the adjustments resulting from both criteria.

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<sup>4</sup> Banks with more than 5% share of foreign currency mortgage loans to households in their portfolio of receivables from the non-financial sector.

<sup>5</sup> Borrowers earning most of their income in a currency other than the currency in which they have taken the loan.

The KNF also deems it necessary not to take other actions, particularly those outside the scope of current business and operational activities, which may result in a reduction of own funds, without prior consultation with the KNF. This includes possible dividend payments from retained earnings and share buybacks. The KNF expects that the possible implementation of such operations will be preceded in each case by a consultation with the KNF and will depend on the outcome.

### **Cooperative and association banks**

The KNF deems it necessary to adopt the following dividend policy rules for cooperative and association banks in 2024.

1. Association banks should follow a general dividend policy – the same as for other banks operating in the form of a joint stock company.
2. Dividend payments in cooperative banks should be made on the following basis:
  - a) Up to 20% of net profit, cooperative banks that meet the criteria combined:
    - i. fail to implement corrective actions (i.e., were not required to implement recovery plans referred to in Article 141m of the Banking Law or group recovery plans referred to in Article 141o of the Banking Law),
    - ii. have a final SREP score of no worse than 2.5 (UKNF master scale: 1 or 2),
    - iii. have a financial leverage ratio (LR) of more than 5%,
    - iv. have a total capital ratio (TCR) of not less than 12.0%,
    - v. have a Tier 1 (T1) capital ratio of not less than 10.0%,
    - vi. have a core capital ratio CET1 of not less than 8.5%,
    - vii. do not benefit from the possibility of reducing the basis for creating specific reserves.
  - b) Up to 15% of net profit, cooperative banks that meet the criteria combined:
    - i. fail to implement corrective actions (i.e., were not required to implement recovery plans referred to in Article 141m of the Banking Law or group recovery plans referred to in Article 141o of the Banking Law),
    - ii. have a final SREP score of no worse than 2.5 (UKNF master scale: 1 or 2),
    - iii. have a financial leverage ratio (LR) of more than 5%,
    - iv. have a total capital ratio (TCR) of not less than 12.0%,
    - v. have a Tier 1 (T1) capital ratio of not less than 10.0%,
    - vi. have a core capital ratio CET1 of not less than 8.5%.
  - c) Up to 10% of net profit, cooperative banks that meet the criteria combined:

- i. fail to implement corrective actions (i.e., were not required to implement recovery plans referred to in Article 141m of the Banking Law or group recovery plans referred to in Article 141o of the Banking Law),
  - ii. have a final SREP score of no worse than 3.25 (UKNF master scale: 1, 2 or 3),
  - iii. have a financial leverage ratio (LR) of more than 5%,
  - iv. have a total capital ratio (TCR) of not less than 12.0%,
  - v. have a Tier 1 (T1) capital ratio of not less than 10.0%,
  - vi. have a core capital ratio CET1 of not less than 8.5%.
3. Notwithstanding the principles set forth in 2(a)-(c), in view of the current geopolitical and economic situation and the possibility of a deterioration in the economic and financial situation of banks in 2024, cooperative banks that meet the criteria for dividends from 2023 profits should consider retaining profits in full and using them to strengthen their capital base.
4. Cooperative banks that do not meet the criteria for dividends from net profit for 2023 will be addressed with individual supervisory notes.

### **Insurance undertakings, reinsurance undertakings and insurance and reinsurance undertakings**

KNF deems it necessary to adopt the following rules on the dividend policy of insurance companies, reinsurance companies, and insurance-and-reinsurance companies in 2024.

A dividend may be paid out only by the companies that meet all of the following criteria for distributions from the 2022 and 2023 profits:

- a) they have received a good<sup>6</sup> or satisfactory<sup>7</sup> SREP risk score for 2022;
- b) in the various quarters of 2023 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));
- c) in 2023, they were not covered by a realistic recovery plan or a short-term realistic financial plan, as referred to in Articles 312 and 313 of the Act of 11 September 2015 on insurance and reinsurance activities;
- d) as of 31 December 2023, the amount of own funds without deducting expected dividends was at a level of at least 175% of the amount of capital requirements for insurance companies, reinsurance companies and

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<sup>6</sup> The risk rating was given according to a macro scale (good rating, i.e. 1.00 [1.00 to 1.74]; satisfactory rating, i.e. 2.00 [1.75 to 2.49]; objectionable rating, i.e. 3.00 [2.50 to 3.24]; inadequate rating, i.e. 4.00 [3.25 to 4]).

<sup>7</sup> *ibid.*

insurance and reinsurance undertakings operating in section I, and at least 150% of the amount of capital requirements for insurance undertakings, reinsurance undertakings and insurance and reinsurance undertakings operating in section II.

The insurance undertakings, reinsurance undertakings and insurance and reinsurance undertakings satisfying the criteria set out in letters (a)-(d) may allocate to the payment of dividends a maximum of 100% of the profit generated in 2022 (including dividends already paid out from the 2022 profit) and a maximum of 100% of the profit generated in 2023, whereby the coverage of capital requirements (after deducting the expected dividends from own funds) as at 31 December 2023, and for the quarter in which the dividend was paid, will be at the level of at least 175% for insurance undertakings, reinsurance undertakings and insurance and reinsurance undertakings operating in section I and at least 150% for undertakings operating in section II.

The insurance undertakings, reinsurance undertakings and 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 2023 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 macroeconomic perspective regarding, among others, inflation, interest rates, currency exchange rates, energy resources or effects brought about by the currently ongoing armed conflicts.

### **Mutual fund companies**

The KNF deems it necessary that only mutual fund companies that meet the following criteria combined should pay dividends in 2024.

- A. Payment in an amount not exceeding 75% of net profit for 2023
  - I. The mutual fund company in 2023 and in the period from the beginning of 2024 until the date of the resolution on profit distribution for 2023 did not violate the statutory provisions on capital requirements;
  - II. The mutual fund company received a recent SREP final rating of 1 or 2;
  - III. The measures taken, including the method of profit distribution, will not reduce the value of liquid assets held by the mutual fund company, less the value of its own shares held, below the level representing 150% of the capital requirement applicable to the company, while in the case of a mutual fund company that manages defined date funds,

in accordance with the Employee Capital Schemes (ECS)<sup>8</sup>; the distribution of profit may not at the same time cause the value of the company's liquid assets, less the value of its own shares held, to fall below the level constituting 150% of the requirement under Article 59(1)(2) of the ECS;

IV. Profit sharing will not have the effect of reducing the capital requirement coverage ratio below 1.5, with the capital requirement coverage ratio calculated as the value of the company's equity divided by the applicable capital requirement level.

B. Payment in an amount not exceeding 100% of net profit for 2023

I. The mutual fund company meets criteria I – III listed in letter (A);

II. Profit sharing will not have the effect of reducing the capital requirement coverage ratio below 2, with the capital requirement coverage ratio calculated as the value of the company's equity divided by the applicable capital requirement level.

C. Payment in excess of 100% of net profit for 2023 including the unpaid portion of net profit

I. The mutual fund company meets criterion I listed in letter (B);

II. The mutual fund company received the latest SREP 1 final rating;

III. Profit sharing will not have the effect of reducing the capital requirement coverage ratio below 2.5, with the capital requirement coverage ratio calculated as the value of the company's equity divided by the applicable capital requirement level.

In addition, mutual fund companies, when deciding on the amount of payout, should take into account:

- a) additional capital needs in the 12-month horizon from the approval of the 2023 financial statements, so that the way the profit is distributed will not affect the ability to meet capital requirements in subsequent months;
- b) the amount of the current year's financial result;
- c) claims filed during the period from the date of the last resolution on profit distribution by investment fund participants against the company in connection with improper management of investment funds.

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<sup>8</sup> Act of 4 October 2018 on Employee Capital Schemes.

Fulfillment of the individual criteria set forth in letters (a)-(c) is also required in the case of the appropriation of net profit for the payment of remuneration for the acquisition of the mutual fund company's own shares. For the purposes of the indicated thresholds, the amount of dividends paid and the amount of share buybacks are added together.

### **Universal pension fund companies**

The KNF deems it necessary that only universal pension fund companies that meet the following criteria combined should pay dividends in 2024.

#### **A. Payment in an amount not exceeding 100% of net profit for 2023**

- I. The company received a recent SREP final rating of 1 (good) or 2 (satisfactory);
- II. In 2023 and in the period from the beginning of 2024 until the date of the resolution on profit distribution, no situation arose in which the company failed to meet statutory capital requirements;
- III. As of 31 December 2023, the value of the company's equity, plus the value of the Guarantee Fund attributable to the company, represented not less than 1% of the net asset value of all pension funds managed by the company;
- IV. As of 31 December 2023, the value of the company's liquid assets<sup>9</sup> plus the value of the Guarantee Fund attributable to the company represented no less than 1% of the net asset value of all pension funds managed by the company.

#### **B. Payment of more than 100% of net profit for 2023**

- I. The company received a final SREP rating of 1 (good);
- II. The Society meets criteria II – IV listed in letter (A);
- III. The amount of the payout may not cause the value of the company's liquid assets, plus the value of the Guarantee Fund attributable to the company, to be less than 1.75% of the net asset value of all pension funds managed by the company in 2024.

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<sup>9</sup> The following are considered liquid assets: securities issued by the State Treasury or the NBP, securities guaranteed or underwritten by the State Treasury or the National Bank of Poland, receivables from OFEs for the premium and management fee, cash and other monetary assets and other short-term financial assets.

In addition, non-count criteria:

- a. The payment of dividends may not cause the fall of the value of equity and, accordingly, the value of liquid assets, plus the value of the Guarantee Fund attributable to the company, below the level specified in Criterion III and Criterion IV (A) as of the date of dividend payment and within a 12-month horizon from the approval of the 2023 financial statements, subject to Criterion III (B).
- b. When deciding on profit distribution, the company should take into account additional capital needs in the 12-month horizon after the approval of the 2023 financial statements, related to the management of the defined date funds, in accordance with the ECS.
- c. When deciding on profit distribution, the company should take into account claims filed by pension fund participants against the company for improper management of pension funds during the period from the date of the last resolution on profit distribution.

### **Brokerage houses**

The KNF deems it necessary that dividends in 2024 be paid only by brokerage houses that meet the criteria set forth below.

A. A dividend of no more than 75% of the net profit for 2023 can only be paid by brokerages that meet the criteria combined:

I. As of 31 December 2023, the entity met the following criteria:

- a) the ratio specified in Article 9(1)(a) of Regulation 2019/2033<sup>10</sup> was at least 75%;
- b) the ratio specified in Article 9(1)(b) of Regulation 2019/2033 was at least 112.5%;
- c) the ratio specified in Article 9(1)(c) of Regulation 2019/2033 was at least 175%;

Entities applying the transitional provisions referred to in section nine of Regulation 2019/2033 shall, for the purposes of dividend policy, determine the ratios indicated in letters )a)-(c) without applying these transitional provisions.

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<sup>10</sup> Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No. 1093/2010, (EU) No. 575/2013, (EU) No. 600/2014 and (EU) No. 806/2014 (OJ EU L 314 of 05.12.2019, as amended).



- II. The supervisory rating given in 2023 in the SREP process was either 1 or 2;
  - III. The entity in 2023 and until the date of approval of the financial statements and adoption of the resolution on profit distribution for 2023 did not violate the provisions on capital requirements of Regulation 2019/2033 and the Act on Trading in Financial Instruments<sup>11</sup> and the provisions on liquidity requirements of Regulation 2019/2033.
- B. Dividends in an amount not exceeding 100% of the net profit for 2023 may be paid only to brokerage houses that meet the criteria listed in letter (A), except that the criteria listed in letter A(I) were also met at the end of the 1st, 2nd and 3rd quarters of 2023.
- C. Only brokerage houses that meet the following criteria combined may pay dividends in excess of their net income for 2023:
- I. Have met the criteria listed in A(I) at the end of each quarter of 2023 and at the same time meet the criteria listed in A(III) and have made a net profit for 2023;
  - II. The supervisory rating given in 2023 in the SREP process was 1;
  - III. For entities that adopt a resolution to pay dividends:
    - a) the ratio specified in Article 9(1)(a) of Regulation 2019/2033 may not fall below 150% as a result of the resolution to pay dividends,
    - b) the ratio specified in Article 9(1)(b) of Regulation 2019/2033 may not fall below 187.5% as a result of the resolution to pay dividends,
    - c) the ratio specified in Article 9(1)(c) of Regulation 2019/2033 may not fall below 250% as a result of the resolution to pay dividends.

Entities applying the transitional provisions referred to in section nine of Regulation 2019/2033 for the purposes of dividend policy shall determine the ratios indicated in letters (a)-(c) without applying these transitional provisions.

Fulfillment of the individual criteria set forth in letters (A)-(C) is also required when applying for a share buyback authorization, and for the purpose of calculating the thresholds indicated therein, the amount of dividends paid and the requested share buyback amount are added together.

Where Article 28(4) of the KNF Delegated Regulation (EU) No. 241/2014<sup>12</sup> applies, the amount allocated for the repurchase of own shares for the purpose of transferring them

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<sup>11</sup> Act of 29 July 2005 on Trading in Financial Instruments (Journal of Laws of 2023 item 646, as amended).

<sup>12</sup> Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards.

However, the periodic reduction in the level of own funds resulting from the brokerage house's holding of its own shares as a result of such a buyback may not result in capital ratios below the level specified in Article 110zz(2) of the Act on Trading in Financial Instruments.

For brokerages for which a supervisory rating has not been assigned in the 2023 SREP process, the A.II and C.II criteria do not apply.

For brokerage houses that have been authorized by the KNF in 2023 to include the current period's profit in Tier 1 share capital, it is possible to pay dividends in an amount not higher than the amount of net profit for 2023 less the amount included in Tier 1 share capital in accordance with this decision, provided that the conditions referred to in letters (A) or (B) are met.

The KNF deems it necessary that dividend payments or share buybacks are not carried out by brokerage houses when against a brokerage house or its parent company:

- 1) early intervention measures, a recovery plan, a group recovery plan, a resolution plan or a group resolution plan have been implemented, based on the provisions implementing Directive 2014/59/UE<sup>13</sup> of the European Parliament and of the Council;
- 2) liquidation has been opened, restructuring proceedings have been initiated or bankruptcy has been declared.

Furthermore, brokerage houses, when deciding on the amount of dividends, should take into account: additional capital needs in the 12 months after the approval of the financial statements for 2023, as well as the current financial situation of the brokerage house at the time of the approval of the financial statements and the adoption of the resolution on the distribution of profit for 2023, in particular the amount of the current financial result of the brokerage house.

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regarding own funds requirements and eligible liabilities requirements applicable to institutions (OJ EU L 074, 14.3.2014, as amended).

<sup>13</sup> Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ EU L 173, 12.6.2014, as amended).