(Bank's own translation)

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PFSA position on the dividend policy of commercial banks

The Polish Financial Supervision Authority (PFSA) has adopted a position concerning the dividend policy of commercial banks in 2018.

Over the recent years, the dividend policy has been one of the regulator's most effective measures to enable stable development of the banking sector and a significant increase in bank's capital ratios. As a continuation of the measures taken thus far, the Polish Financial Supervision Authority presents its guidelines on banks' dividend policy in 2018.

With a view to stabilising recommendations regarding dividend policy, when establishing the criteria for the 2018 dividend policy, the PFSA followed the recommendations of the European Central Bank (ECB) of 13 December 2016 on the principles of dividend distribution policies as well as last year's dividend policy, which included additional criteria for banks with a significant exposure to foreign-currency loans.

Dividend distribution criteria for commercial banks:

It is recommended that only banks which jointly fulfil all of the criteria specified below be eligible for dividend distribution:

- not carrying out a recovery programme[1];
- favourable assessment (final SREP score of no less than 2.5 – master-scale grade 1 or 2);
- reporting a financial leverage ratio (LR) higher than 5%;
- reporting a Tier I (T1) capital ratio at least at the required minimum level plus 1.5 percentage points[2]:
  6% + 75%*add-on + combined buffer requirement + 1.5%;
- a total capital ratio (TCR) at least at the required minimum level plus 1.5 percentage points:
  8% + add-on + combined buffer requirement + 1.5%;

It is recommended that banks which jointly fulfil all of the above criteria be able to distribute up to 50% of their profit generated in 2017.

In addition, it is recommended that:

- up to 75% of the profit generated in 2017 be available for distribution by banks which jointly meet all of the above criteria and the requirement to maintain a conservation

[1] Recovery programme/ implementation of a recovery plan.

[2] 1.5 percentage points – pursuant to Article 142(4) of the Banking Law: *when assessing a bank's financial standing, the Polish Financial Supervision Authority may take into account whether the bank has maintained the required level of own funds, as specified in section 1(1), increased by 1.5 percentage points.*

buffer at the target level of 2.5% of total risk exposure,

- up to 100% of the profit generated in 2017 be available for distribution by banks which jointly meet all of the above criteria (including the conservation buffer at the target level), taking into account, as part of the capital criteria, the bank's sensitivity to an adverse macroeconomic scenario (ST)[3].

For banks with foreign-currency loan exposures,[4] the dividend yield should be adjusted accordingly, as per the criteria below:

Criterion 1 – based on the share of the foreign-currency housing loans for households in the total portfolio of receivables from the non-financial sector:

- banks with a share of over 10% - adjustment of the dividend yield by 20 percentage points
- banks with a share of over 20% - adjustment of the dividend yield by 30 percentage points
- banks with a share of over 30% - adjustment of the dividend yield by 50 percentage points

Criterion 2 – based on the share of the foreign-currency housing loans granted in 2007 and 2008 in the portfolio of foreign-currency housing loans for households:

- banks with a share of over 20% - adjustment of the dividend yield by 30 percentage points
- banks with a share of over 50% - adjustment of the dividend yield by 50 percentage points

The significance of the adjustment criteria will decrease along with the advancing depreciation of the foreign-currency loan portfolio.

It should be stressed that a bank which holds a non-appropriated profit from preceding years is obliged at all times to notify the intent to distribute dividends to the PFSA. Such consent, which shall be subject to an individual assessment, can be applied for by banks which fulfil the dividend distribution criteria.

The Polish Financial Supervision Authority also plans to present, at the beginning of 2018, the guidelines which the supervisor intends to follow when establishing the dividend policy for subsequent periods.

PFSA position on minimum capital ratio levels

[3] ST – a charge set individually for each bank to measure the bank's sensitivity to an adverse macroeconomic scenario, defined as: the difference between TCR in the reference scenario and TCR in the stress scenario, taking into account supervisory adjustments (in the stress tests conducted by the PFSA Office).

[4] Banks with at least a 5% share of foreign-currency housing loans for households in their portfolio of receivables from the non-financial sector.