Template for notifying the intended use of a systemic risk buffer (SRB)

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1. Notifying national authority and scope of the notification

<table>
<thead>
<tr>
<th>1.1 Name of the notifying authority</th>
<th>Ministry of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.2 Type of measure intended (also for reviews of existing measures)</td>
<td>Activate a new SRB</td>
</tr>
</tbody>
</table>

2. Description of the notified measure

<table>
<thead>
<tr>
<th>2.1 Institutions covered by the intended SRB</th>
<th>The SRB will apply for all domestically authorised credit institutions in Poland.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2 Buffer rate (Article 133(11)(f) of the CRD)</td>
<td>The SRB rate will be set at 3%.</td>
</tr>
<tr>
<td>2.3 Exposures covered by the SRB</td>
<td>The SRB will apply to all exposures located in Poland.</td>
</tr>
</tbody>
</table>

3. Timing of the measure

<table>
<thead>
<tr>
<th>3.1 Timing of the Decision</th>
<th>13 January 2017</th>
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</thead>
<tbody>
<tr>
<td>3.2 Timing of the Publication</td>
<td>August 2017</td>
</tr>
<tr>
<td>3.3 Disclosure</td>
<td>The Financial Stability Committee (FSC), which is responsible for the macroprudential oversight in Poland, recommended in January 2017, among other measures, to activate the systemic risk buffer at the level of 3%. The FSC published its recommendation on 13th January 2017</td>
</tr>
</tbody>
</table>

Date of template version: 2016-03-01
(http://www.nbp.pl/macroprudentialsupervision/komunikaty/2017-01-13.aspx), therefore the market participants are already aware of the intention to introduce the systemic risk buffer.

Moreover, the Minister of Development and Finance, which is empowered to issue legally binding regulations, initiated legislative procedure in June 2017. This procedure provides for a public announcement and public consultations with the market.

After completing abovementioned legislative procedure, the regulation will be published in the Journal of Law.

The market is and will be informed about planned measure at every stage of its introduction.

According to the Act of 5 August 2015 on Macroprudential Supervision of the Financial System and Crisis Management the final information on mandatory systemic risk buffer will be published on the website of the NBP.

<table>
<thead>
<tr>
<th>3.4 Timing of Application</th>
<th>1 January 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5 Phasing in</td>
<td>Without phasing</td>
</tr>
<tr>
<td>3.6 Review/deactivation of the measure</td>
<td>The SRB requirement will be reviewed at least once every two years.</td>
</tr>
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</table>

4. Reasons for the intended SRB

4.1 Description of the long-term non-cyclical systemic risk in your Member State (Article 133(11)a of the CRD)

Heightened uncertainty regarding growth in many developed economies, including the consequences of Brexit, changes in the US economic policy and other geopolitical factors may result in materialisation of adverse economic shock. Poland is highly interconnected with many economies of the EU, and is still often perceived as an emerging market, which could amplify any external shocks.

4.2 Reasons why the dimension of the long-term non-cyclical systemic risk threatens the stability of the financial system in your Member State (Article 133(11)(b) of the CRD)

Despite the improvement of the current economic growth and the economic outlook in the majority of the largest economies, the persisting uncertainty in the economic environment of Poland increases the likelihood of significant negative shocks which may slow down economic growth in Poland. It is indicated as the main source of risk to the stability of the financial system in the last editions of the Financial Stability Reports prepared by the central bank – the Narodowy Bank Polski (NBP).

The latest impact assessment of materialisation of this risk is being verified in the June 2017 edition of the Financial Stability Report. The results of stress-tests and single-factor loss absorption capacity simulations indicate that materialisation of the severe shock scenario assuming substantial economic slowdown in the economic environment of Poland, coupled with additional fiscal burdens, would lead to a significant decline in banks’ capital ratios. Consequently, over a dozen commercial banks would become permanently unprofitable and a part of them (mostly small and medium-sized ones) would face regulatory capital shortages in relation to capital ratio requirements. A considerably higher number of banks (including some large ones) would not meet the combined buffer requirement if the risk were to materialise. In such conditions, lending
could be curbed, which would aggravate the negative impact of the shock on the real economy and, consequently, on the credit risk borne by banks. The reference level of combined buffer requirement in the stress-test includes the SRB set at 3%. Therefore, if the banks would not have the capital to fulfil the SRB, the capital shortage with respect to the capital requirement (i.e. Pillar 1 and 2) would be substantially higher and would entail larger number of banks.

The following assumptions were taken into consideration when preparing the stress tests:

- Disruption in cooperation within the European Union, which through increasing uncertainty and introduction of barriers to the free movement of goods and services within the EU, would contribute to investment reduction and drop in demand as well as price falls on the asset markets. This would lead to a decline in the GDP growth in the major economic partners of Poland. Unresolved banking sector problems in some EU countries would be an additional factor aggravating the decline.

- A significant economic slowdown in developing countries, particularly in China and Russia, associated with imbalances in the real economy and financial systems of these countries.

- Restrictions in international trade stemming from tariff changes in developed countries, especially in the United States.

- Deep correction in global asset prices, due to the significant growth in investment risk which would precipitate flight to so-called safe havens. This, in turn would lead to a significant strengthening of the Swiss franc against other currencies.

Table:

<table>
<thead>
<tr>
<th>4.3 Indicators used for the activation of the measure</th>
<th>Stress tests.</th>
</tr>
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<tbody>
<tr>
<td>4.4 Effectiveness and proportionality of the measure (Article 133(11)(c) of the CRD)</td>
<td>Introduction of a SRB is intended to maintain a high level of institutions capital and strengthening their resilience. As the systemic risk is not individual and concerns the whole banking sector it should not be the subject to pillar 2 requirements.</td>
</tr>
<tr>
<td>4.5 Justification of inadequacy of existing measures in the CRD or in the CRR, excluding Articles 458 and 459 of the CRR, to address the identified risks (Article 133(11)(e) of the CRD)</td>
<td>The use of the following instruments was impossible or ineffective:</td>
</tr>
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</table>

- Countercyclical buffer - the buffer is related to other risk factors, i.e. primarily domestic credit growth, which at current juncture is not excessive,

- Capital requirements of pillar 2- the persisting uncertainty in the economic environment of Poland is not individual but concerns the whole banking sector and as a rule, should not be the subject to pillar 2 requirements,

- O-SII buffer - the buffer is applied to most important systemic banks, while the systemic risk concerns the whole banking sector.

5. Cross-border and cross-sector impact of the measure
### 5.1 Assessment of cross-border effects and the likely impact on the internal market

(Article 133(11)(d) of the CRD and Recommendation ESRB/2015/2)

Implementing the SRB will not have a negative impact on the internal market.

The SRB will be applied only for exposures located in the Republic of Poland. Introduction of the SRB is intended to maintain adequate capital levels in order to enhance the resilience of banks to potential economic shocks. Most banks will already meet the capital requirements of the SRB. This is confirmed by the average capital ratios at the end of 2016 (TCR 17.2%, Tier 1 15.6%, CET 1 15.6%). The total excess of CET 1 capital – after taking into account the pillar 1 and pillar 2 requirements and the obligation to maintain capital buffers – amounted to 59.3 billion PLN, therefore the majority of banks at the end of 2016 would have sufficient excess of CET 1 capital to cover the introduction of SRB.

### 5.2 Assessment of leakages and regulatory arbitrage within the notifying Member State

There is no expectation of leakages in Poland since this measure is going to be applied to domestically authorized credit institutions only, and is going to assure their resilience.

Limited regulatory arbitrage is possible due to potential for reclassification of risk exposure from its domestic part to foreign part.

### 5.3 Reciprocation by other Member States

(Article 134(4) of the CRD and Recommendation ESRB/2015/2)

Reciprocity would not be required, as the buffer would be aimed at maintaining adequate capital levels of domestic banks and would apply only to domestic exposures.

### 6. Combination of the SRB with other buffers

#### 6.1 Combination with G-SII and/or O-SII buffers (Article 133(4) and (5) of the CRD)

There is no G-SII identified in Poland. The SRB will be applied cumulatively with the O-SII buffer. The G-SII that controls a subsidiary in Poland would have to include Polish SRB on a consolidated level.

#### 6.2 Other relevant information

### 7. Miscellaneous

#### 7.1 Contact person(s) at notifying authority

Małgorzata Piskorz, e-mail: malgorzata.piskorz@mf.gov.pl

#### 7.2 Any other relevant information