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Statement by the Banco de España on the dividend distribution policy of credit institutions

The Directorate General of Banking Regulation and Financial Stability of the Banco de España has today sent a letter to the financial sector professional associations AEB and CECA in relation to the dividend distribution policy of credit institutions, which must observe the principle of caution and aim at all times to ensure an adequate level of capitalisation. This requirement is particularly necessary in a situation like that at present, marked by persisting uncertainty about economic performance in both Spain and the euro area as a whole, as well as in other countries in which Spanish firms operate.

For this reason, the Banco de España recommends that in 2013, and taking into account the circumstances of each institution, dividend distributions be limited and that, in any event, cash dividends paid this year do not exceed 25% of attributable consolidated profit.

Institutions' dividend distribution policies must consider, in addition to cash payments, those made in the form of shares. If this alternative is used on a recurring basis and is not temporary or transitory, it is advisable that the total dividend per share be adjusted reasonably to make it commensurate with the growth of shares outstanding and with the earnings performance.

The Spanish banking system has made decisive advances in its process of restructuring, as envisaged in the Memorandum of Understanding entered into on 20 July 2012 by the Spanish and European authorities and in the legislation passed to comply with the commitments made in that agreement. The independent valuation exercise concluded in September 2012 was followed by the recapitalisation of the institutions so requiring and by the transfer of certain real estate-related assets to the SAREB by institutions which had received State aid.

Also, in 2012 a new and more stringent provisioning regime was approved and a new solvency ratio, of 9%, was defined which can only be covered using the highest-quality own funds. Recently legislation has also been passed to establish a general framework of criteria applicable to refinancings to ensure their uniform and prudent treatment. These reforms, along with the actions of the institutions themselves, have strengthened bank balance sheets and ensure adequate solvency levels for the risks assumed.

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