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Statement by the Banco de España on credit institutions' dividend policy in 2014

The Banco de España has today, at the close of business, sent a letter to AEB (the Spanish Banking Association) and CECA (the Spanish Confederation of Savings Banks) regarding the policy of credit institutions for dividends paid out of 2014 earnings. The recommendation reiterates that made in June last year regarding the dividend policy for the year 2013.

Since the June 2013 recommendation, the solvency position of the Spanish banking system has improved considerably in a more favourable economic and financial setting. That said, January 2014 saw the entry into force of the new European solvency regulations (known as CRR/CRD IV), which lay down more demanding rules for the oversight of banks' solvency. In turn, the European Central Bank (ECB) is, during 2014, to undertake a comprehensive assessment of the credit institutions of the Member States participating in the Single Supervisory Mechanism. Within this framework, the Banco de España deems it is advisable for banks to persevere with rigorous policies geared to capital conservation and the strengthening of solvency levels.

Specifically, the Banco de España recommends that banks should continue this year to apply restrictive criteria in the distribution of profits and that, in any event, the cash dividends paid out of 2014 earnings should not exceed 25% of attributed consolidated profit. This ceiling may, in exceptional cases, be breached as long as the institution can substantiate a particularly favourable outlook for its margins and a level of its CET1 capital ratio higher, as at 1 January 2014, than 11.5%, i.e. 3.5 percentage points above the CET1 level set as a benchmark for the comprehensive assessment of the European banking system to be undertaken by the ECB in 2014.

As regards dividends paid in shares, it is recommended that banks should make an additional effort to moderate this type of remuneration so that total dividends move towards levels that are sustainable in the medium term, thus making it possible for them to be paid fully in cash in the future, without precluding thereby the holding of an appropriate level of reserves.

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For further information: Phone +34 91 338 5044 / 6097 / 5318 Fax +34 91 338 5203 www.bde.es e-mail: comunicacion@bde.es