

Box 2.2
SHARE BUYBACK PROGRAMMES IN BANKING

Share buyback programmes are common practice in many countries, but in the case of Spanish institutions, they are a recent phenomenon. They began to be implemented in 2021, following the COVID-19 crisis, after the European Central Bank's recommendation on the non-distribution of dividends was finalised. At that time, there was a sharp upturn in buybacks worldwide, due to excess liquidity in banks and the absence of attractive investments given the high asset valuations following a decade of negative interest rates.

Share buybacks basically consist of the institution purchasing its own shares on the market, reducing the number of shares in circulation with a view to subsequently redeeming them. The main objectives of these transactions are to:

- Increase shareholder remuneration. This increase occurs when the buyback is extraordinary, i.e. when it was not previously included in the annual remuneration policy.
- Optimise the use of capital (avoiding the excess of an expensive instrument) and improve certain financial metrics, such as earnings per share.
- Generate value for shareholders who do not participate in the buyback. For the buyback to create value, two conditions must be met: the transaction must not prevent the institution from meeting its operating and future growth needs, and the market price at which the buybacks are made must represent a discount on their book value.

Bearing in mind these objectives and the cases observed in Spanish banks, a distinction can be made between two types of share buybacks:

- 1) Buybacks included in the annual shareholder remuneration policy, combined with cash dividends.
- 2) Extraordinary or non-recurring buybacks, which are intended to reduce excess capital and, ultimately, optimise the use of capital.

In Spain, share buyback programmes must be approved by the General Shareholders' Meeting, must not exceed 10% of the share capital and must be authorised by the National Securities Market Commission. These programmes are mainly regulated by the Securities Markets Law and Regulation (EU) No 596/2014 on market abuse. Share buybacks must meet a number of conditions, such as:

- The market must be informed of the terms and conditions of the transaction.
- In order to prevent market manipulation, the volume of shares that can be repurchased under open market conditions during a given period is restricted.
- In order to prevent the misuse of insider information, purchases are prohibited during certain periods linked to corporate events.

In addition, in the case of banks, prior authorisation from the supervisor is required when reducing eligible own funds, in compliance with Regulation (EU) No 575/2013 and Delegated Regulation (EU) No 241/2014.

Table 1
Detail of the evolution of share buybacks

	Millions of euros				Total buybacks executed from 1/1/2021 to 31/12/2024
	2021	2022	2023	2024	
Santander	1,706	1,921	2,769	1,525	7,921
BBVA	3,160	422	1,781		5,363
CaixaBank		1,800	500	1,751	4,051
Unicaja				100	100
Sabadell		204	93		297
TOTAL	4,866	4,347	5,143	3,376	17,732

SOURCE: Banco de España.

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Such authorisation may be granted provided that the institution has satisfactorily demonstrated to the competent authority that its own funds, after the buyback, will exceed the regulatory requirements by the margin deemed necessary by the competent authority, in accordance with Article 104(3) of Directive 2013/36/EU. Even if the execution of the buyback takes some time, the amount is deducted from own funds from the date on which it is authorised or reported to the market, whichever comes first.

Since 2021, five Spanish significant institutions have executed share buyback programmes for an aggregate amount (see Table 1) of €17,732 million (representing 126 basis points of the aggregate CET1 of those institutions); of this amount, just over €7,500 million correspond to extraordinary programmes.

Based on supervisory experience over the last four years, the following conclusions can be drawn:

- Given the solvency levels of Spanish banks, and given that their projections show comfortable capital positions, the supervisor has not identified any impediments to these transactions to date.
- Since 2021, Spanish banks have been slightly more active in this type of transaction than the average for institutions in the Single Supervisory Mechanism, in terms of buybacks relative to annual net profit. In general, institutions carry out these buybacks as a way of using their excess capital to boost their share price while rewarding their shareholders.
- It cannot be said that buybacks are better or worse than cash dividends from a supervisory perspective. However, cash dividends continue to be the main form of shareholder remuneration, while buybacks are the most widely used tool for optimising capital, in the event of a surplus, due to their potential to generate value.