



EUROPEAN CENTRAL BANK

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## PRESS RELEASE

### **ECB BANKING SUPERVISION PUBLISHES OUTCOME OF SREP 2016 AND RECOMMENDATIONS ON DIVIDENDS AND VARIABLE REMUNERATION FOR 2017**

- SREP 2016 outcome reveals broadly stable capital demand for 2017; changes in individual bank levels reflect changes in their risk profiles
- ECB also imposed liquidity and governance-related qualitative measures as part of SREP
- Recommendations on dividend distribution and variable remuneration for 2017 reflect approach in 2016

The European Central Bank (ECB) today published the outcome of its second Supervisory Review and Evaluation Process (SREP) in 2016. The aggregate capital demand for 2017 for the directly supervised banks remains comparable to 2016 – at an average and median of around 10% Common Equity Tier 1 (CET1). CET1 is a bank's highest quality capital, mostly consisting of common stock, and measures a bank's capital strength.

“This cycle of supervisory reviews shows that European banking supervision is making our banks safer. By using a common methodology, the process allows us to give specific quantitative and qualitative guidance to each bank we supervise while ensuring a level playing field in Europe,” said Danièle Nouy, Chair of the Supervisory Board of the ECB.

In addition to capital requirements, the ECB also imposed liquidity measures as part of the SREP. This occurred in cases where banks relied too much on wholesale short-term funding or inadequately managed risks associated with collateral management.

The liquidity measures included requiring banks to have higher liquidity coverage ratios than the regulatory minimum and, in some cases, imposing specific minimum amounts of liquid assets. The ECB also imposed qualitative measures to make up for weak governance.

## **Updated recommendations on dividend distribution and remuneration policies**

Separately, the ECB published updated recommendations on dividend distribution and remuneration policies to be adopted in 2017 for the financial year 2016. In both cases the ECB maintains its general stance, but takes account of a regulatory change that obliges the supervisor to differentiate between the types of Pillar 2 capital a bank must hold.

The ECB expects banks to adopt a prudent, forward-looking stance when deciding on their remuneration and dividend distribution policies so that they can fulfil all their capital requirements, including the outcome of the SREP.

The SREP methodology booklet 2016 and the recommendations on dividend distribution and variable remuneration can be found on the ECB Banking Supervision website.

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### **Notes:**

- Supervisory capital demand is based on the individual risk profile of a bank.
- Pillar 1 refers to the minimum capital a bank is required to hold by law.
- Pillar 2 refers to the capital the supervisor requires a bank to hold depending on its risk profile, risk management and capital planning.
- In the 2016 SREP process, supervisors had to differentiate for the first time between Pillar 2 requirements and Pillar 2 guidance.
- Pillar 2 requirements are binding and breaches can have direct legal consequences for banks.
- Failure to comply with Pillar 2 guidance does not automatically trigger legal action. Nonetheless, the ECB expects banks to comply with Pillar 2 guidance.

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