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DIFFUSO A CURA DEL SERVIZIO COMUNICAZIONE

PRESS RELEASE

Recommendation of the Bank of Italy on the dividend distribution and variable remuneration policies of banks

On 27 March 2020, in light of the pandemic emergency, the Bank of Italy issued a recommendation to Italian less significant banks not to pay out any dividends and to refrain from carrying out share buy-backs until 1 October 2020. The Bank of Italy also noted the importance of adopting a prudent and farsighted approach in setting remuneration policies. ⁽¹⁾ On 28 July 2020, given the still uncertain economic situation, the Bank of Italy updated the recommendation, extending its scope and duration. In particular, the following recommendations were made to the less significant banks and investment firms (SIMs) subject to CRR/CRD IV, to be observed at least until 1 January 2021: i) not to pay out any dividends or take on any irrevocable commitments regarding the payment of dividends, ii) to refrain from carrying out share buy-backs aimed at remunerating shareholders, and iii) to adopt an extremely prudent approach, including in relation to their variable remuneration policies. ⁽²⁾

In light of the current economic situation and given that the impact of the pandemic on banks' balance sheets has not yet manifested itself in full, mainly thanks to the sizeable public support measures adopted, the Bank of Italy deems it advisable – in line with the approach taken by the European Central Bank (ECB) for euro-area significant banks ⁽³⁾ – to maintain an extremely prudent approach in order to safeguard banks' capacity to absorb losses and grant loans to support the economy.

Therefore, the Bank of Italy recommends that, at least until 30 September 2021, Italian less significant banks:

- refrain from deciding on or paying out dividends or limit these dividends to no more than 15 per cent of the accumulated profit for the financial years 2019 and 2020, or no more than 20 basis points in terms of the Common Equity Tier 1 ratio, whichever is lower; ⁽⁴⁾
- refrain from deciding on or paying out provisional dividends in relation to profit for 2021;
- exercise extreme prudence in calculating variable remuneration.

¹ https://www.bancaditalia.it/media/comunicati/documenti/2020-01/cs-dividend-policy-recommendation.pdf?language_id=1

² https://www.bancaditalia.it/media/comunicati/documenti/2020-02/CS_Raccomandazione_politiche_dividendi_ENG.pdf?language_id=1

³ For the text of the ECB recommendation and the related FAQs, see the following link:
<https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr201215~4742ea7c8a.en.html>

⁴ The term 'dividend' as used in this Recommendation refers to any type of cash pay-out that has the effect of reducing the quantity or quality of Common Equity Tier 1 capital. All profit must be included in the calculation of the limits indicated in the text, regardless of a bank's choice to suspend or cancel the payment of dividends. The banks will therefore, make the necessary deliberations (see the ECB's FAQs, Section 4).

Banks that intend to pay out dividends should first verify their capital adequacy and their internal capital generation capacity, current and forward-looking, taking into account the impact of the pandemic on asset quality and on profitability, and should then contact the Bank of Italy to evaluate whether the level of dividend distribution envisaged can be considered prudent. The same limits, constraints and procedures apply to share buy-backs aimed at remunerating shareholders,

An extremely prudent approach until 30 September 2021 should be taken by the banks addressed by this recommendation also regarding variable remuneration. The Bank of Italy will evaluate carefully the banks' policies in this area, with a special focus on their impact on capital.

In the absence of a substantial worsening in the macroeconomic situation, starting on 30 September 2021 the Bank of Italy will revert to assessing dividend distribution and remuneration policies based on the ordinary supervisory review and evaluation process for individual banks.