Single Rulebook Q&A

Question ID	2019_4731
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR) as amended
Topic	Own funds
Article	26
Paragraph	2
Subparagraph	b
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Regulation (EU) No 241/2014 - RTS for Own Funds requirements for institutions
Article/Paragraph	2
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Disclose name of institution / entity	No
Type of submitter	Competent authority
Subject matter	Quantification of foreseeable dividends when the dividend policy is set as a fix amount
Question	Which amount should be deducted from interim/year-end profits pursuant to Article 26(2) CRR if a bank has a dividend policy stating that a certain specified amount (i.e. x.xx €) should be paid per share?
Background on the question	Some banks set their dividend policy in terms of currency amount per share (i.e. an absolute number) rather than as a percentage of the interim profits. The question arises as to whether the full amount of dividends should be deducted from the interim profits or only a portion of this amount depending on the quarter. Example:H1 interim profits: 1000Number of shares: 100Dividends per share: 3Total dividends expected to be paid for the year: 100*3 = 300Option 1: Interim profits included in CET1: 1000-300/2=850. Consequently, if the bank were not able to make at least 150 of profits in H2, the payment of the announced dividends would reduce the CET1 capital reported in H1 retroactively, everything else equal. Option 2: Interim profits included in CET1: 1000-300=700 In this case, the CET1 ratio would not be reduced because of the dividend payment, even if the bank did not make 150 profits in H2. Hence, a potential retroactive change is avoided.

EBA answer	If a dividend policy envisages payment of dividend in a specified amount (and not a pay-out ratio to be applied on profits), then the deduction to be applied to the respective interim or year-end profits shall be the specified amount times the number of shares entitled to dividend (in the example above, option 2). In the case of interim profits, the institution may only include them with the prior permission of the competent authority and provided that the interim profits exceed the amount of dividends specified in the dividend policy. As a general note, banks should not set their dividend policies in terms of absolute amounts because this may give wrong expectations to investors, given that distributions may only be paid out of distributable items.
Link	https://eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2019_4731

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