5.1 Dividend policy

The dividend distribution policy of credit institutions must comply with the principle of caution and must ensure an appropriate level of capitalisation at all times. In order to ensure that these goals are achieved, the Banco de España has issued a series of recommendations to credit institutions.

In this respect, in February 2014 it recommended that dividend distributions in the year be limited and that, in any event, cash dividends paid in 2014 be capped at 25% of attributable consolidated profit. It also recommended that institutions moderate their dividends paid in shares (scrip dividend).

The European Central Bank (ECB), exercising the functions attributed to it by Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions, has recommended that conservative dividend distribution policies be adopted, in view of the present difficult economic and financial situation. In particular:

- Institutions that at 31 December 2014 fulfilled their capital requirements and had already reached their fully-loaded capital ratios [that is, applying Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, not applying the transitional period] should distribute dividends in a conservative manner.

- Institutions that at 31 December 2014 fulfilled their capital requirements but had not yet reached fully-loaded capital ratios should also distribute dividends in a conservative manner, but only to the extent that a linear parh towards the fully-loaded ratios was secured.

- Institutions coming out of the comprehensive assessment in 2014 with a residual capital shortfall or in breach of their capital requirements should in principle not distribute any dividend.

This recommendation is addressed to institutions defined as significant in accordance with Regulation (EU) No 1024/2013, although the ECB has asked national supervisory authorities to apply these recommendations to less significant institutions.

In keeping with these criteria, in February 2015 the Banco de España issued a recommendation on dividend policy to less significant institutions, including the main aspects of the ECB recommendation.

5.2 Supervisory priorities

In 2014 the supervisory priorities relating to ordinary planned supervisory actions (both monitoring and on-site inspections) continued, as discussed in Chapters 2 and 3 of this report.

However, the preparation and start-up of the Single Supervisory Mechanism (SSM) had a significant impact on these priorities in the year.

In the case of significant institutions, which are now supervised directly by the ECB, one of the main priorities was to analyse and assess each institution, as described in section 1.2 of this report on the preparatory phase of the SSM.

This analysis and assessment of significant institutions, and the necessary interaction for the start-up of the ECB's new supervisory arrangements, absorbed a large portion of the Directorate General Banking Supervision's resources in 2014.

All other Spanish institutions were subjected to an internal assessment of their solvency position in various macroeconomic scenarios. This assessment was perfomed using the FLESB tool[1] (Forward-Looking Exercise on Spanish Banks), developed by the Banco de España.

1 For more details on this tool, see Chapter 3 of the *Financial Stability Report* of November 2013.