MFSA

Malta Financial Services Authority

Circular to Credit Institutions on the distribution of dividends

The purpose of this circular is to provide guidance on the distribution of dividends by credit institutions.

In assessing the distribution of dividends by a bank, the Authority is guided by the recommendation of the European Central Bank (ECB) of 28 December 2017 on Dividend Distribution Policies (ECB/2017/44) (the 'ECB Recommendation').

As per the ECB Recommendation, credit institutions are required to satisfy at all times:

a. the applicable minimum capital requirements ('Pillar 1 requirements');
b. the Supervisory Review and Evaluation Process (SREP) Pillar 2 capital requirements which are over and above the Pillar 1 requirements as determined in the SREP Decision, when applicable;
c. the 'combined buffer requirement' as defined in paragraph 5(iv) of Banking Rule BR/15 on the capital buffers of credit institutions, and
d. the 'fully loaded' Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the total capital ratio by the applicable full phase-in date.

The ECB Recommendation states, inter alia, that credit institutions in breach of the requirements referred to in points (a), (b) or (c) should in principle not distribute dividend.

In view of the above, banks should inform the Authority in writing of their intention to distribute dividends, providing the resolution of the board of directors, an extract of the minutes of the board of directors' meeting, and the board of directors' decision on the determination of the category (as per paragraph 2 of Part I of the ECB Recommendation) that the bank would fall into after the distribution of the dividend.

In cases where the bank intends to distribute unaudited profits, a review of the financial statements is to be carried out by the external auditors of the bank.

Any queries in relation to the above should be directed to the Banking Supervision Unit on BSUPolicy@mfsa.com.mt.

Communications Unit
Malta Financial Services Authority
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