



To the boards of directors of banks and holding companies in bank-dominated financial services groups

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Distribution of profits for 2019

Norwegian banks have been profitable for a number of years. During the first years after the international financial crisis, profits were largely retained to increase equity. In recent years, however, a larger proportion of profits has been distributed in the form of dividends and other payouts. At the end of 2019, most Norwegian banks fulfilled the capital requirements by an ample margin. The boards of directors of a number of banks have proposed large dividend payments and other distributions of assets on the basis of the 2019 financial statements, including authorisations to repurchase own shares.

However, since the boards approved the proposals for the distribution of annual profits for 2019, the conditions underlying the proposed distributions have changed completely. Until recently, banks could expect balanced growth in the Norwegian economy over the next few years. The spread of the coronavirus and measures to limit the contagion have, within a short period, caused extensive financial market turmoil and a sharp deterioration in the economic outlook. A pronounced economic downturn internationally and in Norway must be taken into account. Many industries are already strongly affected. The crisis and uncertainty are also reflected in extraordinary support measures from the political authorities and central banks to stimulate the economy, including measures aimed at banks.

In this situation, it is important that the banks are able to absorb the significant loan losses that may arise in the period ahead, while being able to provide new loans to creditworthy customers and to offer payment deferral to creditworthy customers facing liquidity problems. Insufficient access to credit may intensify the crisis.

On 13 March 2020, the Ministry of Finance decided to reduce the countercyclical capital buffer requirement from 2.5 per cent to 1.0 per cent with immediate effect. The purpose of this measure is to prevent a situation where increased loan losses as a result of the crisis will reduce the general public's access to credit.

Norwegian banks are well positioned to meet the economic and financial challenges we are currently facing. The liquidity buffer and overall capital buffer requirements are designed to give banks the opportunity to draw on their buffers in order to withstand a period of liquidity stress and absorb losses.

Under the prevailing conditions, Finanstilsynet will, if necessary, allow the banks not to meet the liquidity buffer requirement and/or the overall capital buffer requirement. Steps will be taken to ensure that use of the buffers will not impair lending capacity.

Banks' profits represent their first line of defence. In a situation where profits have been or look set to be drastically reduced, it is important that profits are retained to strengthen the banks' financial position.

As set out above, the institutions' operating parameters have changed significantly in a short period of time. Against this background, Finanstilsynet expects the institutions' boards of directors to review the distribution of profits for the 2019 financial year in light of the current crisis and economic uncertainty. Based on their review, Finanstilsynet also expects the boards of directors, if necessary, to submit new proposals to the institution's general meeting on dividend payments and other payouts.

Finanstilsynet asks for the board's assessment by 23 March 2020.

Yours sincerely

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This document has been electronically approved and does not require handwritten signatures