

ESM Guideline on Dividend Policy

Introduction

The ESM is an international financial institution based on authorized capital. The initial stock of authorized capital is set at EUR 700bn, of which EUR 80bn is paid-in capital. In addition to the 80bn paid-in capital, the ESM shall also establish a reserve fund in accordance with Article 24(1) of the ESM Treaty.

Any net income of the ESM due to its lending and investment operations shall be transferred to the reserve fund. In addition, proceeds of the financial sanctions from ESM Members under the multilateral surveillance procedure, the excessive deficit procedure, and/or the excessive imbalances procedure, shall be transferred to the reserve fund, in accordance with Article 24(2) of the ESM Treaty.

Dividend payments shall not exceed the amount available at the end of the last budget year. Dividends are distributed *pro rata* to the contributions to the paid-in capital, taking into account the possible acceleration of payments (Art. 23(1) of the ESM Treaty).

1. Rules of dividend payments

When ESM has reached its full lending capacity and in case no financial assistance is provided to one of its Members, in accordance with Article 23(2), proceeds from the investment of the ESM paid-in capital (or eventually from the reserve fund) shall be returned to the ESM Members according to their respective contributions to the paid-in capital, after deductions for operational costs.

In case the ESM has provided financial assistance to one of its Members, the Board of Directors may on the basis of a proposal by the Managing Director decide by simple majority to distribute dividends after deductions of operational costs (Art. 23(1)). These dividends emerge from the investment returns, fees paid to ESM or other profits. Operational costs not covered through financial support facilities to ESM members may be deducted from investment returns. Upon receipt of the dividend, ESM Members receiving financial assistance may be required by the Managing Director (i) to apply an amount equal to the dividend received to repay a portion of the financial assistance outstanding subject to respecting payment obligations viz a viz other lenders or (ii) to apply an amount equal to the dividend received to meet outstanding capital calls due to ESM. Alternatively the amount of the dividend received shall be taken into account in assessing the future funding needs of such ESM Member.

The Managing Director shall submit a proposal on the amounts of dividend payments on a regular basis. When submitting the proposal the Managing Director shall also present an assessment of the capital requirements related to the lending capacity to the Board of Directors. The accumulation of reserves is a crucial mechanism to ensure that the long-term effective lending capacity of ESM remains aligned with economic and financial developments. The Managing Director shall also propose the treatment of dividend payments for ESM Members receiving financial assistance. Based on this proposal and the additional assessment of the capital requirements, the Board of Directors

shall decide on the amount of dividends to be disbursed from the existing reserves and the treatment of dividend payments for countries under a programme.

In case ESM Members approve an enlargement of the lending capacity and an increase in the amount of paid-in capital in accordance with Article 10(1) and the completion of their applicable national procedures, they may authorize and instruct ESM prior to the disbursement of their respective dividends to use the amounts for the increase in their share of paid-in capital. Otherwise the dividends shall be transferred to the ESM Members. Transfers shall be made within the appropriate time period required to unwind investment positions, however, in any case not later than two months after the decision has been taken.

2. Restrictions on dividend payments

In line with Article 23(1), dividends shall not be distributed during the phasing-in period during which the paid-in capital is built up; when the amount of paid-in capital and the reserve fund do not exceed the level required for the ESM to maintain its lending capacity, proceeds shall be used to serve the reserve fund to support the full lending capacity of the ESM.

In addition, dividend payments will not be made during a period in which proceeds from the investment are required to avoid a payment shortfall to creditors (Art 23(1)). Therefore dividend payments will not be possible in case the warning procedure, to be implemented under the ESM risk policy and referred to in the terms and conditions of capital calls, detects a risk of a payment shortfall or significant risk of a loss. The Board of Governors and the Board of Directors will be notified by the Managing Director, when a capital call under Article 9(3) of the Treaty is made, that no dividend payments will be permissible. After capital calls have been served and the emergency situation has been resolved, the Managing Director will inform the Board of Governors and the Board of Directors that the general option of dividend payments is restored.