REPORT ON BANKING SUPERVISION IN SPAIN

2014

BANCO DE ESPAÑA
Eurosistema

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ABBREVIATIONS

ABCP	Asset-backed commercial paper
AIAF	Association of Securities Dealers
AMA	Advanced Measurement Approach (for measuring capital requirements for operational risk)
APR	Annual percentage rate
ASBA	Association of Supervisors of Banks of the Americas
ATA	Average total assets
ATF	Accounting Task Force
ATM	Automated teller machine
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
BOE	Official State Gazette
BRRD	Bank Recovery and Resolution Directive
BTS	Binding Technical Standards
CBE	Circular of the Banco de España
CCPs	Central counterparty clearing houses
CCR	Central Credit Register of the Banco de España
CEBS	Committee of European Banking Supervisors (until 31.12.2010)
CECA	Spanish confederation of savings banks
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors (until 31.12.2010)
CESR	Committee of European Securities Regulators (until 31.12.2010)
CET1	Common Equity Tier 1
CGs	Consolidated groups of CIs
CII	Collective investment institution
CIs	Credit institutions (DIs and SCIs)
CIs with DFA	Credit institutions with direct financial activity
CMG	Crisis Management Group
CNAE	Spanish National Classification of Economic Activities
CNMV	National Securities Market Commission
COREP	Common Reporting
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DFA	Direct financial activity, in contrast to the indirect financial activity which may be performed by savings banks
DGF	Deposit Guarantee Fund
DIs	Deposit institutions (banks, savings banks and credit cooperatives)
D-SIBs	Domestic systemically important banks
EAD	Exposure at default
EBA	European Banking Authority (from 1.1.2011)
EC	European Community
ECB	European Central Bank
ECOFIN	EU Council of Ministers of Economy and Finance
EEA	European Economic Area
EFAs	Earning financial assets
EFSF	European Financial Stability Facility
EIOPA	European Insurance and Occupational Pensions Authority (from 1.1.2011)
ELMI	Electronic money institution
EMU	Economic and Monetary Union
EMIR	European Market Infrastructure Regulation
ER	Efficiency ratio
ESAs	European Supervisory Authorities
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision
ESM	European Stability Mechanism
ESMA	European Securities and Markets Authority (from 1.1.2011)
ESRB	European Systemic Risk Board
EU	European Union
FASB	Financial Accounting Standards Board
FB	Foreign branch
FCs	Financial conglomerates
FGD	Deposit Guarantee Fund
FINREP	Financial reporting
FROB	Fund for the Orderly Restructuring of the Banking Sector
FSB	Financial Stability Board
FSC	Financial Stability Committee
FSF	Financial Stability Forum
FVC	Financial vehicle corporation (also SSPE)
GDP	Gross domestic product

GHOS	Governors and Heads of Supervision
GI	Gross income
G-SIBs	Global systemically important banks
G-SIFIs	Global systemically important financial institutions
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBFLs	Interest-bearing financial liabilities
ICO	Official Credit Institute
IFRSs	International Financial Reporting Standards
IMF	International Monetary Fund
INE	National Statistics Institute
IOSCO	International Organisation of Securities Commissions
IPO	Initial Public Offering
IPS	Institutional protection scheme
IRB	Internal ratings-based method
IRC	Incremental risk charge
IRS	Interest rate swap
ITS	Implementing Technical Standards
JF	Joint Forum
JST	Joint Supervisory Team
LCR	Liquidity coverage ratio
LEI	Legal Entity Identifier
LGD	Loss given default
LSI	Less significant institution
MG	Mixed group of financial institutions
MGCs	Mutual guarantee companies
MMFs	Money market funds
MoU	Memorandum of Understanding
NCA	National competent authority
NII	Net interest income
NOP	Net operating profit
OCI	Other credit institutions
OECD	Organisation for Economic Co-operation and Development
OJ L	Official Journal - Legislation
OJEU	Official Journal of the European Union
OTC	Over-the-counter (trading on unregulated markets)
PBT	Profit before tax
PIs	Payment institutions
POS	Point of sale
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
RD	Royal Decree
RDL	Royal Decree-Law
ROA	Return on assets (profit after tax as percentage of ATA)
ROE	Return on equity (profit after tax as percentage of own funds)
RTS	Regulatory Technical Standards
RWA	Risk-weighted assets
Sareb	Sociedad de Gestión de Activos Inmobiliarios procedentes de la Reestructuración Bancaria (asset management company for assets arising from bank restructuring)
SCIs	Specialised credit institutions
SEPA	Single Euro Payments Area
SEPBLAC	Commission for the Prevention of Money Laundering and Monetary Offences
SIFIs	Systemically important financial institutions
SIG	Supervision Implementation Group
SME	Small and medium-sized enterprise
SRM	Single Resolution Mechanism
SRB	Single Resolution Board
SRF	Single Resolution Fund
SSG	Senior Supervisors Group (BCBS)
SSM	Single Supervisory Mechanism
SSMR	Single Supervisory Mechanism Regulation
SSPE	Securitisation special purpose entity (also FVC)
TCOR	Task force on the consistency of outcome in risk-weighted assets

* * *

€m	Millions of euro
€bn	Billions of euro
Q1, Q4	Calendar quarters
P	Placed after a date [Jan (P)], indicates that all the related figures are provisional. Placed after a figure, indicates that this and only this figure is provisional
bp	Basis points
pp	Percentage points
...	Not available
—	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth

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03.06.2015

Report envisaged in Law 44/2002 on Financial System Reform Measures

2014

1. Introduction

The Second Additional Provision of Law 44/2002 of 22 November 2002 on Financial System Reform Measures established, in consonance with its name, certain measures to improve the efficiency, effectiveness and quality of supervision procedures.

These measures comprise most notably the obligation of supervisory agencies, including the Banco de España, to prepare annually "a report on their supervisory function". This report shall include "a report by the respective internal control bodies on the extent to which the decisions taken by their governing bodies conform to the procedural rules applicable in each case".

The 2015 Internal Audit Plan of the Banco de España, approved by the Governor on 23 December 2014 and notified to the Executive Commission on 15 January 2015, includes the drafting of the report envisaged in Law 44/2002 of 22 November 2002 on Financial System Reform Measures, so that it may be included in the Banco de España's annual report on its supervisory function.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the Second Additional Provision of Law 44/2002. As mentioned above, this Second Additional Provision defines the scope of the report by reference to three basic elements:

1. The supervisory function of the Banco de España.
2. The decisions taken by the governing bodies in exercise of the supervisory function.
3. Conformity of the foregoing decisions to the procedural rules applicable.

As regards the reporting period, the report refers to the decisions taken by the Executive Commission in 2014 and the delegated decisions of which the Executive Commission was notified in that period.

The subject matter of the report is the decisions taken by the Banco de España's governing bodies within the spheres of competence of the Directorate General Banking Supervision, the Directorate General Banking Regulation and Financial Stability[1], and the General Secretariat.

Regarding applicable legislation, account was taken of the supervisory powers and procedures contained in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and in the Internal Rules of the Banco de España.

Also, the Executive Commission established, via a resolution of 14 February 2003, the procedural rules for proposals on matters within the competence of the Directorate General Banking Supervision. These rules were updated by a resolution dated 8 April 2014. In addition, the Executive Commission approved, via resolutions of 30 June 2006 and 18 July 2008, the

[1] On 29 April 2015, this directorate was renamed Directorate General Financial Stability and Resolution. However, the previous name is used in this document as it was the name in force during the audit period.

procedural rules for proposals on matters within the competence of the Directorate General Banking Regulation and Financial Stability and, via resolution of 29 September 2014, the procedural rules for proposals from the General Secretariat to the Executive Commission.

On 2 November 2012, rules were laid down on the reporting of matters to the Executive Commission by all the Directorates General of the Banco de España. These rules are complementary to those mentioned above for the Directorate General Banking Supervision, the Directorate General Banking Regulation and Financial Stability, and the General Secretariat.

Similarly, via a resolution of 18 December 2009, the Executive Commission approved the regime governing the delegation of powers, which was published in the Official State Gazette of 5 January 2010 and envisages that delegates may in turn delegate their powers and, consequently, also provides for recovery of competence by a higher administrative level. This resolution was amended[2] in 2011, on 23 November and 23 December[3], in 2013, on 25 January, 16 April, 27 June and 29 July[4], and in 2014, on 30 April, 29 September and 5 December[5].

In order to review the decisions adopted by the Executive Commission, stratified sampling was performed in 12 strata or types of decision taken by the Directorate General Banking Supervision, in 14 strata or types of decision taken by the Directorate General Banking Regulation and Financial Stability and in 14 strata or types of decision taken by the General Secretariat. Different sampling fractions were applied to these strata depending on the materiality, numerical volume and internal homogeneity of each stratum.

The work was performed in accordance with the Internal Audit Manual, which includes the International Standards for the Professional Practice of Internal Auditing, approved by the Institute of Internal Auditors, including those relating to the Code of Ethics.

3. Opinion

In our opinion, the decisions taken by the governing bodies of the Banco de España in 2014 in the exercise of its supervisory function were taken by bodies with sufficient own or delegated powers in accordance with the Banco de España's Internal Rules and with the provisions laid down by its Executive Commission, and are in conformity, in all material respects, with the existing procedural rules applicable in each case.

Madrid, 3 June 2015
Director of the Internal Audit Department

Juan González Gallegos

THE GOVERNOR OF THE BANCO DE ESPAÑA
THE DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

[2] The amendments listed are those relevant to 2014.

[3] Official State Gazettes of 2 December 2011 and 24 December 2011, respectively.

[4] Official State Gazettes of 5 February 2013, 25 April 2013, 29 June 2013 and 31 July 2013, respectively.

[5] Official State Gazettes of 10 May 2014, 1 October 2014 and 10 December 2014, respectively.

1 THE SINGLE SUPERVISORY MECHANISM (SSM): A NEW EUROPEAN SUPERVISORY SYSTEM

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1.1 The Banking Union project

The Banking Union has been key in the response to the recent financial crisis, which highlighted the need for far-reaching reforms of the European institutional framework for supervision and crisis management in the banking sector. Banking Union is a key complement to Economic and Monetary Union (EMU) and the internal market, as it will contribute to creating an integrated financial framework to safeguard financial stability and minimise the cost of banking crises.

In order to build the Banking Union, in addition to the creation of the Single Supervisory Mechanism (SSM), the following elements are required:

- A single rulebook, based on the capital requirements framework set up by Regulation (EU) No 575/2013 and Directive 2013/36/EU. The European Banking Authority (EBA) is responsible for further developing the rulebook and has received the mandate to prepare a series of technical standards which will be legally binding once they have been approved by the European Commission.

- A Single Resolution Mechanism (SRM), whose legal framework is the Bank Recovery and Resolution Directive 2014/59/EU (BRRD). This resolution framework came into operation in January 2015 and has a similar scope to that of the SSM. The SRM comprises:

  - A Resolution Board which will be responsible for applying the common BRRD rules, including bail-in measures for the distribution of losses among shareholders and creditors of credit institutions (CIs) under resolution so as to reduce the need for public funds.

  - A Single Resolution Fund, which will give credibility to the mechanism by providing financial support in orderly resolution processes. The fund will start to receive contributions as from 2016 and its capital will be gradually mutualised over a transitional eight-year period during which national compartments will exist.

  - A system of national resolution authorities.

- A system of deposit guarantee schemes. After ruling out the creation of European deposit insurance, an agreement was reached to make progress in the harmonisation of the current deposit insurance schemes. Thus, Directive 2014/49/EU sets as a target for national guarantee schemes net assets equivalent to 0.8% of the deposits covered (with a harmonised level of coverage of €100,000) and envisages a reduction in payment periods from 20 working days at present to seven working days by 2024.

In June 2012 the EU Heads of State and Government called for the creation of a single supervisor as the first step towards the aforementioned Banking Union with the immediate aim of improving the quality of supervision in the euro area, encouraging market integration and breaking the negative link between confidence in banks and doubts over the sustainability of public debt.

1.2 Preparatory phase: legal framework and comprehensive assessment of the banking system

LEGAL FRAMEWORK

Council Regulation (EU) No 1024/2013 of 15 October 2013 confers specific tasks on the European Central Bank (ECB) concerning policies relating to the prudential supervision of the CIs of the participating Member States, which are those of the euro area and other Member States that have established close cooperation with the ECB, in keeping with the provisions laid down in the Regulation. Excluded from the supervisory functions conferred on the ECB are those institutions envisaged in Article 2(5) of Directive 2013/36/EU on access to the activity of CIs and the prudential supervision of CIs and investment firms, namely: investment firms, central banks and, in the case of Spain, the ICO (Instituto de Crédito Oficial). The purpose of the SSM is to carry out thorough and effective banking supervision and to contribute to the safety and soundness of the banking system and to the stability of the financial system, guaranteeing equal treatment and conditions throughout the EU.

In parallel with the publication of the SSM Regulation, and so that the conferral on the ECB of supervisory functions concerning the CIs of some Member States would not hamper the role and functions of the EBA, Regulation (EU) No 1022/2013 confirmed the functions, powers and duties of the EBA and adapted certain aspects of its governance and voting systems.

Article 6(7) of the SSM Regulation provides for the creation of a cooperation framework between the ECB and the National Competent Authorities (NCAs). The SSM Framework Regulation was approved on 16 April 2014 and entered into force on 15 May 2014. The Framework Regulation expands on the aspects expressly referred to in Article 6(7), such as the methodology for assessment of the significance of institutions and the cooperation procedures for the supervision of significant and less significant institutions. It also deals with aspects relating to the so-called "common procedures" (granting or withdrawal of licences and acquisition of qualifying holdings), macro-prudential supervision and close cooperation with non-euro area Member States.

The SSM Regulation establishes the principle of separation between supervisory and monetary policy functions at the ECB, requiring it to adopt and publish internal rules to ensure effective separation between those two functions in matters such as professional secrecy and information exchanges. On 17 September 2014 the ECB adopted a decision on the implementation of separation between the monetary policy and supervisory functions.

The accountability requirements of the ECB, set out in the SSM Regulation, were fleshed out in an interinstitutional agreement between the European Parliament and the ECB, adopted on 6 November 2013 within the framework of the SSM. The agreement requires the ECB to publish quarterly reports on progress in the practical implementation in the initial preparatory phase, and to submit an annual report to Parliament on the execution of the tasks conferred on it by the Regulation.[1] The agreement establishes that the aforementioned annual report shall cover, inter alia: the execution of supervisory tasks, the sharing of tasks with the national supervisory authorities, cooperation with other national or EU competent authorities, separation between supervisory tasks and monetary policy functions, implementation of the code of conduct, the method of calculation and amounts of the supervisory fees and the budget for supervisory tasks.

1 See: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmar2014.en.pdf?7c1e3783c43f86ef4722a3da42ce202e.

Given their particular relevance, two areas of the SSM legal framework are discussed in greater depth in this report: the supervisory powers that become exclusive to the ECB, and the decision-making process within the SSM framework.

EXCLUSIVE SUPERVISORY POWERS OF THE ECB

The SSM Regulation clearly states that the ECB will be exclusively competent to carry out, for prudential supervisory purposes, the following tasks in relation to all CIs established in participating Member States:

1 To authorise and, where appropriate, withdraw the authorisation of CIs and to assess notifications of acquisition or disposal of qualifying holdings in CIs, with certain caveats in the case of bank resolutions.

2 To act as the home competent authority for CIs established in a participating Member State which wish to establish a branch or provide cross-border services in a non-participating Member State.

3 To ensure compliance with EU law on prudential requirements (Pillar 1), supervisory review procedures (Pillar 2) and market disclosure (Pillar 3), comprising, among other matters, the analysis of: own funds requirements, large exposure limits, liquidity, leverage, governance arrangements, the fit and proper requirements for senior management, internal control mechanisms, remuneration policies and capital adequacy, including the assessment of internal risk models and the performance of stress tests.

4 To carry out supervision on a consolidated basis over CIs' parents established in a participating Member State, including over financial holding companies and mixed financial holding companies. Where the parents are not established in a participating Member State, the ECB will participate in colleges of supervisors, without prejudice to the participation of NCAs as observers.

5 To participate in supplementary supervision of financial conglomerates in relation to the CIs included in them, assuming, where appropriate, the task of coordinator of the financial conglomerate.

6 To supervise recovery plans and early intervention measures and, where appropriate, request that the measures needed to resolve problems be adopted, excluding any resolution powers.

7 To impose more stringent requirements, in close coordination with the national authorities of participating Member States in respect of own funds requirements, additional capital buffers and systemic or macro-prudential measures.

For the exercise of the prudential supervision tasks defined in the SSM Regulation, the ECB shall apply the relevant EU legislation, and where this legislation is composed of Directives, the ECB shall apply the national legislation transposing those Directives. Where the relevant EU legislation grants several options for Member States, the ECB shall apply the national legislation exercising those options. The ECB is subject to the technical standards developed by the EBA and approved by the European Commission, and to the EBA's European Supervisory Handbook. Furthermore, as regards any aspects not covered by those standards, or in the event of new harmonisation requirements arising during the

course of day-to-day supervision, the SSM shall develop its own standards and methodologies, taking into account national options and the discretion of Member States within the framework of EU legislation.

The Banco de España, in its capacity as an NCA of a participating Member State, will cooperate with the ECB in the exercise of the tasks conferred on the latter by the SSM Regulation, in accordance with Article 6(8) of the Regulation. To this end, both the ECB and the national authorities will be subject to a duty of cooperation in good faith and to an obligation to exchange information in the exercise of their respective supervisory and investigatory powers.

DECISION-MAKING WITHIN THE SSM

The main decision-making bodies of the ECB, namely the Supervisory Board, the Steering Committee, the Mediation Panel and the Administrative Board of Review, are described below.

In accordance with the SSM Regulation, the Supervisory Board is responsible for planning and performing the supervisory tasks of the ECB. As an internal body of the ECB, it prepares draft decisions for adoption by the ECB Governing Council under the non-objection procedure (decisions are deemed to be approved unless the Governing Council objects within a specific period that may not exceed ten working days). The Governing Council may adopt or reject draft decisions, but it may not amend them.

The Supervisory Board comprises a Chair and a Vice-Chair, four ECB representatives and a representative of the NCA of each participating Member State.[2] Where the competent authority is not a national central bank, the Supervisory Board member may decide to include a representative from its central bank, in which case the two representatives together are considered as one member for the purposes of the voting procedure. The current Chair of the Supervisory Board is Danièle Nouy and the Vice-Chair is Sabine Lautenschläger, who is also a member of the ECB Executive Board. The Banco de España's representative on the Supervisory Board is the Deputy Governor.

The Supervisory Board shall establish a Steering Committee from among its members[3] to support its activities and prepare its meetings. The Steering Committee is chaired by the Chair of the Supervisory Board and also includes the Vice-Chair of the Supervisory Board, one ECB representative and five NCA representatives. It shall have no more than ten members.

The Supervisory Board adopted its own Rules of Procedure on 31 March 2014, after the Rules of Procedure of the ECB were amended by the Governing Council regulating the interaction between the Governing Council and the Supervisory Board within the non-objection procedure. The Code of Conduct for the members of the Supervisory Board, approved on 12 November 2014, sets out the ethical standards required of them and procedures to deal with potential conflicts of interest.

In addition, a Mediation Panel[4] has been established with a view to settling disagreements expressed by NCAs in relation to any objection of the Governing Council to draft decisions

2 It currently has 25 members, now that Lithuania has joined the euro area. The number may vary, if new countries join the euro area or non-euro area Member States wish to participate under the terms of Article 7 of Regulation 1024/2013.

3 Article 26(10) of Regulation 1024/2013.

4 Article 25(5) of Regulation 1024/2013.

prepared by the Supervisory Board. The Mediation Panel has one member per participating Member State, chosen from among the members of the Governing Council and the Supervisory Board. In the first year of the Panel's operation, the Banco de España's representative will be the Governor (alternating annually with the Deputy Governor) as a member of the Governing Council.

Lastly, Regulation (EU) No 1024/2013[5] provides for the creation of an Administrative Board of Review to carry out internal administrative reviews of the ECB's supervisory decisions. Any natural or legal person subject to supervision may request a review of a decision of the ECB that is addressed to that person or is of a direct and individual concern to that person.[6] The Administrative Board shall review the request and adopt a non-binding opinion, based on which the Supervisory Board will submit a proposal to the Governing Council to maintain or amend the original decision. The Administrative Board of Review will have five independent members of high repute, with relevant knowledge and professional experience.[7] The former Deputy Governor of the Banco de España, Javier Aríztegui, has been appointed a member of this Board.

COMPREHENSIVE ASSESSMENT OF THE BANKING SYSTEM

The SSM Regulation entered into force on 4 November 2013. Under the Regulation, the ECB was given one year — until 4 November 2014 — to complete the preparatory work for the SSM. The ECB formally assumed supervisory responsibilities on 4 November 2014. Prior to that date, and in accordance with Article 33 of Regulation (EU) No 1024/2013, the ECB carried out a comprehensive assessment of the significant banking groups in the euro area countries. The prime objectives of this comprehensive assessment were to increase the level of transparency regarding the condition of the largest European banks and to identify and implement any corrective action needed to strengthen their solvency.

This exercise, in which 128 euro area institutions participated (16 of which were Spanish[8]), consisted of two parts: an asset quality review and a stress test.

The asset quality review (AQR) involved an in-depth review of the balance sheets of the banks analysed. This process was decentralised, carried out with the assistance of leading audit firms and subject to strict centralised control from the ECB.

The AQR was performed in different phases, defined in the methodology developed by the ECB. The first phase consisted of selecting the asset portfolios to be reviewed in the year, ensuring that they made up at least 50% of each institution's exposure. Subsequently, a complex analysis was performed, in different stages, to determine whether the classification of financial instruments, provisioning levels and the valuation of specific assets and collateral was appropriate. This process, following stringent quality control in which the national authorities played a pivotal role, resulted in a series of adjustments to the level of CET1 capital, and these were taken into account to set the starting levels for the stress tests.

The second key part of the comprehensive assessment of the banking sector was the stress test, which consisted of a forward-looking simulation aimed at assessing the resil-

5 Article 24(2) of Regulation 1024/2013.

6 A request for review of an ECB decision by the Administrative Board of Review shall not affect the right to take legal action before the European Court of Justice.

7 Excluding current staff of the ECB or of NCAs or other national or EU institutions or agencies taking part in the tasks conferred on the ECB.

8 There were effectively 15 Spanish institutions, following the merger between Unicaja and CEISS in 2014.

ience of institutions in severe, but plausible, hypothetical stress scenarios. The outcome of the test provided an indication of possible capital needs in the event of certain risks materialising and identified areas where further supervisory action may be required.

The stress testing exercise was basically designed by the institutions themselves (bottom-up approach), applying EBA methodology,[9] and was subject to strict quality assurance by the ECB and the national authorities. It assessed the foreseeable situation of institutions under two scenarios: a baseline and an adverse scenario. The horizon for the exercise was three years (2014-2016), taking the consolidated balance sheets at end-2013 as the starting point.

In order to ensure that the results of the AQR were taken into account in the stress tests, an additional "join-up" exercise was performed, centrally-led by the ECB, to integrate the results of the two phases.

Minimum thresholds were set for the different parts of the comprehensive assessment. In particular, banks had to comply with a minimum CET1 ratio of 8% in order to come successfully through the AQR and the baseline scenario of the stress tests. In the adverse scenario of the stress tests, the minimum threshold was 5.5%. If a bank fell short of any of these thresholds, it had two weeks to submit a capital plan detailing how the identified shortfall would be filled, and six to nine months to cover the capital shortfall.

The comprehensive assessment results published on 26 October 2014 showed that, with the methodology used, 25 institutions had a capital shortfall over the three thresholds set (for the AQR and the baseline and adverse scenarios of the stress test). Of these, 11 had increased their capital sufficiently between 1 January and 30 September 2014, and only 13 continued to have a net capital shortfall. The capital shortfall for the whole of Europe was approximately €24.6 billion (gross) and €9.5 billion (net).

Only one Spanish bank, Liberbank, came out slightly below one of the thresholds set, specifically in the asset quality review. However, the estimated shortfall was very small (€32 million) and, in the course of 2014, the bank had taken measures to strengthen its capital by more than was needed to cover its shortfall.

Lastly, it should be noted that Spanish institutions were those required to make the least adjustments as a result of the asset quality review: just 0.14% of their risk-weighted assets.

1.3 Supervision in the new european framework

Given the enormous number of CIs established in the euro area, supervision by the ECB will depend on their size. Thus, the SSM Regulation distinguishes between significant and less significant institutions based on certain objective and subjective criteria. Accordingly, an institution will be deemed significant if:

SIGNIFICANT INSTITUTIONS

- Its consolidated total assets exceed €30 billion.
- The ratio of its assets to the GDP of the country where it is established exceeds 20%, unless its consolidated total assets are below €5 billion.

9 The stress tests were conducted in all EU countries. However, the exercise was more complex in the euro area, as an exhaustive asset quality review was also performed and the results taken into account in the stress tests.

– It is considered significant by the NCA following confirmation of the CI's relevance by the ECB after a comprehensive assessment. Unless circumstances advise otherwise, the three largest credit institutions in each Member State shall be deemed significant.

– It has subsidiaries in more than one of the participating countries and its cross-border assets or liabilities represent a significant part of its total assets or liabilities.

– It has received or requested direct financial assistance from the European Financial Stability Facility (EFSF) or the European Stability Mechanism (ESM).

The methodology applicable for determining significance (calculation criteria, definition of scope, etc.) is described in Part IV of the SSM Framework Regulation.

In the case of Spain, 15 institutions were considered significant at end-2014: Abanca, Banco Bilbao Vizcaya Argentaria (BBVA), Banco Financiero y de Ahorros (Bankia), Banco Mare Nostrum, Banco Popular Español, Banco Sabadell, Banco Santander, Bankinter, Caixabank, G.C. Cajamar, Ibercaja Banco, Kutxabank, Liberbank, Unicaja Banco[10] and Catalunya Banc.[11] Each year, the ECB will review the status of each institution and, if necessary, will publish an updated list.

SUPERVISORY MODEL

Institutions deemed significant will be subject to direct supervision by the ECB. All others, the less significant institutions (LSIs), will be directly supervised by the NCAs and indirectly supervised by the ECB.

– Where the ECB exercises direct supervision (significant institutions), the Banco de España will assist by sending information, participating in on-site inspection teams and joint supervisory teams, preparing draft decisions to send to the ECB for consideration and implementing decisions adopted by the ECB.

  The on-site inspections teams will essentially be national teams, along with the Head of mission who will usually be a member of the national authority. The ECB will ensure that the quality and the methods used are uniform throughout the euro area. Two specialised divisions – the Supervisory Quality Assurance Division and the Centralised On-site Inspections Division – have been created for this purpose.

  The Joint Supervisory Teams (JSTs) are a cornerstone of the SSM for the supervision of significant institutions. A JST has been established to supervise each significant institution or significant consolidated group. Each JST will be composed of staff members from the ECB and the NCAs, working under the coordination of an ECB staff member – who may coordinate several JSTs – and assisted by one or more NCA sub-coordinators, particularly as regards employees appointed by the respective NCA. The ECB will be responsible for the establishment and composition of the JSTs. The NCAs will appoint one or more of their

10 Banco de Caja España de Inversiones, Salamanca y Soria, SA (Banco CEISS) was removed from the list after being acquired by Unicaja Banco.

11 The number of significant Spanish institutions will drop to 14 when Catalunya Banc is merged into BBVA.

employees as JST members; the ECB may request that NCAs modify the appointments made.

The JSTs are responsible for the day-to-day supervision of institutions and for implementation of the activities envisaged in the annual supervisory examination programmes. The supervisory review and evaluation process which they carry out includes ongoing assessment of banks' risk profiles (through a uniform risk assessment and control system) and of liquidity adequacy and solvency (based on their internal assessment procedures). As a result, they propose verifications to on-site inspection teams and submit draft decisions to the Supervisory Board. Lastly, they also monitor correct compliance with the recommendations made.

– Where the Banco de España exercises direct supervision (less significant institutions), it will have to notify the ECB ex-ante of any material supervisory procedure and report on any other measures it adopts, Furthermore, as it is responsible for the functioning of the SSM and in order to ensure the consistency of supervisory outcomes within the SSM, the ECB may issue regulations, guidelines or general instructions that the Banco de España and other NCAs must follow in their direct supervision of LSIs and it may request that NCAs perform on-site inspections of those institutions or provide any information considered necessary on them.

The distribution of work explained in this section – based on the significance of CIs – will also apply to CIs established in a non-participating Member State which establish a branch or provide cross-border services in Spain or in another participating Member State.

Irrespective of the type of institution (significant or less significant), the ECB will be responsible for decisions on procedures relating to authorisation or withdrawal of authorisation and on procedures relating to qualifying holdings.

INTERNAL ORGANISATION

The ECB has established four dedicated Directorates General (DGs) to perform the supervisory tasks conferred on the ECB in cooperation with NCAs.

DGs Micro-Prudential Supervision I and II are responsible for the direct day-to-day supervision of significant institutions. DG Micro-Prudential Supervision I is responsible for supervision of the most significant groups (around 30, of which four[12] are Spanish) and DG Micro-Prudential Supervision II for the remaining significant groups (around 90, of which 11 are Spanish).

DG Micro-Prudential Supervision III is responsible for indirect supervision of the less significant institutions supervised by the NCAs (around 3,500, of which 87 are Spanish[13]) and oversees the implementation of common and harmonised supervisory practices. The Banco de España conducts direct supervision of these institutions.

DG Micro-Prudential Supervision IV performs specialised and horizontal tasks in respect of all credit institutions under the SSM's supervision. It engages in specific activities in the areas of supervisory quality assurance, policies, methodologies and standards, on-site

12 Banco Santander, BBVA, Banco Financiero y de Ahorros (Bankia) and Caixabank.
13 Including 11 branches of credit institutions of EU countries not participating in the SSM.

inspections, authorisations, sanctions, risk analysis, model validation and crisis management.

Additionally, a dedicated Secretariat service supports the activities of the Supervisory Board, helping it prepare meetings and resolve related legal issues.

Furthermore, the supervisory tasks of the SSM are supported by the ECB's shared services, such as human resources, information systems, legal and statistical services, etc.

One key difference from the traditional supervisory model in Spain is that the SSM model draws a distinction between monitoring and inspection activities. Under the SSM model, these tasks are assigned to different teams, whereas at the Banco de España the analysis, monitoring and inspection of institutions had traditionally been performed by the same teams, the so-called inspection operating divisions. In order to facilitate interaction between the two authorities, the Directorate General Banking Supervision was reorganised, creating a structure that mirrors that of the ECB. Thus the present Directorate General Banking Supervision departments replicate the four Directorates General of the SSM. One of the main changes was precisely to concentrate all the teams responsible for inspection of significant institutions in Supervision Department IV, replicating the SSM structure.

With the entry into force of the SSM, the high level of technical expertise of the Banco de España's staff was recognised, with around 100 experts joining the new SSM, including one of the four directors general and two of the seven deputy directors general. In 2014 a large number of Banco de España supervision experts joined the ECB, in a much higher proportion than that which would correspond to Spain based on the relative weight of Spanish institutions in the SSM countries overall.

SUPERVISORY MANUAL - GUIDE

One of the key challenges facing the SSM is managing the different "supervision cultures" in the participating Member States. In order to mitigate the risks arising from this fragmentation at source, the ECB has developed a single supervisory manual for internal use, which describes the processes, procedures and methodology for the supervision of significant and less significant institutions. In addition, under the Interinstitutional Agreement between the European Parliament and the ECB, in September 2014 a Guide to Banking Supervision was published, which explains the functioning of the SSM and provides guidance on its supervisory practices.[14] The Guide is aimed at supervised institutions and the general public.

SUPERVISORY FEES

The introduction of supervisory fees is also a key change for Spanish institutions.[15] The purpose of the fees – which will be levied on significant and less significant institutions established in participating Member States and on branches established in those Member States by CIs belonging to non-participating Member States – is to recoup the costs incurred by the ECB in the exercise of its supervisory tasks. The fees will be calculated at the highest level of consolidation within participating Member States (excluding subsidiaries established in non-participating Member States) and will be based on objective criteria relating to the importance and risk profile of the CI concerned. In order to calculate the fee payable by each institution, the ECB's annual expenditure in relation to its supervisory tasks is split into two parts: the amount to be recovered from significant institutions and the amount to be recovered from less significant institutions. For each group, the fee will

14 See: https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssmguidebankingsupervision201409en.pdf.
15 Article 30 and Whereas clause number 77 of Regulation 1024/2013, and Decision ECB/2015/7.

have a fixed and a variable component: the fixed component will cover 10% of the expenses relating to each group of institutions, and the variable component will be allocated based on the importance of each institution by total assets and risk profile (risk exposure), with both factors equally weighted. The fee will be paid in advance in the final quarter of the year, based on the ECB's estimated expenditure for that year, and will be subsequently adjusted in the event of any changes.

PENALTIES REGIME

As for the penalties regime,[16] the SSM Regulation provides that the ECB will be competent for imposing pecuniary penalties on legal persons as a result of any breach of directly applicable European law (regulations and decisions).

In the case of other penalties – for breach of European law transposed into national legislation or penalties for individuals performing senior management functions – the ECB may require that the Banco de España and other NCAs initiate the corresponding penalty procedures. In any event, the penalties applied by the ECB and by NCAs must be effective, proportionate and dissuasive.

LANGUAGE REGIME

Under Article 24 of the ECB's Framework Regulation, any document sent to the ECB by a supervised credit institution or other natural person individually subject to ECB supervisory procedures may be drafted in any of the official EU languages.

The ECB, the supervised credit institutions and any other natural or legal person individually subject to ECB supervisory procedures may agree to use one official EU language in their written communication. If a credit institution revokes that agreement, the change will only affect the parts of the ECB supervisory procedure that have not yet been carried out. In the case of Spain, all supervised credit institutions have initially opted to use English in their written communications.

If participants in an oral hearing ask to be heard in an official EU language other than the language of the ECB supervisory procedures, advance notice must be given to the ECB so that the necessary arrangements can be made.

COMMUNICATION BETWEEN THE SSM AND SUPERVISED INSTITUTIONS

To maintain efficient communication between the supervisor and the supervised institutions, irrespective of the duty of cooperation in good faith and the obligation to exchange information between the ECB and the NCAs, it was agreed that, as a general rule, the ECB will act as the point of entry for receiving ad hoc reports, certain requests and authorisations, waivers, etc., which are within the scope of the tasks assigned to it.

The Banco de España and the other NCAs will act as the point of entry for communications on requests for licenses and in processes relating to qualifying holdings, European passports, assessments of whether managers are fit and proper, and for regular reporting of supervisory information and financial statements.

1.4 Supervisory competences of the Banco de España under the new framework

As explained in previous sections, the entry into force of the SSM involves a reallocation of supervisory responsibilities from the national central bank to the ECB. However, this reallocation of competences does not entail a decrease in the workload of the Banco de España, whose supervisory functions remain key for fulfilling financial stability objectives.

16 Article 18 of Regulation 1024/2013.

One. The Banco de España participates in the supervision of significant Spanish banks through the joint supervisory teams

The joint supervisory teams (JSTs) are a cornerstone of the supervision of significant institutions. They are made up of staff from the ECB and the NCAs and carry out an essential part of supervisory tasks. They are each headed by a coordinator appointed by the ECB. The national coordinator plays a key role in the JSTs and will be responsible, inter alia, for supporting the coordinator in the supervision of significant credit institutions, coordinating ongoing monitoring activities at a national level, helping to prepare and review supervisory plans and to make key decisions, reporting to the coordinator on procedures that fall within the competence of the Banco de España and putting forward the points of view of the Banco de España.

The importance of the role played by the national authorities is reflected in the fact that they contribute 75% of the members of the JSTs.

This arrangement allows the SSM to take advantage of the national authorities' knowledge of the institutions and of their resources and years of experience.

Two. The Banco de España plays an essential part in on-site inspections of Spanish significant institutions

The ECB's supervisory model establishes a clear divide between ongoing monitoring and inspection activities. The inspection teams operate under the mandate and guidelines of the ECB and are made up primarily of national supervisors, headed by a manager who is generally proposed by the national authority.

Three. The Banco de España maintains its competence in the supervision of less significant institutions

The direct supervision of less significant credit institutions (LSIs) continues to lie with the Banco de España and other national authorities, although it must be exercised in accordance with the protocols and standards established by the ECB and the Banco de España must inform the ECB of the results of its activities. The ECB, if it deems necessary, may assume the direct supervision of an LSI.

Four. The Banco de España participates in the governing bodies of the SSM

The Banco de España is represented on the ECB's Governing Council by the Governor and on the Supervisory Board by the Deputy Governor. As a member of these collegiate bodies, the Banco de España participates in decisions not only on Spanish banks but also on other European banks.

In general, in the normal operation of the SSM, draft decisions are prepared by the JSTs, although the regulations envisage that the Banco de España can submit decisions directly to the ECB. However, in the so-called "common procedures" (acquisition of qualifying holdings, granting of banking licenses and withdrawal of licences), draft decisions must be submitted by the national authority.

Given that, in accordance with the preceding paragraph, the representatives of the Banco de España participate in decisions on institutions in other SSM countries, the Banco

de España will have to perform general monitoring work on institutions in those countries in order to contribute well-founded opinions in the decision processes affecting those institutions. A specialist unit has been created for this purpose at the Banco de España.

Five. The Banco de España participates in the networks organised by the SSM for horizontal functions

In order to channel the participation of the national authorities in the horizontal functions developed by SSM Directorate General IV, networks of experts in each of the areas mentioned have been created, in which the representatives of the Banco de España play an active part.

Six. The Banco de España participates in administrative procedures relating to significant institutions

For practical purposes, four types of procedures may be identified:

a) Common procedures, defined as such in the SSM Regulation: granting of banking licences, withdrawal of licenses and acquisition of qualifying holdings. In these cases, it is the national authority that must submit a specific draft decision to the ECB, both for significant and less significant institutions. However, intermediate monitoring by the ECB is envisaged, specifically by the JSTs and horizontal functions.

b) Other authorisations included among the responsibilities of the ECB's horizontal function: granting of passports and assessment of the fit and proper character of the members of credit institutions' management bodies.

c) Other prudential procedures envisaged in EU regulations or national law arising from Directives. These are included in the scope of the SSM, meaning that the work will be assumed by the JSTs. For instance, authorisation to early redemption of hybrid instruments eligible as own funds.

d) All other prudential procedures required by national regulations. These are excluded from the scope of the SSM and, therefore, are the responsibility of the Banco de España, without prejudice to the need for coordination. For instance, issue of a report by the Banco de España prior to authorisation of structural changes.

Seven. Supervision of areas not transferred to the SSM relating to supervision of credit institutions

The supervision of certain key areas of banking activity, which is traditionally or may be exercised by the prudential supervisory authorities, has not been assumed by the SSM and will, therefore, continue to be exercised by the national authorities, both for significant and less significant institutions. In this respect, the Banco de España will continue to exercise supervisory powers (or to cooperate with other Spanish authorities) in the areas of prevention of money laundering and terrorism financing, consumer protection and, partially, control of the financial markets.

a) *Prevention of money laundering.* The SSM assumes no functions in this respect, so the supervision of procedures for the prevention of money laundering continues to pertain to the national authorities. In Spain, the authority responsible for supervising and inspecting compliance with prevention of money laundering obligations and for adopting the necessary measures in the event of noncompliance is SEPBLAC (Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales e Infracciones Monetarias). The Banco de España cooperates in activities in this sphere, in accordance with the cooperation arrangement established in Law 10/2010 of 28 April 2010 and in the agreement signed with SEPBLAC in 2013.

b) *Consumer protection.* This is an area that should remain within the competence of the national competent authorities and has attracted growing interest in recent years. In 2014 the Banco de España created a Division for Oversight of Institutions' Conduct, belonging to the General Secretariat, to strengthen supervision in this area and separate it at an organisational level from the Directorate General Banking Supervision, allowing it to use supervisory approaches more appropriate to the goals pursued.

c) *Financial markets.* Although the CNMV (Comision Nacional del Mercado de Valores) holds the main supervisory powers over financial markets, the Banco de España exercises some powers in this respect. In particular, it supervises credit institutions' activities related to securities markets, certain aspects of the internal organisation of issuers or participants in securities markets that fall under its supervision and certain aspects of the rules established relating to the regulatory framework of the mortgage market and mortgage market issues. The Banco de España must also cooperate with the CNMV and take part in the procedures envisaged where the CNMV exercises its powers in respect of credit institutions and other institutions supervised by the Banco de España.

d) *Macro-prudential instruments.* The national designated authorities in this area will maintain their competence in respect of macro-prudential instruments, although close cooperation with the ECB, and with the other pertinent European authorities, such as, for example, the European Systemic Risk Board (ESRB), will be essential. In the case of the instruments envisaged in European legislation, and in particular in the CRR/CRD (such as the counter-cyclical capital buffer or systemic risk buffer), the SSM Regulation provides that the national authorities have the power to activate those instruments. When they adopt any such measures they must notify the ECB and, where appropriate, other European institutions. However, the ECB will have the power to impose stricter measures than those applied by the national designated authorities if it deems appropriate.

e) *Resolution powers.* The SSM Regulation establishes that the ECB will not assume resolution powers over credit institutions. According to Law 11/2015 on the recovery and resolution of credit institutions and investment firms, the Banco de España will be the preventive resolution authority for credit institutions, and the FROB (Fund for the Orderly Restructuring of the Banking Sector) the executive resolution authority, without prejudice to the powers exercised by the Single Resolution Board pursuant to Regulation (EU) No 806/2014.

f) *Sanctioning power.* The ECB has sanctioning power over significant credit institutions in the case of breach of directly applicable European law, when the penalties applicable are pecuniary penalties. The ECB will also have sanctioning power both over significant and less significant credit institutions in the case of breach of ECB regulations or decisions. In all other cases the Banco de España will continue to exercise sanctioning powers.

Eight. Supervisory powers that the Banco de España maintains over institutions other than credit institutions

The Banco de España maintains all its supervisory powers over other financial institutions or other institutions with functions related to the financial sector. Specifically:

– *Credit financial intermediaries.* These institutions engage, inter alia, in lending activities, including consumer credit, mortgage lending and financing of commercial transactions, but excluding taking of deposits and were, until 2014, classed as credit institutions. Pursuant to Law 5/2015 of 27 April 2015 on the promotion of business financing, which will be the object of subsequent implementing regulations, credit financial intermediaries will be subject to prudential regulations and to a supervision regime based on those applicable to credit institutions.

– *Payment institutions.* The legislation grants the Banco de España supervisory powers over payment institutions, which are institutions authorised to perform payment services such as transfers, direct debits or card payments.

– *Electronic money institutions.* The Banco de España has supervisory powers over institutions authorised to issue electronic money that is accepted as a means of payment. It is also responsible for control and inspection of the activity of these institutions.

– *Currency-exchange bureaux.* The Banco de España has certain supervisory powers over these establishments.

– *Mutual guarantee and reguarantee companies.* These companies provide guarantees to make it easier for SMEs to access bank lending. The Banco de España has the power to supervise, control and inspect them.

– *Appraisal companies.* The Banco de España exercises supervisory powers over the statutory aspects of licensed appraisal companies and over their reports for credit institutions or other reports required under mortgage market legislation.

– *Banking foundations.* The Banco de España exercises limited supervision over these foundations to ensure that they and the credit institutions in which they have holdings are soundly and prudently managed.

– *SAREB.* The Banco de España has supervisory powers over SAREB, the asset management company for assets arising from bank restructuring created, in the context of restructuring of the Spanish financial sector, to receive troubled real estate assets, as to its compliance with its exclusive corporate purpose, with the requirements for its assets and liabilities and with transparency and good governance rules.

– *Investigation of unauthorised activities.* At the request of the Ministry of Economic Affairs and Competitiveness, the Banco de España may gather information or conduct inspections to investigate the financial activities of natural or legal persons that are not inscribed in any of the administrative registries established by law for financial institutions.

2 PRUDENTIAL SUPERVISION OF CREDIT INSTITUTIONS

2.1 Introduction

In 2014 the Banco de España continued to fully exercise its supervisory functions until the start-up of the SSM on 4 November 2014.

During the remainder of the year, in addition to continuing to exercise the direct supervision of less significant institutions, the Banco de España concluded the supervisory actions that were ongoing on 4 November which, according to the arrangements for the start-up of the SSM, were to be completed by each national authority.

The following sections in this chapter refer, first, to the supervision of credit institutions in 2014, indicating the institutions subject to supervision and the actions taken in the year, together with details of the requirement and observation letters sent to institutions as a result of those actions. The following section refers to the authorisations and procedures settled in 2014 and the last section to the procedures followed in exercise of the sanctioning power.

2.2 Supervisory activity: inspections and monitoring

Table 2.1 shows the credit institutions operating in Spain at 31.12.2014, with a breakdown between significant and less significant institutions for the purposes of the SSM.

A further 171 other institutions were subject to supervision by the Banco de España.

In 2014 a total of 240 supervisory actions consisting of on-site inspections and continuous monitoring of credit institutions were taken, 61 of which were ongoing or outstanding at 31 December (see Table 2.2).

In addition, a further 497 steps were taken including, inter alia, periodic general monitoring, review of audit reports and yearly review of internal capital adequacy assessment reports.

Following the supervisory actions, 68 letters were sent to credit institutions containing 135 requirements. The main requirements and recommendations – 59% of the total – related to credit risk and internal management and control policies (see Tables 2.3 and 2.4).

The supervisory activity mentioned includes 29 actions taken in the framework of the comprehensive assessment of significant institutions in the euro area prior to the start-up of the SSM. In the domestic sphere, this assessment consisted of an asset quality review and a stress test of a sample of 15 groups making up 90% of the assets of Spanish deposit institutions. This exercise was coordinated by the ECB and conducted in close cooperation with the Banco de España. Of the Spanish institutions assessed, 14 passed comfortably and only one, Liberbank, with 7.8% of common equity Tier 1 capital (CET1), failed to reach the hurdle rate of 8% set for the comprehensive assessment and the stress test baseline scenario. However, before end-2014 Liberbank made a capital increase that allowed it to cover the shortfall comfortably.

The Banco de España has continued to cooperate with other supervisors, both within and beyond the European Union, in the ambit of the colleges of supervisors of banking groups with international activity. In 2014 the Banco de España organised meetings for three supervisory colleges, as the supervisory authority of the parent institution, and participated,

SUPERVISED SPANISH INSTITUTIONS TABLE 2.1

Number

	Significant institutions of the SSM	Less significant institutions of the SSM	Total registered institutions (a)
Credit institutions	64	76	140
Commercial banks	45	25	70
Savings banks (b)	—	5	5
Credit cooperatives	19	46	65

SOURCE: Banco de España.

a Also operating in Spain are the ICO, which has credit institution status, and 86 foreign institutions through a permanent establishment (branch), of which: 7 are from third countries, 11 from EU countries not in the SSM and 68 EU countries in the SSM. The institutions in the second group have the status of "less significant institutions" of the SSM.
b Including 3 savings banks in the process of transformation into banking foundations.

ON-SITE SUPERVISORY ACTIVITY AT CREDIT INSTITUTIONS. ACTIONS TABLE 2.2

Number

Credit Institutions	2011	2012	2013	2014 (a)
Banks	163	250	280	222
Savings banks	13	9	116	—
Credit cooperatives	23	34	21	17
Foreign branches	—	2	—	1
Specialised lending institutions	5	6	29	(b)
TOTAL	**204**	**301**	**446**	**240**

SOURCE: Banco de España.

a Of these actions, 61 were under way at year-end: 56 were at banks, 4 at credit cooperatives and 1 at a foreign branch.
b In 2011, 2012 and 2013, SLIs had credit institution status. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished this status. The 2014 figures for SLIs are in Table 3.1.

as the host supervisory authority, in eight colleges of banking groups with foreign parent institutions. All this, in addition to the usual bilateral contacts with the supervisory authorities of other countries.

Likewise, within the resolution framework for global systematically important financial institutions (G-SIFIs) proposed by the Financial Stability Board (FSB), progress continued in the planning work of the Crisis Management Groups (CMGs), with two meetings held in the year.

In 2014 the Banco de España took two measures relating to intervention and replacement of directors. First, on 14 January 2014, it resolved to temporarily replace the board of directors of Caja Rural de Mota del Cuervo, SCLCA and appointed the FROB provisional administrator. This temporary replacement measure was lifted on 28 March in light of the approval of the Resolution Plan for Caja Rural de Mota del Cuervo which included merger by acquisition of the latter with Caja Rural de Albacete, Ciudad Real y Cuenca (Globalcaja). Second, on 17 January 2014, the Banco de España resolved to temporarily replace the board of directors of NCG Banco, S.A. and appointed the FROB provisional administrator.

SUPERVISORY ACTIVITY. LETTERS TO CREDIT INSTITUTIONS TABLE 2.3

Number

Credit institutions	2011	2012	2013	2014
Banks	10	14	26	47
Savings banks	—	5	2	—
Credit cooperatives	8	13	12	21
Foreign branches	—	5	—	—
Specialised lending institutions	1	—	1	(a)
TOTAL	**19**	**37**	**41**	**68**

SOURCE: Banco de España.

a In 2011, 2012 and 2013, SLIs had credit institution status. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished this status. The 2014 figures for SLIs are in Table 3.2.

SUBJECT MATTER OF LETTERS SENT TO SUPERVISED INSTITUTIONS TABLE 2.4

Number

	2011	2012	2013	2014	
				Credit institutions	Other institutions
Credit risk	31	54	62	44	3
Accounting for credit risk, borrower weakness and higher coverage requirements	14	27	31	25	3
Quality of credit risk controls (origination, monitoring and other procedures)	17	27	31	19	—
Management and internal control	21	27	28	35	4
Management and internal control in general	16	22	24	32	4
Capital market activities	5	5	4	3	—
Capital and solvency	5	7	12	11	4
Solvency ratio	5	7	12	11	4
Other regulations	9	23	32	45	7
Failure to comply with rules on transparency and customer relations	—	2	8	4	1
Deficiencies in information reported to the CCR	1	—	—	—	—
Requirements for authorisation of non—credit institutions	—	—	—	—	1
Other	8	21	24	41	5
TOTAL	**66**	**111**	**134**	**135**	**18**

SOURCE: Banco de España.

This temporary replacement measure was lifted on 18 June 2014 after the institution was sold in a competitive process.

Throughout 2014 the supervisory services of the Banco de España continued to cooperate actively with the FROB following restructuring of the Spanish financial sector and, specifically, in the execution of the exit strategy and sale of the FROB's holdings. In particular, the resolution plan of Banco CEISS was amended for the purpose of its integration in the Unicaja Group, the sale of NCG Banco was completed, the 7.5% holding in Bankia was sold and Catalunya Banc S.A. was awarded and sold to Banco Bilbao Vizcaya Argentaria (BBVA). In addition, in December 2014, Liberbank was authorised to early redeem the contingent convertible debt issue subscribed by the FROB.

On 10 March 2015, as a consequence of the intervention of Banca Privada d'Andorra (BPA), an Andorran bank, by the INAF (the Andorran supervisor), the Banco de España resolved to intervene Banco de Madrid, a credit institution wholly-owned by BPA. That precautionary measure was replaced, two days later, when the board of directors of the institution was replaced. Following the court decision to order insolvency proceedings, Banco Madrid is now in the winding-up phase and the Deposit Guarantee Fund has reimbursed deposits up to €100,000.

2.3 Authorisations and other procedures

2.3.1 GRANTING AND WITHDRAWAL OF LICENCES

Up to 4 November 2014 the power to grant and withdraw credit institutions' licences lay with the Banco de España. Since that date, pursuant to Council 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, those powers lie with the ECB. Accordingly, as provided for in Articles 3 and 12 of Royal Decree 84/2015 of 13 February 2015, implementing Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, the Banco de España shall submit proposals for authorisation to take up the activity of a credit institution, or for withdrawal of that authorisation, to the ECB. The Banco de España shall also declare authorisations to have lapsed, when the specific activities stipulated in the programme of operations have not begun in the 12 months following notification of the authorisation.

Non-EU credit institutions seeking to operate in Spain through a branch require the authorisation of the Banco de España, as envisaged in Article 6 of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions and in Articles 17 and 19(4) of Royal Decree 84/2015 of 13 February 2015.

In 2014 two banks were added to the credit institutions register and 19 institutions were removed, 12 of which as a consequence of the transformation of savings banks into foundations following the entry into force of Law 26/2013 of 27 December 2013 on savings banks and banking foundations. Of the other seven deregistrations, six were due to mergers between credit institutions and one to a change in the form of an institution (giving rise to one of the two registrations mentioned).

One branch of a non-EU credit institution was deregistered in 2014, and in the case of representative offices of non-EU credit institutions, one was added to the registers and another was removed.

2.3.2 QUALIFYING HOLDINGS

Pursuant to Chapter III of Title I of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, the acquisition of a qualifying holding in a credit institution is subject to authorisation. A qualifying holding is understood to mean a direct or indirect holding representing at least 10% of the capital or voting rights of the institution, or a holding which, without reaching that percentage, enables notable influence to be exerted over the institution.

Since 4 November 2014 that authorisation lies with the ECB, pursuant to Council Regulation (EU) No 1024/2013. The Banco de España shall submit the relevant proposal.

During 2014 the Banco de España processed 14 files relating to the acquisition of qualifying holdings, in all cases in banks.

2.3.3 CROSS-BORDER ACTIVITY

Pursuant to Article 11 of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, branch openings abroad by Spanish credit institutions re-

quire prior authorisation. Article 11 also provides that Spanish credit institutions must inform the Banco de España if they engage in activities abroad under the freedom to provide services.

In the case of foreign institutions seeking to operate in Spain, Article 13 of Law 10/2014 provides that non-EU credit institutions that wish to operate in Spain through a branch or under the freedom to provide services require authorisation, whereas the operation of EU institutions is governed by the mutual recognition arrangements envisaged in Article 12 of the Law. Pursuant to Article 15 of Law 10/2014, branches in Spain of foreign credit institutions and foreign credit institutions operating in Spain under the freedom to provide services shall be recorded in the register of credit institutions.

The implementing regulations of the cross-border regime are set out in Articles 14 to 19 of Royal Decree 84/2015 of 13 February 2015.

Since 4 November 2014, pursuant to Council Regulation (EU) No 1024/2013, the power to authorise the creation of branches in EU Member States by institutions defined as significant institutions lies with the ECB, while the power to authorise the creation of branches in EU Member States by institutions defined as less significant institutions, and the opening of non-EU branches in Spain, lies with the Banco de España.

In 2014 the Banco de España handled 44 cross-border activity procedures for Spanish credit institutions, as shown in Table 2.5.

The procedures indicated in Table 2.6 relating to the activity of foreign credit institutions in Spain were handled.

2.3.4 SUITABILITY

Chapter IV (Articles 24 to 27) of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions governs the suitability assessment regime for board members, managing directors and similar officers and for other persons responsible for key functions and control functions at credit institutions and their parent institutions. Article 25(2) provides as follows: “The assessment of suitability requirements shall be both by the credit institution itself and, where appropriate, by its promoters, or by the acquirer of a qualifying holding, if this were the case, and, when appropriate, by the Banco de España”. The Banco de España makes the suitability assessment: 1) when authorisation is granted for the creation of a credit institution; 2) when a qualifying holding is acquired giving rise to new appointments; 3) when new prospective appointments are notified; and 4) when there is sound evidence pointing to the need to assess the continued suitability of persons already belonging to the boards of directors or management of institutions.

Board members must remain suitable while they remain board members. The above-mentioned Law establishes that the Banco de España may require that the institution temporarily suspend or definitively remove from office any person who fails to meet the suitability requirements envisaged therein. It also provides that if the institution does not comply with that requirement, the Banco de España may resolve to temporarily suspend or definitively remove from office the person concerned, without prejudice to the imposition of any penalties that may be in order.

In 2014 a total of 336 suitability assessment procedures for senior managers of credit institutions were handled, mostly as a consequence of new appointments, of which 239 at banks (including branches of non-EU credit institutions) and 97 at credit cooperatives and

SUPERVISORY ACTIVITY. PROCEDURES RELATING TO CROSS-BORDER ACTION. SPANISH CREDIT INSTITUTIONS

TABLE 2.5

Number

	Registrations	Deregistrations and changes in conditions	Total
Branches in the European Union	—	7	7
Branches in third countries	2	6	8
Freedom to provide services	7	22	29
TOTAL	**9**	**35**	**44**

FUENTE: Banco de España.

SUPERVISORY ACTIVITY. PROCEDURES RELATING TO CROSS-BORDER ACTION. FOREIGN CREDIT INSTITUTIONS

TABLE 2.6

Number

	Registrations	Deregistrations and changes in conditions	Total
Branches of European Union credit institutions	5	10	15
Branches of third—country credit institutions	—	1	1
Freedom to provide services by European Union credit institutions	31	34	65
Freedom to provide services by third-country credit institutions	1	—	1
TOTAL	**37**	**45**	**82**

SOURCE: Banco de España.

savings banks. In addition, 21 suitability assessment files for directors of parent institutions of credit institutions were handled.

Following the start-up of the SSM, since 4 November 2014 the power to decide on the suitability of board members of credit institutions classed as significant institutions lies with the ECB.

2.3.5 LOANS TO SENIOR OFFICERS

Article 26.55 of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions obliges credit institutions to request authorisation to grant loans and guarantees to members of the board of directors, general managers or similar officers.

In 2014 the Banco de España processed 33 requests for authorisation of loans and guarantees to senior officers of credit institutions, all of which were banks.

2.3.6 MODEL VALIDATION

Part III of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms imposes the obligation of prior permission for using internal models to calculate the capital requirements for credit, counterparty, trading book and operational risk. Material changes to these models are also subject to prior permission.

As from 4 November 2014, Regulation (EU) No 1024/2013 grants these powers to the European Central Bank in respect of institutions defined as significant.

In 2014 19 requests relating to the authorisation of internal models were processed, 18 of them relating to credit risk and one to operational risk. Six of these requests were for authorisations of new models, seven for changes to models already validated, and the other six for changes to roll-out plans.

2.3.7 OWN FUNDS INSTRUMENTS

The regulatory capital of credit institutions may include certain preference debt instruments and subordinated debt. The supervisory authorities verify whether these financial instruments issued by credit institutions themselves or by their special purpose vehicles or other subsidiaries are eligible as own funds under the applicable legislation.

The obligation to obtain prior permission for issuances of instruments eligible as common equity tier 1 is set out in Article 26(3) of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms. This Regulation does not prescribe an authorisation procedure for issuances of other eligible instruments, although Recital 75 provides that the competent authorities can maintain pre-approval processes. The Banco de España made use of this option through the first additional provision of Royal Decree 84/2015 of 13 February 2015 implementing Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions.

The reduction, repurchase or redemption of instruments eligible as capital of any level requires permission pursuant to Article 78 of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms.

From 4 November 2014, Regulation (EU) No 1024/2013 assigns these powers to the ECB wherever significant institutions are involved.

Regarding issuances of equity instruments, the difficulties in tapping the capital markets due to the international financial crisis persisted in 2014, although signs of improvement were discernable. Thus the total amount of issues increased by 43% with respect to the previous year.

Of the six issues in 2014, four (totalling €5,735 million) were preference debt instruments contingently convertible into shares. They accounted for nearly 70% of the total issued in that year and were concentrated in just two institutions.

Perpetual instruments convertible into shares are gaining weight among equity instruments, in line with the regulatory trend to endow equity instruments with loss absorption mechanisms.

If a trigger event were to reduce a bank's solvency (particularly through a fall in common equity tier 1), the loss absorption mechanism could act through a conversion into shares or through a total or partial haircut or reduction of the nominal value of the instrument involved. So far in Spain, only instruments with loss absorption through conversion into shares have been issued.

Financing of a subordinated nature gave rise to two transactions, in which the issuance amount of €2,500 million was 16% higher than in 2013.[1]

1 Although specialised lending institutions lost their credit institution status when Royal Decree-Law 14/2013 of 29 November 2013 came into force, it should be noted that in 2014 five subordinated loans were also granted to a single credit financial intermediary for a total of €115 million, to replace other subordinated loans which were nearing their maturity dates.

ELIGIBLE INSTRUMENTS ISSUED BY CIs WITH DFA AND VERIFIED BY THE BANCO DE ESPAÑA (a) TABLE 2.7

Yearly data

(€m)

	Número				Importe			
	2011	2012	2013	2014	2011	2012	2013	2014
TOTAL (b)	**16**	**13**	**17**	**6**	**9,012**	**13,411**	**5,776**	**8,235**
Subordinated debt (b)	9	5	7	2	2,984	9,011	2,154	2,500
Standard fixed-term	9	4	7	2	2,984	4,511	2,154	2,500
Commercial banks and savings banks	9	4	5	2	2,984	4,511	2,129	2,500
Credit cooperatives	—	—	—	—	—	—	—	—
SLIs	—	—	2	(b)	—	—	25	(b)
Of which: loans	*3*	—	*2*	(b)	*21*	—	*25*	(b)
Standard with no agreed maturity	—	—	—	—	—	—	—	—
Undated	—	1	—	—	—	4,500	—	—
Commercial banks and saving banks	—	1	—	—	—	4,500	—	—
Preference shares	1	—	2	4	200	—	1,588	5,735
Commercial banks and saving banks	1	—	2	4	200	—	1,588	5,735
Mandatory convertible debt	6	8	8	—	5,828	4,400	2,034	—
Commercial banks and saving banks	6	8	8	—	5,828	4,400	2,034	—

SOURCE: Banco de España.

a Does not include issues subscribed by the FROB since, in accordance with Article 33.1.c. of Law 9/2012 of 14 November 2012 on credit institution restructuring and resolution, when the FROB subscribes or acquires capital or convertible instruments, the limits established in law for eligibility as own funds and as core capital or, in general, the limits set from time to time relating to solvency requirements will not apply to it.

b The 2011, 2012 and 2013 totals include issuances of SLIs. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs, so the 5 SLI issuances (loans) amounting to €115 in 2014 are not included in the 2014 total.

Both issues were by commercial banks, one directly and the other through a special-purpose subsidiary. They were targeted at wholesale investors in the international market. The maturity of both was ten years.

Regarding reductions, repurchases and redemptions, in 2014 the Banco de España processed one application to repurchase preference debt instruments and three to repurchase subordinated debt. All these applications were by banks except for one redemption of subordinated debt requested by a credit cooperative.

2.3.8 OTHER PROCEDURES RELATING TO OWN FUNDS

Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms prescribes other authorisation processes for capital and liquidity requirements, apart from the authorisations for capital instruments and model validations. From 4 November 2014, Regulation (EU) No 1024/2013 confers on the ECB competence in this area for institutions defined as significant.

In 2014 the Banco de España processed 22 applications in this area, 16 from banks, five from credit cooperatives and one from a branch of an EU institution. Five applications were for exemption from the deduction regime envisaged in Articles 36, 56 and 66 of the aforementioned Regulation and three were for authorisations relating to the scope of capital requirements. Also processed were seven applications to adopt joint decisions on capital adequacy, as prescribed by Article 20 of the Regulation.

2.3.9 STRUCTURAL CHANGES

Under the twelfth additional provision of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, the Minister for Economic Affairs and Competitiveness is responsible for authorising mergers, spin-offs or global or partial transfers of assets and liabilities involving a bank. Before that authorisation is granted, a report must be requested from the Banco de España.

In 2014 the Banco de España processed five applications for structural changes in credit institutions.

2.3.10 ACQUISITION OF CREDIT INSTITUTIONS IN THIRD COUNTRIES

Under Article 4.2.b of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, the Banco de España is responsible for authorising the creation of foreign credit institutions or the acquisition of a qualifying holding in an existing institution by a Spanish credit institution.

In 2014 three applications for authorisation in this respect, all from banks, were processed. Two related to the creation of credit institutions and one to the acquisition of a qualifying holding.

2.3.11 AMENDMENTS OF ARTICLES OF ASSOCIATION

Banking law stipulates that credit institutions have to send to the Banco de España their updated articles of association for inclusion in the Special Register of Articles of Association whenever any applicable administrative authorisation has been obtained.

In 2014, 138 entries relating to credit institutions were made in the Special Register of Articles of Association. Most noteworthy in this regard was that: i) 92 entries related to commercial banks, and of these, more than half (52%) to capital increases, ii) 18 entries were due to deregistrations of institutions, of which iii) 12 were due to transformations of savings banks into foundations.

2.3.12 OTHER

In 2014 the Banco de España implemented other procedures envisaged in current legislation, including most notably the preparation and remittance of reports and communications to other Spanish and foreign authorities.

2.4 Exercise of sanctioning power

The sanctioning power exercised over the financial institutions whose control and inspection are the responsibility of the Banco de España is the final step in its supervisory activity. It is intended as a means of ensuring compliance with the regulatory and disciplinary regulations applicable to institutions operating in the financial sector. And indeed, as established in the preamble to Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions (in force since 28 June 2014), the full effectiveness of these regulations requires the appropriate sanctioning mechanisms.

The exercise of this sanctioning power is directed at all individuals, institutions and markets subject to supervision by the Banco de España and includes not only credit institutions, but also their directors and managers, who can be sanctioned separately for infringements when these are attributable to wilful misconduct or negligence. Also, sanctions can be imposed on the owners of qualifying holdings in Spanish credit institutions and on Spanish nationals that control a credit institution of another EU Member State.

In this regard, Law 10/2014 and Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España vest various bodies of the Banco de España with powers to bring, conduct and

PROCEEDINGS INITIATED AGAINST CREDIT INSTITUTIONS, BY THE BANCO DE ESPAÑA (a) TABLE 2.8

Número

Institutions	2011	2012	2013	2014
Commercial banks	—	—	1 (d)	5
Savings banks	—	1	—	—
Branches of EU foreign credit institutions	—	—	—	—
Owners of significant holdings in credit institutions	1 (b)	1 (c)	—	—
Non-compliance with ECB minimum reserve requirements	1	—	1	—
Credit cooperatives	—	—	—	2
TOTAL	**2**	**2**	**2**	**7**

SOURCE: Banco de España.

a In 2011, 2012 and 2013 SLIs were credit institutions and no proceedings were brought against them in those years. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs.
b Extension to two parties of a proceeding initiated in 2010.
c Proceedings recommenced following a stay to avoid prejudicing criminal proceedings.
d Stayed by an agreement of the Governing Council of the Banco de España of 24 May 2013.

PROCEEDINGS RESOLVED AGAINST CREDIT INSTITUTIONS, BY TYPE OF INFRINGEMENT (a) TABLE 2.9

Number

	Numbers of proceedings	Sanctioning procedures								Participaciones significativas
		Against supervised institutions			Intruders					
		Infringement			Commercial banks	Savings banks	Credit cooperatives	Specialised lending institutions (a)	ECB: Minimum reserve requirements	
		Very serious	Serious	Minor						
Against credit institutions										
2011	3	3	1	—	—	1	—	1	1	—
2012	—	—	—	—	—	—	—	—	—	—
2013	2	—	1	—	—	—	—	—	1	1
2014	—	—	—	—	—	—	—	(a)	—	—
Against owners of qualifying holdings and directors										
2011	47	60	21	—	—	40	—	7	—	—
2012	—	—	—	—	—	—	—	—	—	—
2013	6	—	2	—	—	—	—	—	—	6
2014	—	—	—	—	—	—	—	(a)	—	—

SOURCE: Banco de España.

a In 2011, 2012 and 2013 SLIs were credit institutions. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs, so the proceedings against these institutions resolved in 2014 are reflected in Table 3.4.

decide disciplinary proceedings against the aforementioned parties, notwithstanding the sanctioning powers of the ECB pursuant to Article 18 of Council Regulation (EU) No 1024/2013 of 15 October 2013.

2.4.1 PROCEEDINGS INITIATED IN 2014

In 2014 the Executive Commission of the Banco de España decided to initiate seven disciplinary proceedings, six against credit institutions and the seventh against the directors and managers of another credit institution, as detailed below.

First, the Executive Commission decided to initiate six proceedings against six credit institutions (five commercial banks and one credit cooperative) for alleged breaches of the rules on transparency in credit institutions' dealings with their customers, specifically in relation to the extension of mortgage loans to individuals for house purchase.

Second, sanctioning proceedings were also brought against ten directors and managers of a credit cooperative owing to the presumed detection of (i) deficiencies in risk control and management mechanism; (ii) incorrect definition of economic groups and non-compliance with the limit on large exposures; and (iii) accounting deficiencies.

2.4.2 PROCEEDINGS RESOLVED IN 2014

No sanctioning proceedings against credit institutions were resolved in 2014.

A proceeding brought in 2012 against a savings bank, its directors and managers and the members of its control committee and a proceeding brought in 2013 against a commercial bank and its directors and managers were suspended. These proceedings were suspended because the facts investigated in themwere intimately related to the ones examined in criminal cases in progress. The suspension was applied pursuant to Article 2[2] of Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions, to avoid prejudicing criminal proceedings.

2 This provision is now contained in Article 117 of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions, which repealed Law 26/1988.

3 PRUDENTIAL SUPERVISION OF OTHER INSTITUTIONS

3.1 Introduction

As indicated earlier, the start-up of the SSM entailed the reallocation of supervisory responsibilities from the national sphere to the ECB. However, the Banco de España maintains all supervisory functions over institutions other than credit institutions that provide services or perform functions related to the financial sector: payment institutions, electronic money institutions, specialised lending institutions, mutual guarantee and reguarantee companies, currency-exchange bureaux and appraisal companies. In addition, the Banco de España exercises limited supervisory functions over banking foundations and Sareb and functions related to investigations into encroachment by unauthorised operators.

The following sections in this chapter refer, first, to the supervision of the above-mentioned institutions in 2014, with details of the requirement and observation letters sent to them as a result of that activity. The following section refers to authorisations and procedures and the last section to the procedures followed in exercise of the sanctioning power.

3.2 Supervisory activity

In 2014 a total of 13 inspections (see Table 3.1) were conducted, mainly at specialised lending institutions and payment institutions.

In addition, a further 268 steps were taken relating to periodic general monitoring, review of audit reports and yearly review of internal capital adequacy assessment reports.

Following the supervisory actions, 10 letters were sent to institutions containing 18 requirements and recommendations, 39% of which related to credit risk and internal management and control policies (see Tables 3.2 and 2.4).

3.3 Authorisations and other procedures

3.3.1 GRANTING AND WITHDRAWAL OF LICENCES

The Banco de España is the competent authority for authorising and withdrawing authorisation from specialised lending institutions and currency-exchange bureaux. It also issues the mandatory report on the authorisation of electronic money institutions or branches in Spain of non-EU electronic money institutions, of payment institutions or branches in Spain of non-EU payment institutions and of mutual guarantee companies. In addition, it also officially recognises appraisal companies so that their valuations have effect in the cases envisaged in Article 1 of Royal Decree 775/1997 of 30 May 1997 on the rules governing the approval of appraisal services and companies.

These companies are recorded in the corresponding official registers which are kept by the Banco de España.

In 2014 two specialised lending institutions were added to the registers and three were removed, one electronic money institution and one payment institution were added and four payment institutions were removed, one currency-exchange bureau was added and six appraisal companies were removed.

3.3.2 QUALIFYING HOLDINGS

The Banco de España may object to qualifying holdings being taken in electronic money institutions and officially recognised appraisal companies, under Article 21 of Electronic Money Law 21/2011 of 26 July 2011 and Article 3 ter of Mortgage Market Law 2/1981 of 25 March 1981.

ON-SITE SUPERVISORY ACTIONS AT OTHER INSTITUTIONS. INSPECTIONS TABLE 3.1

Number

	Supervisory actions			
	2011	2012	2013	2014 (a)
Specialised lending institutions	(b)	(b)	(b)	4
Appraisal companies	3	4	2	—
Mutual guarantee companies	8	6	1	—
Payment institutions and other	—	—	10	8
Currency-exchange bureaux	6	5	—	—
Electronic money institutions	—	5	2	—
Sareb	—	—	—	1
TOTAL	**17**	**20**	**15**	**13**

SOURCE: Banco de España.

a Of these actions, 3 were under way at year—end, consisting of inspections at payment institutions.
b In 2011, 2012 and 2013 SLIs were credit institutions. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs. The proceedings against these institutions in those years are shown in Table 2.2.

SUPERVISORY ACTIVITY. LETTERS SENT TO OTHER INSTITUTIONS TABLE 3.2

Number

	2011	2012	2013	2014
Specialised lending institutions (a)	(a)	(a)	(a)	1
Appraisal companies	—	—	—	—
Mutual guarantee companies	1	2	—	2
Payment institutions	—	—	5	5
Currency-exchange bureaux	—	1	—	—
Electronic money institutions	—	1	1	—
Sareb	—	—	—	2
TOTAL	**1**	**4**	**6**	**10**

SOURCE: Banco de España.

a In 2011, 2012 and 2013 SLIs were credit institutions. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs. The information on CFIs for those years is shown in Table 2.3.

In 2014 three procedures were handled relating to qualifying holdings in appraisal companies.

3.3.3 CROSS-BORDER ACTIVITY

The issuance of electronic money and the provision of payment services, including through an agent, by Spanish electronic money institutions and payment institutions in non-EU countries require the authorisation of the Banco de España, pursuant to Article 13 of Electronic Money Law 21/2011 of 26 July 2011 and Article 11 of Payment Services Law 16/2009 of 13 November 2009. These rules also require that Spanish electronic money institutions and payment institutions inform the Banco de España if they engage in activities in EU Member States.

Branches and agents of foreign electronic money institutions and payment institutions shall be recorded in the corresponding registers of the Banco de España.

In 2014 the Banco de España handled two procedures relating to change in conditions of branches of Spanish payment institutions and 14 procedures relating to operation by Spanish payment institutions in EU Member States under the freedom to provide services, six of which related to new activities and eight to changes in conditions. It also handled 26 procedures relating to registrations and changes in agent networks of Spanish payment institutions and electronic money institutions abroad.

Regarding foreign institutions in Spain, in 2014 two new branches of foreign EU payment institutions were recorded in the Official Registers of the Banco de España, along with one branch of a foreign EU electronic money institution and one change of name. In addition, two registrations and three changes in conditions were recorded in the case of agent networks of EU payment institutions. Turning to institutions operating under the freedom to provide services, particularly noteworthy are the 44 EU payment institutions added to the registers and the 10 changes in conditions recorded, along with the 11 electronic money institutions added and the six changes recorded.

3.3.4 SUITABILITY

The Banco de España analyses the suitability of directors, managing directors and similar officers and of other persons responsible for key functions and control functions at these institutions in the same cases as indicated in section 2.3.4 above, since the sectoral legislation of these institutions refers to the suitability assessment criteria and procedures established in banking legislation.

In 2014 the Banco de España prepared a total of 130 suitability assessment files in respect of these institutions, 62 of which related to specialised lending institutions, 44 to electronic money institutions, payment institutions and currency-exchange bureaux, and 24 to appraisal companies.

3.3.5 PROCEDURES RELATING TO OWN FUNDS

The Banco de España is responsible for supervising the solvency of specialised lending institutions, electronic money institutions, payment institutions and mutual guarantee companies, which may entail handling authorisations or specific procedures. The Banco de España may also participate in the adoption of joint decisions on capital adequacy, as the supervisor of these institutions when they belong to a consolidated group of credit institutions, as established in Article 20 of Regulation (EU) No 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms.

In 2014 one procedure was handled relating to the own funds of a mutual guarantee company.

3.3.6 AMENDMENTS OF ARTICLES OF ASSOCIATION

The regulations governing the supervised institutions stipulates that they must send their articles of association in force at any given time to the Banco de España for inclusion in the Special Register of Articles of Association, once any necessary administrative authorisation has been obtained.

Of the total entries (202) made in that Special Register, 31.7% refer to institutions other than credit institutions. Most noteworthy are the numbers relating to specialised lending institutions (15), payment institutions (23) and officially recognised appraisal companies (19).

3.4 Exercise of the sanctioning power

The sanctioning power exercised over institutions which, although not credit institutions, are subject to supervision by the Banco de España is a necessary complement to the supervisory activity, intended to act as a means of ensuring compliance with the organisational and disciplinary regulations applicable to certain types of institutions.

This sanctioning power also extends to persons seeking to enter the financial market without meeting the conditions of access, whether it be through the exercise of activities legally restricted to credit institutions, payment service providers or other types of supervised institutions, or through the use of generic names restricted to those institutions or any other name that may be confused with them.

3.4.1 PROCEEDINGS INITIATED IN 2014

In 2014 the Executive Commission of the Banco de España resolved to initiate five sanctioning proceedings, as described below.

First, sanctioning proceedings were initiated against a company and its directors in view of the fact that the institution had provided payment services without the corresponding authorisation.

In the second case, the Executive Commission resolved to initiate the corresponding proceedings against a payment institution and its board members for alleged breach of the applicable sectoral legislation relating to: i) the obligation to safeguard the funds of users of payment services; ii) accounting; iii) minimum own funds; iv) the obligation to submit information to the Banco de España; and v) internal control.

The Executive Commission of the Banco de España also resolved to initiate proceedings against a foreign company for usingthe restricted term “banco” without having obtained the necessary authorisation from the Minister for Economic Affairs and Competitiveness and without being recorded in the Special Register of the Banco de España.

In the fourth case, sanctioning proceedings were initiated against a mutual guarantee company, and against its directors and managers, as the result of an alleged deficit of own fundsestimated below 80% of the minimum level required by the applicable rules.

Lastly, the Executive Commission resolved to initiate the corresponding proceedings against a payment institution and its sole director for alleged breaches of: (i) the obligation to have the annual accounts audited; (ii) accounting legislation; (iii) the obligation to safeguard the funds of users of payment services; and (iv) the requirements for maintenance of the authorisation to pursue the activity. The disciplinary proceedings were subsequently extended to include the former sole director of the payment institution.

3.4.2 PROCEEDINGS RESOLVED IN 2014

In 2014 four sanctioning proceedings, all initiated in 2013, were concluded by decisions to impose sanctions.

These decisions imposed sanctions on:

- An electronic money institution and its board members, for the commission of various very serious or serious infringements. Particularly noteworthy are the sanctions of withdrawal of the institution’s authorisation and disqualification for some of its directors from serving as a director or senior manager at any electronic money institution or financial sector institution.

PROCEEDINGS INITIATED BY THE BANCO DE ESPAÑA AGAINST OTHER INSTITUTIONS

TABLE 3.3

Number

Institutions	2011	2012	2013	2014
Specialised lending institutions (a)	(a)	(a)	(a)	—
Payment institutions	—	2	3	2
Unauthorised payment institutions	—	1	1	1
Appraisal companies	—	—	—	—
Currency-exchange bureaux and money transfer agencies	—	1(b)	—	—
Use of names or pursuit of activities reserved for credit institutions	1	—	—	1
Unauthorised currency-exchange bureaux	—	—	—	—
Appraisal company revocations	—	—	—	—
Currency-exchange bureaux revocations	2	—	—	—
Electronic money institutions	—	—	1	—
Mutual guarantee companies	—	—	—	1
TOTAL	**3**	**4**	**5**	**5**

SOURCE: Banco de España.

a In 2011, 2012 and 2013 SLIs were credit institutions and no proceedings were brought against them in those years. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs.
b Proceeding recommenced following a stay to avoid prejudicing criminal proceedings.

PROCEEDINGS RESOLVED AGAINST OTHER INSTITUTIONS, BY TYPE OF INFRINGEMENT

TABLE 3.4

Number

		Sanctioning procedures										Non-sanctioning proceedings	
		Infringement			Against supervised institutions				Intruders			Revocation	
	Numbers of proceedings	Very serious	Serious	Minor	Specialised lending institutions	Currency-exchange bureaux	Payment institutions	Electronic money institutions	Use of names or pursuit of activities reserved for credit institutions	Unauthorised currency-exchange bureaux	Unauthorised payment institutions	Appraisal companies	Curr. Exch. Bureaux
Against institutions other than credit institutions													
2011	4	1	2	4	(a)	1	—	—	1	2	—	—	2
2012	1	—	1	—	(a)	—	1	—	—	—	—	—	—
2013	4	7	3	—	(a)	1	2	—	—	—	1 (b)	—	—
2014	4	5	7	1	—	—	2	1	—	—	1	—	—
Against owners of qualifying holdings and directors													
2011	5	6	7	—	(a)	5	—	—	—	—	—	—	—
2012	1	—	1	—	(a)	—	1	—	—	—	—	—	—
2013	6	9	3	—	(a)	4	2	—	—	—	—	—	—
2014	10	16	17	—	—	—	2	7	—	—	1	—	—

SOURCE: Banco de España.

a In 2011, 2012 and 2013 SLIs were credit institutions, so the information on resolution of sanctioning proceedings against these institutions is shown in Table 2.9. The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs.
b The only sanctioning proceeding brought against two institutions simultaneously.

– A payment institution and its sole director, for the commission of two very serious and one serious infringement.

– A payment institution and its sole director. The former for the commission of four serious infringements and a minor one, and the latter for the commission of four serious infringements.

– A company and its sole director, for the commission of a very serious infringement, as the company was deemed to be exercising the activity of a payment institution without the required authorisation and without being recorded in the relevant register.

4 OVERSIGHT OF INSTITUTIONS' CONDUCT

4.1 Introduction

The increasing importance and social impact of financial institutions' relations with their customers – of great significance for the orderly functioning of the market for banking services and a priority issue for international banking regulatory and supervisory agencies – lay at the root of the assignment to the Market Conduct and Claims Department of the Banco de España's General Secretariat, with effect from 1 October 2014, of powers in the area of supervision of market conduct and information transparency. The assumption of these new functions, previously performed by the Directorate General Banking Supervision, meant that the department had to be restructured, with the creation[1] of a new Division for Oversight of Institutions' Conduct.

The setting up of this new division is another step within the framework of the Banco de España's strategy to ensure that financial services users are treated appropriately by institutions, to promote good market practice, to offer effective conflict resolution systems and to promote financial education. The department is authorised to interact directly with institutions when exercising its functions of monitoring, supervising and overseeing market conduct and compliance with transparency regulations.

It should be noted that the Banco de España, like the other national supervisory authorities participating in the Single Supervisory Mechanism (SSM) fully retains its supervisory powers in relation to the activity of the institutions entered in its official registers (as it also does (see Chapter 3) in the case of its prudential supervision ones in respect of other financial institutions or those relating to the financial sector other than credit institutions, such as payment institutions, electronic money institutions, specialised lending institutions, mutual guarantee and reguarantee companies, currency-exchange bureaux and appraisal companies).

In addition, foreign institutions equivalent to the ones mentioned in the previous paragraph that are authorised to operate in Spain without a permanent establishment are obliged to respect, in their business in Spain, the regulatory and disciplinary rules that may be applicable to them in relation to market conduct.

4.2 Supervisory strategy

The exercise of the new functions of surveillance and control assumed by the Market Conduct and Claims Department since the start of the final quarter of 2014 is governed by some general lines of action that encapsulate the strategy guiding supervisory activity in the area of market conduct. These lines of action are, inter alia, the following:

- Control of the appropriate functioning of institutions' customer service departments and/or ombudsmen, with a view to their acting as an efficient filter satisfying the legitimate aspirations of their customers, with the resulting general benefits in terms of protection of the consumer and of the reputation of the institution itself and for the system as a whole.

1 The Executive Commission of the Banco de España adopted, on 6 June 2014, a resolution to restructure the Market Conduct and Claims Department, by setting up a new Division for Oversight of Institutions' Conduct and, within the latter, a Surveillance and Inspection Unit. This decision supplements the creation, in June 2013, of the Market Conduct and Claims Department, with the purpose of bringing under a single roof the Banco de España's competences in relation to market conduct, information transparency, good practices, the publication of information, consumer information, financial education, conflict resolution and other similar matters, which are all very closely interrelated.

– Verification of the governance of banking products, with the aim of avoiding the potentially damaging effects of inappropriate marketing (arising from the design of the products, their marketing to groups for whom they are inappropriate, the use of inappropriate sales incentives, etc.).

– Strengthening control of the advertising of bank products, in order to identify any areas with transparency-related shortcomings, in respect of which decisions and actions need to be taken.

– Analysing and checking the usual procedures for action by institutions in relation to certain operations in respect of which uncertainty has arisen regarding the correct application of transparency and customer protection regulations.

– The appropriate reaction, in terms of time and form, to information or allegations received from other public authorities or agencies, for which purpose the necessary clarifications must be obtained from the institutions and any actions deemed appropriate taken. The public authority or agency concerned shall be advised of the actions initiated and their results.

4.3 Supervisory activities

The activities carried out by the Market Conduct and Claims Department in relation to the oversight of institutions' conduct are, in procedural terms, similar to those performed in the area of prudential supervision. They include off-site monitoring, on-site inspection, both at the head office and branch network of the supervised institutions, and the adoption of any corrective measures that may be deemed necessary, such as the formulation of recommendations and requirements, or a proposal for the initiation of sanctioning proceedings.

A key aspect of the exercise of these supervisory powers is the determination and constant updating of institutions' conduct profile, which provides a uniform and structured framework for their supervisory classification. This allows action priorities to be determined and, consequently, supervisory resources to be allocated, and it serves as a basis, along with other information available, for the adoption of the relevant supervisory measures.

The off-site supervisory monitoring work also contributes very significantly to the continuous updating of institutions' conduct profile. This monitoring is carried out by processing the information available on institutions, which, among other sources, comes from the periodic statements they send to the Banco de España, the meetings held with their representatives, the allegations made against them by individuals or other public institutions, and analysis of the claims their customers file with the Banco de España.

This latter source – the complaints and claims filed with the Banco de España – offers highly relevant indications of the conduct of institutions in relation to compliance with transparency and customer protection regulations and respect for good financial practice and conduct. In 2014 a decline was recorded, relative to the previous year, in the number of claims received in the Market Conduct and Claims Department, filed by individuals and businesses in relation to the supply of products and banking services, which gathered pace as the year progressed.

Thus, in 2014 as a whole, approximately 29,500 claims were received, 15% fewer than in 2013. This general decline was matched by a similar fall in the claims arising from the ap-

plication of the limits on the interest rate envisaged in mortgage agreements (known as "floor clauses"), which totalled 15,610.

In relation to the monitoring and control of the advertising of banking services and products, a highly relevant activity for the determination of institutions' conduct, there was a notable number of requirements for the withdrawal or rectification of press and Internet advertisements. These totalled 132 in 2014, all of which were complied with.

In the exercise of its new supervisory powers in the area of bank transparency and customer protection, the Market Conduct and Claims Department, between 1 October 2014 (the date on which, as mentioned above, they were assumed by the department) and the end of the year, initiated 18 actions to check and monitor supervised institutions and one on-site inspection.

These actions had different origins or causes. In some cases they were initiated as a result of facts made known to the department by other units or departments of the Banco de España or other public institutions, private associations or individuals and, in others, because certain conduct or types of relations with customers that warranted the action initiated were inferred from a detailed analysis of claims filed with the Banco de España against supervised institutions.

These actions led, among other communication exchanges, to the sending of three letters to an equal number of institutions formulating observations or requests for information, and another letter to an institution notifying it of five requirements resolved upon by the Executive Commission of the Banco de España.

In December 2014 an inspection of a credit financial intermediary was initiated to verify if certain facts described in allegations by a public agency amounted to the infringement of non-compliance with the regulations on transparency and customer protection as regards advertising and the pre-contractual and contractual information supplied to its customers.

The supervisory activities carried out off-site analysed various supervised institutions to check their compliance with specific obligations in relation to information transparency, good practices and customer protection. Specifically, the activities included the following aspects:

- Actions to check compliance with the Code of Good Practices contained in the annex to Royal Decree-Law 6/2012 of 9 March 2012 on urgent measures to protect mortgage debtors, as a result of allegations made by various public institutions against various credit institutions.

- Verification of diverse matters relating to bank transparency and customer protection in the area of consumer credit, as a consequence of allegations made by a public agency against a number of lenders.

- Checking that the agreements for and the opening of current accounts by a credit institution were correct.

- Monitoring and control of the return to compliance with the obligations of certain institutions to file with the Banco de España certain statements on aspects of transparency.

– Verification of the control policy established by institutions for access by their customers to their positions with the institution using internet banking.

– Checking of the appropriate application of and compliance with contractual clauses in mortgages, which led to the sending of a letter of requirements to an institution, as mentioned above.

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.

6.1 Prudential regime for supervised institutions

6.1.1 REGULATION, SUPERVISION AND SOLVENCY OF CREDIT INSTITUTIONS

In the area of regulation of credit institutions and other institutions supervised by the Banco de España, reform of the regulatory framework continued apace in 2014, aimed at adapting Spanish law to EU legislation on supervision and solvency. This adaptation had begun in 2013 with the publication of Royal Decree-Law 14/2013 of 29 November 2013 which transposed the most pressing changes relating to solvency matters arising from Directive 2013/36/EU[1] which, together with Regulation (EU) No 575/2013,[2] is known as CRR/CRD IV and which adapts European legislation to the Basel III regulatory framework. Thus the essential changes to ensure that the new European legislation on banking regulation and discipline could become operational were made and the Banco de España was authorised to exercise the options granted to national competent authorities in Regulation (EU) No 575/2013.

Pursuant to the powers granted under Royal Decree-Law 14/2013, Circular 2/2014 of 31 January 2014 addressed to credit institutions, on the exercise of various regulatory options contained in Regulation (EU) No 575/2013, was approved at the start of the year, the aim being to establish which regulatory options had to be exercised immediately and the scope thereof.

In the Circular, the Banco de España exercises some of the permanent regulatory options, in general with a view to maintaining the treatment afforded by Spanish legislation to certain matters, justified in some cases by the traditional business model of Spanish institutions. The Circular also determines how institutions should comply with the transitional regulatory options envisaged in Regulation (EU) No 575/2013, to permit gradual adaptation to the new requirements, and specifies the treatment to be afforded to certain matters up to the entry into force of the regulatory technical standards to be prepared by the European Banking Authority (EBA).

Regarding the transitional regulatory options related to institutions' capital items and deductions, the Banco de España has opted, as a general rule, to allow the longest periods and the least demanding correction coefficients, to facilitate adjustment to the new rules. However, where the Spanish rules were more demanding than the EU rules (for instance, the obligation to deduct losses for the current financial year or own shares entirely from own funds), the stricter requirement has been maintained. In addition, the Circular establishes that eligible own funds requirements for 2014 will be CET1 capital of 4.5% and Tier 1 capital of 6%, and includes a transitional period running from 1 January 2014 to 31 December 2017 (with certain exceptions) for the Tier 1 capital requirements to be met.

Subsequently, continuing with the process of adapting Spanish banking regulations to the new EU regulations, Law 10/2014 of 26 June 2014 (BOE of 27 June 2014) on the regulation, supervision and solvency of credit institutions (hereafter, the Law) was approved, in response to the need to regulate certain solvency-related matters that should be maintained in the Spanish regulations and to recast the main rules on the regulation and disci-

1 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

2 Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements of credit institutions and investment firms and amending Regulation (EU) No 648/2012.

pline of credit institutions, repealing laws that had provided the legal framework for credit institutions hitherto. Law 10/2014, together with Regulation (EU) No 575/2013 mentioned above, which lays down the fundamental obligations relating to solvency and risk management of institutions (and which has been in force, with certain exceptions, since 1 January 2014), is the nucleus of the legal system that will govern credit institutions.

With that goal in mind, in terms of regulation of credit institutions, the Law encompasses the regulation of their general legal regime, the functioning of their governing bodies and the supervisory and penalty instruments available to the authorities, including the following aspects:

i. General legal provisions (scope of application, definition of credit institutions,[3] vetted access to activity and name, competences of the Banco de España and customer protection).

ii. Authorisation (authorisation process, refusal, withdrawal and lapse of authorisation, opening of branches, agents of credit institutions and registry with the Banco de España).

iii. Qualifying holdings (the need to report qualifying holdings, evaluation of proposed acquisitions, cooperation among supervisory authorities, effects of non-fulfilment of obligations, reductions in qualifying holdings, etc.).

iv. Suitability and incompatibility of senior officers (suitability requirements and supervision thereof and register of senior officers).

v. Corporate governance and remuneration policies.

The Law made a number of significant changes to corporate governance.[4] It established an incompatibilities and limitations regime for members of boards of directors and managing directors and similar officers of credit institutions; this regime will be set by the Banco de España, which will determine the maximum number of posts that they may hold simultaneously. As a general rule, directors at the larger or more complex credit institutions may not simultaneously hold more posts than (i) one executive position and two non-executive positions or (ii) four non-executive positions, although the Banco de España may authorise an additional non-executive position. Moreover, the post of chairman of the board will be incompatible with that of chief executive officer, unless expressly authorised by the Banco de España.

Boards of directors of credit institutions will have to define a corporate governance system that ensures sound and prudent management of the institution, including an appropriate distribution of functions in the organisation and the prevention of conflicts of interest. In order to ensure that boards of directors play a permanent part in the management and administration of institutions, they are assigned a series of functions that may not be delegated, including the control and regular assessment of the effectiveness of the corporate governance system. In addition, credit institutions are required to disclose public informa-

3 Banks, savings banks, credit cooperatives and the Official Credit Institute (ICO) are considered credit institutions, but not specialised lending institutions (as established in Royal Decree-Law 14/2013).

4 Changes to the Limited Companies Law relating to corporate governance are discussed in the next section.

tion on corporate governance and remuneration policies and, in particular, the total annual remuneration earned by each board member.

The Law also requires that credit institutions have an appointments committee and a remuneration committee, both made up of board members who do not perform executive functions at the institution; at least one-third of those members, and in any event the chair, must be independent directors. The Banco de España may allow certain institutions, in view of their size, internal organisation, nature, scope or the limited complexity of their activities, to set up a joint appointments and remuneration committee.

The Banco de España will also determine which institutions, in view of their size, internal organisation, nature, scope or the complexity of their activities, must establish a risk committee, made up of board members who do not perform executive functions at the institution. At least one-third of those members, and in any event the chair, must be independent directors. Credit institutions not required to establish a risk committee will set up mixed audit committees that will assume the functions of a risk committee.

Regarding solvency, the Law complements Regulation (EU) No 575/2013 in respect of capital adequacy of credit institutions. It provides that institutions must have in place the procedures needed to conduct a capital adequacy assessment for the risks to which they are or might be exposed, according to their business model and level of risk exposure. In addition, institutions must have CET1 capital buffers, established in the main according to the characteristics of the institutions. The Law envisages four types of capital buffers:

i. Capital conservation buffers, which must be equally in place at all institutions, amounting to 2.5% of their exposure.

ii. Institution-specific countercyclical capital buffers. The percentage, method of calculation, recognition and reporting of these buffers will be established in the implementing regulations.[5]

iii. Capital buffers for systemically important institutions, drawing a distinction between global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs). For G-SIIs the capital buffer will be between 1% and 3.5% of their total risk exposure; for O-SIIs the Banco de España may set a capital buffer of up to 2%. The Banco de España will also identify which institutions authorised to operate in Spain are considered G-SIIs or O-SIIs, using methodologies to be established in the implementing regulations.[6]

iv. Systemic risk buffers, which the Banco de España may require of any institution, to prevent structural macro-prudential risks.

If these buffers are not in place, the Law sets restrictions on distributions of CET1 capital and requires that a capital conservation plan be submitted to the Banco de España for approval. If that plan is not approved, the Banco de España may require that the institution

5 Royal Decree 84/2015, mentioned briefly at the end of this section, partly regulates these matters and provides that the Banco de España will complete the regulation of certain aspects.

6 Royal Decree 84/2015 touches briefly on these matters and provides that the Banco de España will determine the method of identification of both G-SIIs and O-SIIs.

increase its own funds within a set period, or it may exercise the powers conferred upon it to impose more stringent restrictions on capital distributions.

The Law also lays down the criteria that the Banco de España should take into account to set possible liquidity requirements, for each institution, in addition to those established in the Regulation. For that purpose, the Banco de España will assess the corporate governance systems, processes and arrangements in place, the supervision results and any possible systemic risk to which each institution may be exposed.

In keeping with current legislation, and without prejudice to the powers conferred upon the European Central Bank (ECB) following the start-up of the Single Supervisory Mechanism (SSM), the Law designates the Banco de España as the supervisory authority of credit institutions, granting it the necessary competences and powers to perform that role, defining the scope of its supervisory action and granting it the power to take measures to ensure compliance with solvency regulations. It also authorises the Banco de España to access any information necessary to monitor the activities pursued and it regulates the obligation of secrecy in respect of the confidential information obtained in the exercise of its supervisory powers.

Insofar as relations with other supervisory authorities are concerned, the Law authorises the Banco de España to enter into cooperation agreements with authorities from other countries and establishes a specific cooperation framework with the supervisory authorities of the other EU Member States. As the national competent authority, the Banco de España forms part of the SSM, along with the other national competent authorities and the ECB, acting with the latter in accordance with the principle of cooperation in good faith and providing it with the assistance needed for the performance of its functions. In cases where it is the consolidating supervisor, the Banco de España will be responsible for establishing colleges of supervisors. In connection with the other Spanish financial authorities, the Law ensures cooperation between the Banco de España, the National Securities Market Commission (CNMV) and the Directorate General for Insurance and Pension Funds, in respect of groups in which credit institutions and insurance and investment firms pursue their activity, and with the Fund for the Orderly Restructuring of the Banking Sector (FROB).

In the area of prudential supervision, the Banco de España may require that institutions take the measures necessary to restore compliance (or to prevent the risk of non-compliance) with the solvency regulations, including liquidity, and measures to adapt their organisational structure or internal risk control. For that purpose the Law sets out a broad range of measures that the Banco de España may adopt, without prejudice to the sanctioning regime also regulated in the Law. In exceptionally serious circumstances, the Banco de España may even assume control of an institution and replace its management bodies.

The sanctioning regime applies not only to institutions but also to persons holding management positions or with qualifying holdings in institutions. The Law confers sanctioning powers upon the Banco de España and aligns the present regime with the new regulations, maintaining the three levels of infringements (very serious, serious and minor) existing to date. Sanctions, which in general are raised, may take the form of fines or other types of measures, such as requirements imposed on offenders, suspension of voting rights or public or private reprimands, and even withdrawal of authorisation. The way in which fines are calculated has been changed, providing the competent body with the following options:

– Calculation as a multiple of the gains obtained from the infringement, where these are quantifiable; the multipliers may run from twice (the minimum for minor infringements) to five times (the maximum for very serious infringements) the amount of the gains.

– Calculation as a percentage of turnover, between 0.5% and 10%, or a fine of between €100,000 and €10 million if the aforementioned percentage were lower, according to the severity of the infringement.

Regarding the reporting obligations of credit institutions established, the following disclosures are noteworthy:

– The financial statements, which must also be furnished to the Banco de España. The Law provides that the Banco de España may be authorised to establish and amend the accounting rules and formats for institutions' financial statements.

– The annual banking report, published as an annex to the financial statements, which includes consolidated data on institutions, broken down by countries where they operate.

– The "Prudential information" document, which must be produced at least once a year and which, pursuant to Part Eight of Regulation (EU) No 575/2013, must contain information on their financial situation and activity that may be of interest to the market, to assess the solvency risks and situation of each institution.

– Information on their corporate governance and remuneration policy, which will be disclosed on a website.

The Law includes a large number of transitional provisions, since the legislation it transposes provides for the phasing-in of various provisions (such as, for instance, capital buffers). It also contains a series of provisions on various matters, among which the most noteworthy are:

i. the system whereby preference shares qualify as capital for the purposes of solvency;

ii. the supervision of institutions not inscribed in administrative registers;

iii. the legal framework for institutional protection systems;

iv. the liability of savings banks' control committee members; and

v. the integration of the Banco de España in the SSM.

In addition, the Law includes an extensive series of amendments to legislation on specific aspects of certain kinds of institutions. It also contains far-reaching amendments, to Securities Market Law 24/1988 of 28 July 1988, extending to investment firms the prudential supervision regime envisaged for credit institutions in Directive 2013/36/EU, and to Law 5/2005 of 22 April 2005 on the supervision of financial conglomerates and which amends other financial sector legislation.

Lastly, the Law repeals the two fundamental pieces of legislation that had governed credit institutions in Spain to date, that is, Law 13/1985 of 25 May 1985 on investment ratios, own funds and reporting requirements of financial intermediaries, and Law 26/1988 of 29 July 1988 on discipline and intervention of credit institutions. It also repeals the Banking Law of 31 December 1946, and other more minor legislation. In consequence, the process of incorporation into Spanish law of the new EU regulations required to be thus transposed is now complete, and the main organisational and disciplinary rules of credit institutions have been recast and enacted into law.

In 2015, continuing with the process of adaptation to the new European CRR/CRD IV legislation, Royal Decree 84/2015 of 13 February 2015 was approved, implementing Law 10/2014 and recasting in a single regulation the organisational and disciplinary rules of credit institutions. The main aspects covered by the Royal Decree relate to:

i. The regime for authorisation, registration and activity of institutions (the authorisation regime relates only to banks).

ii. Qualifying holdings.

iii. Corporate governance and remuneration measures (the area where the most new developments are introduced).

iv. Solvency of credit institutions. Although the bulk of the solvency requirements are contained in Regulation (EU) No 575/2013, the Royal Decree fleshes out certain new features of the Directive, such as the capital buffers.

v. The Banco de España's supervisory powers. The national supervisor is required to exercise special supervision of the internal methods used to calculate own funds requirements, and the cooperation framework with other competent authorities is defined.

vi. Supplementary supervision of financial institutions that belong to a financial conglomerate.

Insofar as credit institutions are concerned, the process of adaptation to the new European legislation will shortly conclude in Spain with the publication of a new Banco de España Circular that is currently on the verge of completion.

6.1.2 LAW 31/2014 OF 3 DECEMBER 2014 AMENDING THE LIMITED COMPANIES LAW TO ENHANCE CORPORATE GOVERNANCE

Law 31/2014 of 3 December 2014 (BOE of 4 December 2014) amending the Limited Companies Law to enhance corporate governance (hereafter, the Law) makes various changes to the consolidated text of the Limited Companies Law approved by Royal Legislative Decree 1/2010 of 2 July 2010. These changes relate: first, to the regulation of the general meeting of shareholders, with the aim of strengthening its role and promoting minority shareholdings; and, second, to the board of directors, with the incorporation of a number of measures designed to contribute to its correct functioning, notable among them being the regulation of directors' remuneration, an especially relevant change.

As regards the general meeting of shareholders, its powers to approve director remuneration policy and operations that have an effect equivalent to that of winding up the company, such as acquisition, disposal or transfer to another company of essential assets, are

extended.[7] Also, so-called "minority rights" in listed companies are strengthened: the minimum threshold of share capital necessary to enable shareholders to exercise their rights is reduced from 5% to 3%, and the maximum number of shares that may be required by the articles of association to attend the general meeting is set at one thousand.

The legal treatment of conflicts of interest is reformed, with the regime that had already been established for private limited companies being extended to public companies. First, a specific clause removes the right to vote in the most serious cases of conflict of interest. Second, when a resolution is challenged and the vote of a shareholder or shareholders allegedly subject to a conflict of interest has been decisive in its passing, the company or, as the case may be, the shareholder or shareholders affected by the conflict of interest will be required to satisfy the burden of proof that the resolution is in the company's interest. Any shareholder or shareholders who challenge the resolution will, in turn, be required to prove that there was a conflict of interest.

Also, the Law makes it compulsory for separate votes to be taken at general meetings on matters that are substantially independent; specifically, even if these matters are included in the same item of the agenda, separate votes must be taken on the appointment, ratification, re-election or removal of each director, and in the case of changes to the articles of association, on each article or group of articles that has its own autonomy. In order to clarify the questions of interpretation that had arisen in practice, it is also expressly established that the criterion for calculating the majority necessary for the valid adoption of a resolution is a simple majority of the votes of the shareholders present or represented at the meeting, the resolution being understood to have been passed when it obtains more votes of the capital present or represented in favour than against. For the passing of resolutions in certain special cases (such as, inter alia, amendment of the articles of association or transformation, merger, division or transfer of all the assets and liabilities), it is provided that, as long as more than 50% of the capital is present or represented, it is sufficient for the resolution to be adopted by an absolute majority.

Also, shareholders' right to information is expanded, particularly in the case of listed companies, for which the period during which shareholders may exercise their right to information prior to general meetings is extended to five days before they are held (compared with seven previously). Valid requests for information, clarification and written questions, as well as written answers given by directors, must be included on the company's website. Listed companies must also establish, on their websites, a shareholders' forum, to which individual shareholders and voluntary associations formed for the purpose of facilitating communication prior to general meetings have access. Likewise, shareholders may form specific and voluntary associations to exercise the rights of representation of shareholders at general meetings and the other rights recognised by law.

The Law brings all cases of challenge of company resolutions (void and voidable agreements) under a single general voidance regime, with the right to challenge expiring after one year. The sole exception to this expiry of the right to challenge is for resolutions contrary to public order, for which the right is deemed never to expire. In the case of listed companies, the expiry period is reduced from one year to three months, so that the efficacy and speed particularly required in the management of such companies is not affected. As for the legal capacity to challenge company resolutions, and with the aim of avoid-

7 Assets are deemed to be essential when the amount of the operation exceeds 25% of the value of the assets in the latest approved balance sheet.

ing situations of abuse of right, a minimum limit is established so that only shareholders representing, individually or jointly, at least 1% of the capital for unlisted companies and 0.1% for listed ones will have legal standing, although the articles of association may lower these thresholds. For these purposes, the concept of the company's interest is also expanded, so that it will be understood that this interest has been damaged when a resolution is imposed abusively by the majority.

Finally, listed companies are required to publish two reports on an annual basis: a corporate governance report, that must offer a detailed explanation of the structure of the company's governance system and its operation in practice, and a director remuneration report.

With regard to the board of directors, the Law assigns to the board, as non-delegable powers, those decisions relating to the essential core of the management and supervision of the company. Also, in order to ensure that it maintains a constant presence in the affairs of the company, the Law provides that the board must meet at least once a quarter.

The attendant regulations include a series of measures aimed at contributing to the proper functioning of the board, especially in listed companies. Directors are thus obliged to personally attend board sittings and, so as to prevent the effective capacity to exercise supervisory power from being weakened, regulations are laid down whereby, in the event of representation for attending a board meeting, non-executive directors may only delegate to another non-executive director. It is further ensured that all directors receive the agenda for the meeting and the necessary information for the deliberation and adoption of resolutions sufficiently in advance. The non-delegable powers of the board of directors are exhaustively detailed, and the different categories of directorship stipulated (these were previously regulated by ministerial order), duly defining executive, non-executive, nominee and independent directors.

The functions of the chairman of the board of directors are expressly envisaged (they may be extended under the articles of association and the board rules) and it is stipulated that, when the chairman is an executive director, the board shall perforce appoint, from among the independent directors, a director-coordinator, who will be especially empowered to request that the board convene or that new items be included on the agenda of a board meeting that has already been called, to coordinate and bring together non-executive directors and, if appropriate, to oversee the periodic assessment of the chairman of the board.

Likewise, the Law regulates the appointment and re-election of directors, limiting the maximum term of their mandate to four years, compared with the six-year term generally envisaged previously. Further, the possibility is provided for the board of directors to set up specialist committees, including necessarily an audit committee and an appointments and remuneration committee (the latter, either as one joint committee or two separate ones). Both the audit committee and the appointments and remuneration committee shall be made up solely of non-executive directors, chaired in each case and at all times by an independent director.

One particularly significant change, as indicated above, is the regulation of directors' pay. At all limited companies the Law requires that the articles of association set directors' remuneration arrangements in terms of their management and decision-making functions, with particular reference to the remuneration regime for directors performing executive

functions. The remuneration arrangements established must be geared to promoting the long-term profitability and sustainability of the company and to incorporating the necessary caution so as to avoid excessive risk-taking and reward for poor results. Furthermore, the maximum amount of annual remuneration of the directors as a whole shall be approved by the general meeting, and it shall in any event be reasonably commensurate with the significance of the company, its economic situation at each point in time and the market benchmarks for peer companies.

In addition, the approval of the remuneration policy at listed companies will be put to the general meeting of shareholders, at least once every three years, as a separate item on the agenda. Moreover, it will be for the board of directors to set the remuneration of each of the directors, based on their performance and on the terms and conditions of their contracts with the company. This ensures that it is the general meeting of shareholders that retains control over remuneration (including the various bonuses and supplements envisaged), the parameters for setting remuneration and the main terms and conditions of contracts.

6.2 Other rules completing the legal framework of supervised institutions

Among the regulatory changes affecting the operational framework within which the institutions supervised by the Banco de España pursue their activity, of particular note are a series of measures adopted to help provide for the viable restructuring of corporate debt, to prevent – as far as possible – institutions having to file for insolvency. The measures specifically entail various amendments, both to the regulations governing the pre-insolvency stage and to the insolvency proceeding itself.[8]

6.2.1 LAW 17/2014 OF 30 SEPTEMBER 2014 ADOPTING URGENT MEASURES ON THE REFINANCING AND RESTRUCTURING OF CORPORATE DEBT

Law 17/2014 of 30 September 2014 (BOE of 1 October 2014) adopting urgent measures on the refinancing and restructuring of corporate debt (hereafter, the Law), aims to promote the financial restructuring of companies, making their outstanding debt bearable so that they may continue to meet their trading commitments. To this end, the Law – along with equal-ranking Royal Decree-Law 4/2014 of 7 March 2014 from which it stems – improves the pre-insolvency legal framework governing refinancing agreements, amending, among other provisions, Insolvency Law 22/2003 of 9 July 2003 and Civil Procedure Law 1/2000 of 7 January 2000.

The submission of notification of commencement of negotiations to reach a refinancing agreement is acceptable as cause for staying, during the period envisaged for such negotiations, judicial enforcement proceedings against assets required for the continuity of the debtor's professional or business activity. In turn, any individual enforcement proceedings brought by creditors holding financial claims will also be stayed, provided that no less than 51% of those creditors have expressly supported the start of negotiations aimed at achieving a refinancing agreement.

The Law amends the judicial approval system for refinancing agreements to make such agreements extensive to all types of creditors holding financial claims, excluding trade creditors and public law creditors. Also, provision is made for the extension to dissident or non-participating creditors not only of deferrals, but also, when the percentage of claims in favour is higher, of other measures agreed under the refinancing agreement, such as partial acquittances, the conversion of debt to equity and the transfer of assets in or for payment. Further, a new category of non-rescindable refinancing agreement (given certain conditions) is introduced and it is stipulated that judicially approved financing agreements

8 The next section specifically deals with the insolvency reform.

may not be rescinded either. Various measures are specified to favour the conversion of debt to equity, such as reducing the majorities required under the Spanish Limited Companies Law and establishing, with all due precautions and assurances, a presumption of culpability of any debtor that, without reasonable cause, refuses to agree to the conversion of debt to equity or to issuance of convertible securities or instruments, thereby thwarting any refinancing agreement.

The insolvency administration regime is also reformed, chiefly in the following aspects: (i) certain additional requirements in terms of the skills and knowledge required to act as an insolvency administrator are introduced; (ii) a fourth section of insolvency administrators and delegated assistants is created in the Insolvency Public Register, in which all natural and legal persons meeting the requirements have to register, specifying the territories in which they are prepared to act as insolvency administrators; (iii) the system for designating insolvency administrators has been changed, with the details of its functioning to be specified in implementing regulations; (iv) insolvency administration functions are detailed in both procedural and labour market-related terms, as are the various measures that may affect creditors' claims; (v) the criteria governing insolvency administrators' remuneration are specified, such remuneration being determined by a fee rate based, inter alia, on the number of creditors, the size of the case involved and efficiency, in order to ensure that this remuneration takes into account both the quality and the outcome of the work undertaken; and (vi) the grounds on which the courts may remove insolvency administrators from office or revoke the appointment of delegated assistants are specified.

The Law, reproducing what was previously provided for under Royal Decree-Law 4/2014, included a mandate to the Banco de España requiring that, within one month, it establish and make public uniform criteria for the classification as standard risk of operations restructured as a consequence of judicially approved refinancing agreements. In fulfilment thereof, on 18 March the Executive Commission of the Banco de España approved and sent to credit institution associations a statement addressing these criteria.

6.2.2 ROYAL DECREE-LAW 11/2014 OF 5 SEPTEMBER 2014 ON URGENT INSOLVENCY MEASURES

Completing the foregoing measures set in place for the pre-insolvency stage, Royal Decree-Law 11/2014 of 5 September 2014 (BOE of 6 September) on urgent insolvency measures (hereafter, the Royal Decree-Law) also amends several precepts of Insolvency Law 22/2003 of 9 July 2003 aimed at paving the way for agreements that allow economically viable concerns that are entering into an insolvency proceeding to survive.

With regard to the regulation of the insolvency agreement, certain amendments are made to proposals for agreements geared to helping the company survive. It is thus specified that there is solely scope for including the transfer, in payment to creditors, of those assets or claims that are not necessary for the continuity of professional or business activity and whose fair value is less than or equal to that of the claim being discharged; if fair value is higher, the difference should be included in the assets available to creditors. Furthermore, the quorum for the creditors' meeting has been extended, assigning voting rights to creditors that have acquired their credit claims subsequent to the declaration of insolvency, with the exception in all cases of those with a special link to the debtor (as they will be considered subordinated credits, with no voting rights, and will remain tied to the agreement). The list of persons with special links to the debtor is also extended.

One of the main new features of the rules are, moreover, the changes to votes and majorities for the acceptance of proposals for agreement, extending the possibility of dissident creditors being dragged along in certain circumstances: hence, with the vote in fa-

vour of 65% of ordinary claims, acquittances amounting to more than half the credit claims and deferrals of more than five years may now be accepted. An arrangement has also been introduced to allow the measures contained in this Royal Decree-Law to be applied, on a one-off basis, to agreements adopted under the previous legislation, provided that the measures are adopted by enhanced majorities (higher than those required for approval of the agreement) and that this is approved by a court.

As regards creditors whose claims are secured by assets of the company, this special privilege shall only cover that portion of the claim that does not exceed the value of the collateral recorded in the list of creditors, while the portion of the claim that exceeds that value will enjoy no special preference and will be classed according to the nature of the claim. The legislation groups preferred creditors into the following classes, drawing no distinction between generally or specially preferred creditors: 1) labour law creditors; 2) public law creditors; 3) financial creditors; and 4) all others, including trade creditors. Under the previous regulations, the terms of the agreement could not be imposed on preferred creditors against their will. However, the Royal Decree-Law now has it that they will also be bound by the agreements where there are certain majorities within their class.

The aim as regards winding-up proceedings is to ensure, insofar as possible, the continuity of the business activity, basically paving the way for sale of the debtor's establishments and operations, or of any other production units, as a single unit; with this aim in mind, the purchaser becomes subrogated to the seller's contracts and administrative licences and certain mechanisms are set in place relating to exoneration from liability for previous debts.

Lastly, the Royal Decree-Law brings in the legal changes needed to comply with the judgment of the Court of Justice of the European Union of 17 July 2014. To that end, Civil Procedure Law 1/2000 of 7 January 2000 is amended, to allow mortgagors to appeal against rulings dismissing their objection to foreclosure if it is based on the existence of unfair terms that constitute the basis of the foreclosure or the amount payable.

6.2.3 ROYAL DECREE 304/2014 OF 5 MAY 2014 APPROVING THE IMPLEMENTING REGULATIONS OF LAW 10/2010 OF 28 APRIL 2010 ON THE PREVENTION OF MONEY LAUNDERING AND TERRORIST FINANCING

Royal Decree 304/2014 of 5 May 2014 (BOE of 6 May 2014) approving the implementing regulations of Law 10/2010 of 28 April 2010 on the prevention of money laundering and terrorist financing (hereafter, the Royal Decree or Regulation) repeals the previous Regulation,[9] implements the risk-based approach and incorporates the latest recommendations (February 2012) of the Financial Action Task Force (FATF) in this respect. The new Regulation lays down, inter alia, certain obligations for entities obliged by Law 10/2010 to supervise legal transactions or operations in which there are signs or certainty of the involvement of assets from unlawful sources, institutional arrangements relating to the prevention of money laundering and terrorist financing, and international financial countermeasures and sanctions, and establishes the structure and functioning of the register of financial ownership.

The Regulation includes certain rules that some credit institutions were already applying to a greater or lesser extent. In particular, it provides that obliged entities must identify and verify, using reliable documents, the identity of any legal or natural persons that enter into business relationships or are involved in any occasional transactions for amounts equal to or more than €1,000 (previously €3,000), with some exceptions. In general, this identification must be made before the business relationship is established or the occasional transaction entered into; the Regulation lists the documents considered reliable for these pur-

9 The previous Regulation was approved by Royal Decree 925/1995 of 9 June 1995.

poses. In addition, according to the different risk level of the customer, business relationship or transaction, the Regulation stipulates in detail, inter alia, how the beneficial owners, i.e., the natural persons on whose behalf the transaction or activity is being conducted, or the natural persons who exercise a certain degree of control over a legal person, are to be identified.

Regarding the purpose and type of the business relationship, the Regulation requires that the reported activity be verified when the customer or business relationship present higher than average risk, as provided for by law or in view of the risk analysis performed by the obliged entity, and also when monitoring of the business relationship reveals that the customer's asset or liability transactions do not match his/her reported activity or transactions history. The measures used to verify reported professional or business activity will depend on the level of risk and will be taken using documentation submitted by the customer or information obtained from reliable independent sources.

Obliged entities may apply simplified due diligence measures to certain customers and certain products or transactions, according to the level of risk: the Regulation sets out these simplified measures, together with the customers, products and transactions to which they are applicable. In turn, in addition to the normal due diligence measures, obliged entities shall apply enhanced due diligence measures (also set out in the Regulation) to business areas, activities, products, services, distribution and marketing channels, business relationships and transactions that present a higher money laundering or terrorist financing risk.

Obliged entities must have suspicious transaction alerts in place. Entities that conduct over 10,000 transactions a year must have automated alert generating and prioritising models in place, which will be subject to periodic review. In addition, obliged entities must establish internal control procedures to enable their executives, employees and agents to detect transactions susceptible to being linked to money laundering or terrorist financing. Following technical analysis of these transactions, the representative of the obliged entity will decide whether or not they must be reported to the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC); transactions must be reported without delay if there are signs or certainty of money laundering or terrorist financing.

Another of the new features brought in by the Regulation is the broad implementation of the internal control procedures to be established by obliged entities, in order to identify and evaluate risk by customer type, country or geographical area, products, services, transactions and distribution channels, taking into consideration variables such as the purpose of the business relationship, the customer's asset level, the volume of transactions and the regularity or duration of the business relationship. These internal control procedures will be documented in a money laundering and terrorist financing prevention manual, the minimum content of which is established. Small obliged entities, however, are exempted from this obligation. The Regulation also demands that a specific risk analysis be undertaken and documented before obliged entities launch new products, provide new services or start to use new distribution channels or new technology, requiring them to take the appropriate steps to manage and mitigate any risks identified in the analysis.

To facilitate the prevention of money laundering and terrorist financing, the register of financial ownership is created. This is an administrative register that will be processed by SEPBLAC and will be fed with information from credit institutions' monthly reports on the

opening and closing of current accounts, savings accounts, securities accounts and fixed-term deposits in the previous calendar month. SEPBLAC will establish the technical procedures for consultation of the register, through the single-access points designated to that effect at the General Council of the Judiciary (CGPJ), the public prosecution service, the law enforcement authorities, the National Intelligence Centre (CNI) and the State Tax Agency (AEAT). The register must be operational by May 2016.

6.2.4 LAW 3/2014 OF 27 MARCH 2014 AMENDING THE CONSOLIDATED TEXT OF THE GENERAL CONSUMER AND USER PROTECTION LAW AND OTHER SUPPLEMENTARY LEGISLATION, APPROVED BY ROYAL LEGISLATIVE DECREE 1/2007 OF 16 NOVEMBER 2007

Law 3/2014 of 27 March 2014 (BOE of 28 March 2014) amending the consolidated text of the General Consumer and User Protection Law and other supplementary legislation, approved by Royal Legislative Decree 1/2007 of 16 November 2007, transposes into Spanish law Directive 2011/83/EU of the European Parliament and of the Council of 25 October 2011 on consumer rights, which replaced the former Community legislation on consumer protection and amended the regulation of unfair terms in consumer contracts.

Among the main new features of the Law that affect credit institutions are the inclusion in Spanish law of the new harmonised definitions of consumers, users (both natural and legal persons), traders, distance contracts and off-premises contracts, and the change to Law 16/2011 of 24 June 2011 on credit agreements for consumers, adding, as ancillary to injunctions for unlawful clauses or practices, refund of amounts charged and compensation for damages caused by application of those clauses.

The Law increases the information that must be provided to consumers and users, adding to pre-contractual information requirements. The new requirements include informing consumers and users, where applicable, of the existence and the conditions of deposits or other financial guarantees to be paid or provided by them at the request of the trader, including guarantees whereby an amount is blocked on the credit or debit card of the consumer or user. They must also be informed of the existence of a legal guarantee of conformity for goods and, where applicable, of the existence and the conditions of after-sale services and the corresponding commercial guarantees.

Law 3/2014 also lays down formal requirements for distance contracts and off-premises contracts, supplementing the existing provisions of Law 17/2009 of 23 November 2009 on free access to and pursuit of service activities, and of Law 34/2002 of 11 July 2002 on information society and e-commerce services. If contracts are concluded through a means of distance communication that allows limited space or time to furnish the information, the trader shall provide, at least, on that specific means of communication and before the contract is concluded, pre-contractual information on the main characteristics of the goods or services, the identity of the trader, the total price, the right of withdrawal, the duration of the contract and, if it is of indeterminate duration, the conditions for terminating the contract. In addition, in the case of distance contracts and off-premises contracts, the period for exercise of the right of withdrawal is extended to 14 calendar days, unless the trader has not informed the consumer of the right of withdrawal, in which case the withdrawal period will expire 12 months from the end of the initial withdrawal period.

Lastly, the Law adapts Spanish regulations to the case law of the Court of Justice of the European Union on unfair terms in consumer contracts. Under the previous regulations, the courts had the power to change the content of unfair terms in contracts, modifying the part of the contract that was deemed void, in accordance with the provisions of Article 1258 of the Civil Code and with the principle of good faith. Under the present regulations, the courts, after hearing the parties, will declare the unfair terms included in the contract

void, but the contract will continue to be binding for the parties upon those terms, provided that it is capable of continuing in existence without the unfair terms.

6.2.5 ROYAL DECREE 579/2014 OF 4 JULY 2014 IMPLEMENTING CERTAIN ASPECTS OF LAW 14/2013 OF 27 SEPTEMBER 2013 ON SUPPORT FOR ENTREPRENEURS RELATING TO INTERNATIONALISATION BONDS AND COVERED BONDS

As part of the legislative process set in motion in previous years to encourage the internationalisation of Spanish firms, Royal Decree 579/2014 of 4 July 2014 (BOE of 16 July 2014) implementing aspects of Law 14/2013 of 27 September 2013 on support for entrepreneurs relating to internationalisation bonds and covered bonds regulated certain aspects of these instruments[10] relating to issuance, secondary market operations and the supervisory powers of the CNMV and the Banco de España.

The Royal Decree establishes the information that internationalisation bond and covered bond issues must include; it also sets out the formula to be used to calculate maximum issuance limits and the mechanisms to be used to restore those limits if they are crossed. In particular, both types of bonds may include accelerated maturity clauses, according to the terms of issue. The Banco de España is responsible for control and inspection of the conditions required of assets that may serve as collateral for internationalisation bond and internationalisation covered bond issues, and the CNMV for supervision of matters relating to public offerings and trading on the secondary market.

With regard to the operation of the secondary market, the Royal Decree regulates in particular the operations that issuers may perform in respect of their own internationalisation and covered bonds. Thus it provides that issuers may trade in own internationalisation bonds or internationalisation covered bonds and, to that end, acquire, sell or pledge own bonds, in order to regulate the correct functioning of their liquidity and market price or to restore the maximum issue limits. They may also acquire and hold own internationalisation bonds and covered bonds in portfolio, in the case of issues offered to the general public up to a limit of 50% of each series. By way of exception, issuers may exceed that limit when they acquire own bonds through an offering addressed to all the bondholders of a single series, for the purpose of redeeming or exchanging the bonds acquired.

The Royal Decree also regulates the special accounting record that issuers of internationalisation or covered bonds must keep of the loans that act as collateral for the issues, of the substitute assets and of the financial derivatives linked to each issue. The record will be continuously updated and will have two clearly separate parts, one for covered bonds and the other for bonds, with the specific respective content to be fleshed out by the Banco de España. The latter will also require the essential data from the record that must be included in the issuers' financial statements and annual reports, accompanied by an express declaration by the board of directors or equivalent management body assuming responsibility for having in place explicit policies and procedures that ensure compliance with the legislation applicable to these bond issues. The Royal Decree refers also to the special accounting record of the loans that act as collateral for territorial covered bond issues, also establishing the minimum content of this record, to be fleshed out by the Banco de España.

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10 Internationalisation covered bonds were introduced into Spanish law by Royal Decree-Law 20/2012 of 13 July 2012 on measures to ensure budgetary stability and promote competitiveness. Subsequently, Law 14/2013 of 27 September 2013 on support for entrepreneurs and internationalisation amended the legal framework of those bonds. It also redefined the assets eligible as collateral and territorial covered bond yields and introduced internationalisation bonds.

Introduction

The outbreak of the crisis in 2008 and its second-round effects revealed shortcomings in the financial stability mechanisms in place, triggering frequent impacts on public finances. In the specific case of the euro area, these impacts revealed marked asymmetries between the national financial markets of the euro area countries.

The design of the new resolution framework – in keeping with the broader moves made under the aegis of the FSB – and the roll-out of Banking Union will provide European resolution authorities with a harmonised and effective model of action and coordination, allowing them to respond to possible crises at a minimum cost to the taxpayer.

The legal restructuring and resolution framework in Europe is structured around three legal texts: Directive 2014/59/EU of 15 May 2014 (the Bank Recovery and Resolution Directive, hereafter, the BRRD) which established a framework for the recovery and resolution of credit institutions and investment firms; Regulation (EU) No 806/2014 of 15 July 2014 on the creation of the Single Resolution Mechanism (hereafter, the SRM), establishing uniform rules and a uniform procedure for resolution in the euro area; and Directive 2014/49/EU of 16 April 2014 on deposit guarantee schemes, repealing Directive 1994/19/EC. Law 11/2015 of 18 June 2015 (published 19 June 2015) on the recovery and resolution of credit institutions and investment firms transposed both the above Directives into Spanish law and will be followed by the corresponding implementing regulations.

Pillars of Directive 2014/59/EU (BRRD)

The BRRD views the resolution of credit institutions in three separate stages and defines the role of a new *administrative resolution authority* exclusively responsible for preparing and carrying out an orderly market exit for institutions.

a) *Prevention stage.* Institutions should prepare recovery plans that envisage measures to restore their financial health in a possible crisis. Competent authorities will make a comprehensive assessment of those plans and may demand that institutions adopt measures that the supervisor considers necessary and commensurate, including tempering the risk profile, adopting timely bail-in measures and reviewing their strategies and organic structure. For their part, resolution authorities will prepare resolution plans for institutions for possible resolution scenarios. If difficulties are identified they will demand that institutions adopt measures similar to those indicated above and will, in any event, require that institutions have an appropriate liability structure to ensure that any resolution process is sustained by their own sources of financing.

b) *Early intervention stage.* The aim is to ensure that competent authorities can take swift action to prevent the resolution of a viable institution as soon as signs of deterioration of its financial and economic situation emerge. Competent authorities may act as soon as an institution faces foreseeable difficulties complying with solvency, liquidity, organisational structure or internal control requirements. The BRRD establishes, inter alia, that competent authorities may require institutions to implement certain measures included in recovery plans, to draw up action programmes to overcome weaknesses detected and a timetable for their implementation or to make changes to their operating or legal structures. It also empowers them to appoint a temporary administrator, to replace or temporarily work with an institution's management body and senior management.

c) *Resolution stage.* Although failing institutions should, in principle, be wound down under normal insolvency proceedings, the new legislation takes into account the fact that this might jeopardise financial stability, the continuity of critical functions for the financial system or the real economy and the protection of depositors or public funds. If there is a public interest concern, an administrative decision ordering resolution measures may be issued if in addition it is considered that the alternative measures provided for in the BRRD would not remedy the situation. It will be for the supervisory authority to determine that an institution is failing, although Member States may also assign that power to the resolution authority, following consultation with the competent authority. The BRRD envisages the following resolution tools: sale of business, creation of a bridge bank to maintain institutions' critical functions, creation of an asset management company to sell or write down non-critical assets, and recapitalisation by means of write-down or conversion of capital instruments and other eligible liabilities. This last resolution tool is accompanied by recovery and reorganisation measures, aimed at assuring the viability of the institution. For exceptional cases, each Member State should have specific funding arrangements or "resolution funds".

SRM Regulation and institutional resolution framework in Spain

The BRRD establishes the first harmonised framework for bank resolution across the EU and for cooperation arrangements between national authorities, although it grants a certain degree of national discretion in its implementation. This degree of national discretion is inappropriate for the correct functioning of the euro area and is thus eliminated in the SRM Regulation.[1] The Regulation also creates the Single Resolution Board (hereafter, the SRB) and the Single Resolution Fund (hereafter, the SRF) and sets out the cooperation framework with national resolution authorities. The SRB will have competence in the case of institutions that are directly supervised by the SSM and other cross-border groups,

1 It should be noted that non-euro Member States may opt to join the Banking Union.

and in all resolution procedures that involve the use of SRF funds. All other institutions will be under the stewardship of the national authorities, although in accordance with the criteria established by the SRB.

The provisions of the SRM Regulation are to be implemented in three phases: the provisions relating to the creation of the SRB came into effect together with the Regulation (19 August 2014); those relating to cooperation between the SRB and national resolution authorities for drawing up resolution plans are in effect since 1 January 2015; and lastly, all other provisions will become effective from 1 January 2016. Accordingly, the SRB will not have full powers until that date.

At a national level, Law 11/2015 on the recovery and resolution of credit institutions and investment firms establishes a model with two national resolution authorities. Thus a distinction is drawn between resolution functions in the preventive stage, entrusted to the Banco de España and the National Securities Market Commission (CNMV), respectively, according to whether they relate to credit institutions or investment firms, and resolution functions in the enforcement stage, assigned to the Fund for the Orderly Restructuring of the Banking Sector (FROB). In any event, areas with resolution functions should operate independently of those with supervisory functions.

Resolution funds

The new resolution framework combines three elements, aiming to ensure that resolution processes have no impact whatsoever on the public purse:

a) *Losses borne internally.* The BRRD requires that shareholders, holders of other capital instruments, subordinated creditors and other non-exempt creditors bear the cost of losses incurred and, where appropriate, the necessary recapitalisation measures. Two new legal constructs are introduced for absorbing losses: write-down or conversion of capital instruments, and bail-in by means of other eligible liabilities. The first of these constructs is mandatory in all resolution processes. In addition, in order to ensure that institutions have sufficient instruments to absorb losses and recapitalise, the BRRD establishes that resolution authorities will set a minimum requirement for own funds and eligible liabilities (MREL) for each institution.

b) *Single Resolution Fund*.[2] The SRF will be funded by contributions by institutions according to their size and risk profile and will become operational in January 2016, by which time it will have initial funding (10% is to be paid in 2015) that will be built up over eight years to reach 1% of the amount of deposits covered by the Deposit Guarantee Scheme (estimated at €55 billion). The SRF may make contributions to resolution processes in lieu of other creditors, subject to specific conditions and, in any event, to the requirement that losses totalling not less than 8% of total liabilities including own funds have already been absorbed. The Intergovernmental Agreement governing the SRF establishes a system of national compartments and of progressive mutualisation for the use of the funds available in those compartments, which will be fully merged by 2023.

c) *Deposit Guarantee Scheme.* The main aim of the new Directive is to establish a single framework for depositor protection throughout the EU, harmonising the maximum amount covered at €100,000 per depositor and payment within seven days. Deposit guarantee schemes will be funded by members' contributions, according to their size and risk profile. Member States will ensure that, by 3 July 2024, the schemes' funds amount to at least 0.8% of the amount of the deposits covered, although a lower level, up to 0.5%, may be authorised, following approval by the European Commission. These schemes may be used as resolution funds if bail-in measures affect guaranteed deposits or if those deposits suffer potential losses as a result of the implementation of any other resolution tool.

2 Beyond the SRM area, the corresponding national funding arrangements (mandatory under the BRRD in all Member States since 2015) will remain.

6.2.6 LAW 18/2014 OF 15 OCTOBER 2014 APPROVING URGENT MEASURES FOR GROWTH, COMPETITIVENESS AND EFFICIENCY

Law 18/2014 of 15 October 2014 (BOE of 17 October 2014) approving urgent measures for growth, competitiveness and efficiency, together with Royal Decree-Law 8/2014 of 4 July 2014 from which it derives, has three essential aims: to encourage competitiveness and efficient market operation, improve access to funding, and promote employment. It also advances a number of measures that were included in the subsequent tax reform.

In the financial sphere the ceilings set on interchange fees[11] are notable. These fees are charged on payment transactions made using debit or credit cards at point of sale terminals in Spain, involving payment service providers established in Spain, irrespective of the sales channel used. In the case of debit card transactions, the interchange fee per transaction may not exceed 0.2% of the transaction value, with a maximum of €0.07. For transactions of €20 or less, the fee may not exceed 0.1% of the transaction value. In credit card transactions the fee may not exceed 0.3% of the transaction value, or 0.2% of the transaction value in the case of transactions of €20 or less. Among others, transactions made with corporate cards and cash withdrawals from ATMs are exempted from these limits. Payees in payment transactions are not allowed to pass on to payers (consumers or payment service users) any expenses or additional charges for using a debit or credit card.

Payment service providers must inform the Banco de España of the interchange fees and merchant service charges[12] received for payment services in card transactions. This information shall be available on the websites of both the Banco de España and the payment service provider. The Law classes these ceilings on fees and charges as organisational and disciplinary rules; any breach of those rules will be considered a very serious infringement, unless it is an occasional or isolated breach in which case it will be considered a serious infringement, all the foregoing in accordance with the provisions of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions.

In the tax arena, since the tax on deposits with credit institutions[13] was introduced, similar regional taxes have been approved, making it necessary to ensure the existence of harmonised tax treatment of deposits with credit institutions across Spain. To that end, the Law establishes, with effect from 1 January 2014, a tax rate of 0.03%, with the revenue going to the regional governments where the head office or branches of the taxpayers holding the third-party funds subject to the tax are located. Also, technical improvements are made to the design of the tax base.

A final point to note are the changes made to the tax treatment of the transfer of a mortgagor's principal residence as a result of deeds in lieu of foreclosure or of a mortgage foreclosure proceeding ordered by a court or a notary for discharge of debts secured by mortgage on that residence. With effect from 1 January 2014 and for earlier years not statute-barred, any capital gains arising in such cases are tax exempt, for the purposes of personal income tax (IRPF) and of the tax on increase in urban land value (IIVTNU). In order to qualify for both the above exemptions, the owner of the principal residence must have no other assets and rights sufficient to repay the mortgage debt in full at a point when the sale of the residence could be prevented.

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11 An interchange fee is the fee or charge payable, directly or indirectly, for each transaction between the payment service providers of the payer and the payee in a card payment transaction.

12 A merchant service charge is the fee or charge paid by the payee of a payment transaction to its payment service provider for each card transaction, comprising the interchange fee, the payment scheme and processing fee and the acquirer margin.

13 Law 16/2012 of 27 December 2012 adopting various tax measures aimed at consolidating public finances and stimulating economic activity created the tax on deposits with credit institutions, establishing a zero tax rate.

6.2.7 OTHER KEY REGULATORY CHANGES

a) Circular 3/2014 of 30 July 2014 (BOE of 31 July 2014), addressed to credit institutions and licensed appraisal companies and services, establishing measures to promote independence in appraisal activity, amending Circulars 7/2010, 3/1998 and 4/2004, and exercising regulatory options relating to the deduction of intangible assets, amending Circular 2/2014.

The Circular aims, above all, to facilitate the correct valuation of real estate assets that serve as collateral for mortgage loans granted by credit institutions. For that purpose, a series of measures are implemented designed to ensure the professional independence of the appraisal activity. To that end, Circular 7/2010 of 30 November 2010 is amended to regulate the minimum content of the internal code of conduct to be adopted both by appraisal companies and services and which includes incompatibilities applicable to their managers and management bodies and measures adopted to ensure compliance therewith. In addition, in the area of asset valuation, certain technical improvements are made to the returns envisaged in Circular 3/1998 relating to the information to be provided to the Banco de España by licensed appraisal companies and services.

b) Circular 5/2014 of 28 November 2014 (BOE of 23 December 2014), amending Circular 4/2004 of 22 December 2004, addressed to credit institutions, on public and confidential financial reporting rules and formats, Circular 1/2010 of 27 January 2010, addressed to credit institutions, on statistics on interest rates applied to deposits and loans vis-à-vis households and non-financial corporations, and Circular 1/2013 of 24 May 2013 on the Central Credit Register.

The Circular incorporates the new statistical and supervisory reporting requirements relating to the information that the Banco de España has to provide to the ECB, pursuant to EU legislation, and adapts the content of public and confidential financial reporting, and of reporting to the Central Credit Register, to the criteria as to preparation, terminology, definitions and formats of the FINREP financial reporting statements. These are compulsory statements for consolidated supervisory financial reporting based on the international financial reporting standards adopted by the EU, or similar national accounting rules.

c) Circular 6/2014 of 19 December 2014 (BOE of 29 December 2014) approving rules for the assessment and payment of the fee for comprehensive assessment of credit institutions.

This Circular regulates the necessary provisions for assessment and payment of the fee envisaged in the nineteenth additional provision of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions. The new fee is levied on performance by the Banco de España of the tasks related to the comprehensive assessment of credit institutions envisaged in Council Regulation (EU) No 1024/2013 of 15 October 2013 and is payable by the credit institutions included in the Annex to the ECB Decision of 4 February 2014 identifying credit institutions that are subject to comprehensive assessment. The tax is chargeable on 31 December 2014, based on the total assets of the consolidated groups to which those credit institutions belong.

7 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA

7 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA

In 2014 the Banco de España continued to play a very active role in the work of the various international committees in the areas of supervision, prudential regulation and financial stability.

As in 2013, these committees worked on the design of international financial regulation, while continuing to focus their attention on monitoring implementation of the regulatory reforms in the various jurisdictions, in order to ensure consistent application of the agreed measures and avoid regulatory inequalities which could reduce their effectiveness.

In the global arena, the Financial Stability Board (FSB) set the global financial regulatory agenda, leading numerous regulatory initiatives in coordination with other international committees. Notable in 2014 was the project known as "Ending Too-Big-To-Fail", with the publication in November of a consultative proposal to introduce an international standard on total loss-absorbing capacity (TLAC). Work also continued on the monitoring of so-called "shadow banking", with analyses of possible regulatory policy options, and on the monitoring of implementation of the agreed reforms, which this year focussed on the supervision of systemically important financial institutions (SIFIs).

The work of the Basel Committee on Banking Supervision (BCBS) continued to focus on strengthening the regulatory framework and on ensuring consistent implementation of Basel III in the various jurisdictions. The Committee's priority in 2014 was to finalise the Basel III framework, and work was completed on the final design of the net stable funding ratio (NFSR). In addition, the treatment of certain risks was modified and progress was made on revising standardised methods for the calculation of capital requirements for coverage of credit, operational, market and counterparty risk.

In the European Union, the European Banking Authority (EBA) continued its intense regulatory activity of previous years, centred on drafting both technical standards and guidelines. Its activity in the area of resolution increased notably, following publication in June 2014 of Directive 2014/59/EU of the European Parliament and of the Council (BRRD), which establishes a framework for the restructuring and resolution of credit institutions and investment firms, and confers on the EBA a number of tasks relating to resolution and has led to the creation of a new resolution committee. In the supervisory arena, the EBA continued to monitor very closely the activity of the various colleges of supervisors, some of which were affected by the launch of the SSM (Single Supervisory Mechanism) on 4 November. Notable progress was also made in the areas of risk and vulnerability monitoring, regular supervisory reporting requirements, and consumer protection and monitoring risks resulting from financial innovation.

7.1 Global fora

7.1.1 WORK OF THE FINANCIAL STABILITY BOARD (FSB)

The FSB continued in its role of leading the global financial regulatory agenda and reporting to G20 leaders on progress made in its implementation and on future risks affecting global financial stability. In November 2008, the G20 agreed on an ambitious "action plan" and asked the FSB to overhaul international financial regulation, a reform which was to go to the root of the crisis and pave the way for a sounder and safer financial system allowing for the sustainable financing of economic growth. It is worth noting that in 2014 a substantial portion of the reforms needed to fulfil the mandate from the G20 had already been

ACTIVITY OF SUPERVISORY COMMITTEES IN 2014 TABLE 7.1

Number

	Meetings (a)	Groups as of 31.12.2014 (b)
European Systemic Risk Board (ESRB)		
European Banking Authority (EBA)	180	49
General Board	12	1
Management Board (c)	6	1
Standing Committee on Accounting, Reporting and Auditing (SCARA)	17	7
Standing Committee on Consumer Protection and Financial Innovation (SCConFin)	16	4
Standing Committee on Oversight and Practices (SCOP)	29	7
Standing Committee on Regulation and Policy (SCRePol)	89	17
Other	11	12
Groups of the Joint Committee of the European Supervisory Authorities (d)	11	6
Financial Stability Committee (FSC)	9	4
Financial Stability Board (FSB)	45	15
Basel Committee on Banking Supervision (BCBS)	90	38
BCBS	4	1
Accounting Expert Group (AEG) (e)	6	3
Policy Development Group (PDG)	45	18
Supervision and Implementation Group (SIG) (f)	19	11
Macroprudential Policy Group	4	1
Other	12	4
Joint Forum	7	3
Association of Supervisors of Banks of the Americas (ASBA)	4	1
Senior Supervisors Group (SSG)	3	1
TOTAL	**349**	**117**

SOURCE: Banco de España.

a The number of meetings includes conference calls by the committees and the permanent groups reporting to them ("level 2 groups").
b Sum of the committee itself and the groups that reports to it, and in which BdE participates.
c Fernando Vargas has been one of the members of the EBA Management Board since June 2012.
d Joint groups of the three Supervisory Authorities (Banking, Insurance and Occupational Pensions, Securities and Markets).
e Before August 2013: Accounting Task Force (ATF).
f Before April 2013: Standards Implementation Group.

agreed, particularly with regard to Basel III and the general framework for the treatment of systemic institutions.

A basic pillar of the regulatory reform undertaken by the FSB is the treatment of so-called "systemic institutions" and the need to end the problem posed by institutions which are too big and complex to fail, meaning that the authorities have to recapitalise them with public funds (this is known as Ending Too-Big-To-Fail).[1] In this sphere, the new framework for the resolution of systemic financial institutions issued by the FSB[2] *(Key Attributes of Effective Resolution Regimes for Financial Institutions,* commonly known as the "Key Attributes") includes: (i) legislative reforms within various jurisdictions; (ii) the requirement

1 In November 2014, as it does each year, the FSB published an updated list of global systemically important banks (G-SIBs) indicating the capital surcharge corresponding to each on the basis of its systemicity, using the Basel Committee's methodology.
2 Key Attributes of Effective Resolution Regimes for Financial Institutions (October 2011) (http://www.financialstabilityboard.org/wp-content/uploads/r_111104cc.pdf?page_moved=1).

that institutions and authorities have in place recovery and resolution plans; (iii) resolvability assessment by the authorities of the various crisis management groups (colleges which include supervisory authorities, central banks, resolution authorities, finance ministry representatives and public authorities responsible for deposit guarantee schemes, as defined in the Key Attributes), and (iv) the need for the institution to have sufficient loss-absorbing capacity to ensure that, in a situation of resolution, it can be carried out "from within" without the need for public capital injections and without destabilising the financial system as a whole.

In line with the latter objective, the FSB published a consultative proposal on 10 November 2014 for a new international standard on total loss-absorbing capacity (TLAC) which global systemically important banks must have in the event of resolution. The proposal stipulates a Pillar 1 requirement set within the range of 16%-20% of risk-weighted assets or twice the minimum leverage ratio (3%) plus capital buffers. The final minimum TLAC requirement shall be determined following an in-depth impact analysis and market survey which will conclude at the end of 2015. The new requirement, in parallel with the Basel requirement, includes subordinated debt and senior debt instruments in addition to all the regulatory instruments within the Basel capital framework.

Another noteworthy development in the area of resolution was the report published by the FSB on the implementation of the Key Attributes.[3] In particular, it underscores the need to eliminate obstacles to the legal recognition of resolution measures with a cross-border impact. Since a policy solution would require major legislative reform in many jurisdictions, the FSB is promoting, in the short-term, contract-type measures which institutions themselves would apply by including certain clauses in their contracts to ensure cross-border recognition of resolution measures in two specific instances: (i) suspension of early cancellation rights on derivatives, specifically including adoption of the ISDA protocol (International Swaps and Derivatives Association), and (ii) internal recapitalisation (bail-in) of debt issues subject to foreign legislation.

The FSB recognised in 2014 the progress made to fill the data gaps detected during the crisis, particularly as regards information relating to global systemically important institutions, their financial interconnections and exposures to various sectors and national markets. In this regard, the entry into force of the "legal entity identifier" (LEI), a universal system for identifying parties to financial contracts or transactions, was a major step forward in measuring the interconnections between the main global banks. The LEI project aims to make financial markets more transparent, with the ultimate goal of contributing to improve systemic risk assessment and management, also facilitating institution resolution processes.[4]

The substantial increase in prudential requirements for banks could lead to a portion of credit intermediation activity shifting towards other financial sectors (this is known as "shadow banking"). The FSB is working to ensure that such operations are transformed

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3 Towards full implementation of the FSB Key Attributes of Effective Resolution Regimes for Financial Institutions (November 2014).
(http://www.financialstabilityboard.org/wp-content/uploads/Resolution-Progress-Report-to-G20.pdf).

4 It should be noted that Regulation (EU) No. 648/2012 of the European Parliament and of the Council, known as EMIR, requires the counterparties of derivatives contracts to provide the trade repositories with specific sets of data. This obligation has applied in the EU since 12 February 2014. Among other things, the related implementing regulations stipulate that those participating in the aforementioned financial transactions shall be identified by means of the LEI. Moreover, the EBA recommended in 2014 that this identifier be used for reporting purposes in the area of banking supervision.

into a stable source of funding for the real economy, and, to this end, performs annual monitoring and analysis and studies possible regulatory policy options based on five work streams: i) interaction between banks and shadow banking entities - "indirect" regulation); ii) regulation of money market funds; iii) regulation of other shadow banking entities such as large portfolio managers, finance companies of large industrial groups and investment banks; iv) regulation of securitisation and v) regulation of alternative financing by means of securities lending and repo markets. The latter includes the application of haircuts on securities lending and asset re-mortgaging requirements. This area will foreseeably see further developments in the future.

In 2014, the FSB published its yearly progress report on OTC derivatives market reforms, in which it concluded, inter alia, that global implementation of these reforms is suffering a two-year delay and is uneven across jurisdictions.

Furthermore, in order to avoid future scandals involving the deliberate rigging of benchmarks, in 2014 the FSB worked on developing recommendations to reform the benchmark indices for interest and exchange rates. The FSB's recommendations (targeted at central banks, authorities and administrators) to improve interest rate benchmarks focus on: (i) strengthening some of the existing indices (IBOR-LIBOR, EURORIBOR and TIBOR), by linking them, as far as possible, to actual transactions; and (ii) developing alternative benchmark indices for credit risk-free interest rates which might be more appropriate for certain financial transactions such as derivatives, at the same time allowing for more options. As regards benchmark indices for exchange rates, the recommendations focus chiefly on reviewing the calculation methodology, market infrastructure, agents' market behaviour, publication procedures followed by central banks and application of the recommendations by the International Organisation of Securities Commissions, IOSCO.

The FSB also worked on other areas in 2014 which are particularly noteworthy in view of their contribution to building up confidence in the financial system: (i) the Framework for Assessing Risk Culture, which provides supervisors with guidance to assess the soundness and effectiveness of the risk culture at financial institutions, and (ii) the publication of its third report on the implementation of principles for prudent remuneration practices.

Lastly, through its Standards Implementation Committee, the FSB continued to promote monitoring of implementation of the agreed reforms. Also noteworthy were the thematic reviews on the supervision frameworks of systemic institutions and the peer reviews issued on the Netherlands, Germany and Indonesia.

7.1.2 WORK OF THE BASEL COMMITTEE ON BANKING SUPERVISION (BCBS)

In 2014, the Basel Committee continued to prepare its response to the weaknesses in prudential banking regulation highlighted during the crisis. This response focuses on reinforcing the regulatory framework and promoting its consistent implementation across all member jurisdictions, always striving to balance simplicity, comparability and risk sensitivity within the prudential regulatory framework.[5] In addition, the Committee is enhancing the transparency of its functioning and work programmes.[6]

5 See: The regulatory framework: balancing risk sensitivity, simplicity and comparability (July 2013) (http://www.bis.org/publ/bcbs258.pdf).

6 The work to enhance transparency started in 2013 with the publication of its Charter and has continued in 2014 with the publication of the Basel Committee's work programme.

With regard to reinforcing the regulatory framework, the Committee gave priority to completing the Basel III framework,[7] and concluded the review of the design of the NSFR in October. The purpose of the new design was to reduce variations in ratio levels as a result of sharp changes in long-term financing, achieve better alignment with the short-term liquidity ratio and revise its calibration in order to lessen dependence on short-term sources of financing, which are potentially more volatile (see Box 7.1) The Committee also issued a proposal for consultation which included the NSFR elements which institutions are required to disclose to the market, under the so-called Pillar 3. In this respect, it should be mentioned that the Committee aims to improve the transparency of banks, in line with the enhanced disclosure requirements already established for the short-term liquidity ratio and the leverage ratio (documents published in January 2014).

The Committee also worked in other areas to strengthen prudential regulation, as described below:

Firstly, it published three definitive standards substantially modifying the treatment given to certain exposures:

- Large exposures limits. In April 2014, the Committee published a set of standards which establish: (i) the definition of a large exposure (when it exceeds 5% of the bank's Tier 1 capital); (ii) an overall limit, whereby no exposure to the same counterparty or a group of connected counterparties may exceed 25% of the bank's Tier 1 capital, and (iii) a stricter limit of 15% for interbank exposures between institutions considered to be systemic. The treatment of interbank exposures and exposures of banks to central counterparty clearing houses is currently under observation and will foreseeably be reviewed in 2016.

- Securitisations. In December 2014, standards were published on: (i) changing the order of application of the methods used to calculate capital requirements (using three methods with staggered implementation depending on the characteristics of the securitisations and the information the bank has on them); (ii) revising the calibration, and (iii) setting a single lower limit (or floor) of 15%). Also under review is whether special treatment should be used (and how) for securitisations which qualify as simple, transparent and comparable, according to the criteria defined by a joint Committee/IOSCO group which were also the subject of consultation in 2014.

- Bank exposures to central counterparties (CCPs). The standards, which were jointly drafted by the IOSCO and the Basel Committee on Payments and Market Infrastructures and were published in April 2014, establish capital requirements for such exposures. The objectives of the review are: (i) to ensure that there is sufficient capital to cover these exposures; (ii) to promote the clearing of derivatives through clearing houses, (iii) to take into account all sources of risk in such transactions; (iv) to promote sound management of such transactions, and (v) to ensure that regulation is not overly complex. These requirements will come into force on 1 January 2017.

7 Basel III substantially changes the definition of regulatory capital. It incorporates capital buffers which take into account macro-prudential aspects and introduces a leverage ratio and two liquidity ratios.

The priority of the Basel Committee in recent years has been to review the regulatory framework in response to the problems detected during the recent crisis. This review gave rise to the new Basel III framework which introduced, together with the capital ratio, two new measures: a leverage ratio and two liquidity ratios – a short-term ratio, the liquidity coverage ratio (LCR), and a long-term ratio, the net stable funding ratio (NSFR).

Given the innovative nature of the leverage ratio and the two liquidity ratios, their "provisional" design was published in 2010 and it was considered appropriate to subject them to an observation period to analyse their effects on institutions and markets before giving them their definitive form. The design of the leverage ratio and the LCR ratio was completed in 2013 and that of the NSFR in 2014. Consequently, it can be said that the post-crisis framework has already been defined.

The NSFR is a structural liquidity standard which contributes to banks maintaining stable funding profiles that are commensurate with their assets and activities. It is designed to reduce ex-ante exposure to liquidity and funding risks, by encouraging institutions to maintain suitable funding profiles for the maturity structure of their assets and by penalising excessive maturity transformation. The objective pursued is the matching by institutions of their assets and liabilities by maturity so that they are not overly reliant on short-term funding markets to finance long-term assets.

Design of the ratio

The ratio is designed as follows: stable sources of funding (liabilities) relative to required stable funding (investments). This ratio should be equal to or greater than 100%. In other words, the bank should always have stable suitable liabilities to finance its assets.

Numerator. The numerator includes the bank's stable sources of funding. This degree of stability is determined by considering two criteria: (i) permanence, considering long-term liabilities to be more stable (institutions are required to gradually seek a lengthening of funding terms), and (ii) source, since the nature of the funding may determine the degree of stability (for example, retail deposits are usually more stable than wholesale deposits).

Based on these two criteria, a stability factor is assigned to each liability with the result that only the portion of that liability which is considered stable is included in the numerator.

The stability factors assigned can be summarised as follows:

- A factor of 100% is assigned to capital and liabilities maturing at over one year. It is considered that these liabilities will remain in the institution during the year for which the ratio is calculated.

- 95% or 90% is assigned to retail deposits maturing at less than one year, according to whether they are classified as more or less stable. As with the LCR,[1] it is generally considered that retail customers keep their deposits at the institution during the year, although for reasons of prudence it is estimated that a small portion of the deposits may be withdrawn.

- 50% for funding with a maturity of less than one year obtained from wholesalers, the public sector and central banks. In this case, the criterion of permanence for more than one year does not hold because it is considered that, similarly to the LCR, a portion of these liabilities are automatically rolled over (this consideration is based on experience).

- 0% for all other liabilities which would not be recognised at all for the purposes of this ratio.

Denominator. The required stable funding is calculated by taking three criteria into account: (i) preservation of the institution's lending capacity, so that some of the loans extended are funded with stable funds (with the aim of keeping credit flowing to the real economy); (ii) permanence, assuming that part of the short-term lending will not need to be rolled over and therefore requires lower coverage; and (iii) asset quality, since the bank has high-quality assets which it may use as collateral and which are therefore a direct source of funding for the institution.

The stable funding requirements for assets are defined on the basis of these criteria. In other words, the "illiquid" portion of the asset is determined, that is, the portion that would not be recovered on the market if it was sold and which is therefore covered by stable liabilities:

- 0% for coins and banknotes, central bank reserves and claims on central banks with maturities of less than six months. These are considered to be fully liquid assets which can be recovered on the market.

- A minimum requirement is established for high-liquidity assets –as defined under the LCR- which varies according to the quality of the asset: 5% for Level 1 assets (mainly government debt securities); 15% for Level 2A assets (other lower quality government debt securities, covered bonds) and 50% for Level 2B assets. If these assets have been pledged for a period of six to twelve months, 50% coverage is required in all cases.

1 Note that one of the objectives of the review of the NSFR has been to modify the terminology and treatment of "high quality" assets and of deposits and, consequently, the frameworks of the LCR and the NSFR have been aligned in this respect.

- Loans to financial institutions maturing in less than six months are assigned a requirement of 15% (10% if they are secured against high-liquidity assets), and of 50% if they mature in six to twelve months.

- Assets that qualify for a 35% risk weighting under the standardised approach for credit risk (chiefly residential mortgages) are assigned a reduced requirement of 65%, and loans with maturities of more than one year require 85% coverage.

- Other assets not pledged as collateral are also assigned a stable funding requirement of 85%.

- All other assets (pledged for more than one year or not included in the above categories) are deemed to require 100% stable funding.

- As regards derivatives, asset and liability positions may be offset. If the resulting position is an asset one, this must be fully covered with stable funding, and if it is a liability, it does not qualify as a source of funding for NSFR purposes. In any case, stable funding of 20% of derivative liabilities would be required. The initial margins obtained require stable funding of 85% (although it has been agreed that a review clause will be included for the treatment of certain counterparties[2]).

Although the Basel proposal stipulates that this ratio shall come into force in Europe in 2018, the reporting obligations set out in the Capital Requirements Regulation (CRR) are minimal. However, the Regulation does require the European Banking Authority to prepare a report on the potential impact of setting the liquidity requirement and to submit it in 2015 to the European Commission, which shall, in turn, prepare a legislative proposal on the ratio.

2 The counterparties which are exempt from the margin requirements for derivatives transactions that are not cleared centrally are: sovereigns, central banks, multilateral development banks and the BIS, as established in the BCBS-IOSCO document titled Margin requirements for non-centrally cleared derivatives, of September 2013.

Secondly, the Committee largely focussed its efforts on reviewing the standardised methods banks can use to calculate capital requirements for credit, operational, market and counterparty risk. These reviews will, in turn, be used to establish a new capital floor. In 2014, this work resulted in:

- The revision and replacement of standardised methods used to calculate capital requirements for counterparty risk by a new method known as SA-CCR (standardised approach for measuring counterparty credit risk exposures). The purpose of this revision was to minimise national discretionality, improving risk sensitivity.

- A proposal to revise the standardised method for operational risk, replacing the two current methods by a single method and using an improved risk indicator. Instead of gross income, it proposes the use of a business indicator and calculation by tranche (depending on the amount of the risk indicator, a risk weight is allocated) instead of calculating by business line. This method involves applying amply proportionate requirements to the largest banks, taking into account past experience of losses.

- An initial proposal to review the standardised method used for credit risk which does not establish a specific design or calibration. The proposal focusses on reviewing the method for classifying assets, and increasing their

granularity, and on revising the way in which exposures are allocated to risk tranches, which determines their weighting. Among other things, this proposal aims to align the classification of assets used both in this standardised method, and in internal models, as well as to reduce reliance on external credit ratings.

– A review of capital floors, presenting a number of options to replace the current Basel floor with a more granular floor, better adapted to the new framework. The final design and calibration will be determined by the standardised methods finally adopted, and will take into account that the Committee's aim here is for the standardised methods to provide the floors used to calculate regulatory capital by internal methods.

– As regards the review of market risk, it covers both the standardised approach and the calculation of capital requirements applying internal models. In 2014, a new consultative document was published outlining (i) the treatment of internal risk transfers of price and interest rate risk between the trading book and the remaining balance sheet (banking book); (ii) a revised standardised approach which presents a sensitivity-based methodology to capture interest-rate risk instead of using cash-flow-based methodology (an initial proposal which the sector deemed difficult to implement) and including simplified methodology for institutions with marginal trading portfolios, and (iii) reviewing the incorporation of the risk of market illiquidity into the internal models approach.

Thirdly, the Committee also revised Pillar 3 (market transparency), reinforcing its significance and publishing a consultative document in June which was formally adopted at the beginning of 2015. This work will be carried out in several stages and will be reviewed as the Committee completes its proposals. Most notably, this review aims to harmonise definitions and introduce common minimum disclosure templates, with the goal of improving consistency of disclosures on risks, and how those risks are measured and managed. It also aims to remedy the current lack of transparency of the internal model-based approaches used to calculate capital requirements, and to enable investors to compare banks' disclosures.

To conclude with the regulatory aspect, and moving on to supervision, the Committee published guides on supervisory colleges, money laundering, capital planning and external audits. In addition, consultative documents were issued on dealing with weak banks and a review of corporate governance principles for banks was published.

Lastly, with regard to the implementation of the regulatory framework, the Committee continued stressing the importance of consistent implementation of the agreed measures. In this respect, it has continued assessing the effective and consistent application of Basel III in the various jurisdictions by means of the Regulatory Consistency Assessment Programmes (RCAP). In 2014, as well as overall monitoring of progress in the application of elements of the new regulatory framework after the financial crisis, four jurisdictions were analysed: Australia, Canada, United States and the European Union. The European Union was deemed to be "materially non-compliant" according to the methodology used, which assessed the materiality of deviations. The main departures related to the adoption of legislative decisions in Europe aimed at promoting the flow of credit to the real economy.

7.2 European fora

7.2.1 WORK OF THE EUROPEAN BANKING AUTHORITY (EBA)

In its fourth year of operations the EBA continued to make significant contributions to the Single Rulebook for all European Union countries (see Box 3.3 of the 2012 Report on Banking Supervision in Spain). In 2014, the Board of Supervisors of the EBA, which is the main decision-making body of the Authority, approved a large number of regulatory products, specifically: 22 binding technical standards (9 implementing technical standards and 13 regulatory technical standards), 14 guidelines and 1 recommendation, relating to Regulation (EU) No. 575/2013 of 26 June 2013 and Directive 2013/36/EU of 26 June 2013, on the prudential treatment of credit institutions and investment firms. Notable among the technical standards were those relating to own funds, identification of systemically-important institutions, credit risk, market risk and home-host relationships.

The guidelines issued by EBA covered a variety of aspects, from remuneration requirements to the disclosure of information. Worthy of note are the guidelines which establish common procedures and methodologies for the supervisory review and evaluation process. The recommendation related to the use of the Legal Entity Identifier (LEI) for supervisory reporting purposes.

Deserving a separate mention is the review of the recommendation on the preservation of capital published in July 2013 (which sought to ensure that the institutions affected maintained at all times a fixed amount of capital), which resulted in its withdrawal in December 2014.

As already mentioned in the introduction to this chapter, on 12 June the Official Journal of the European Union published Directive 2014/59/EU of the European Parliament and of the Council, establishing a framework for the restructuring and resolution of credit institutions and investment firms (BRRD), which has subsequently been included in the Single Rulebook and has led to the creation of a new Resolution Committee within the EBA. This directive entrusted the EBA with drafting various technical standards. For this purpose, in 2014 the EBA stepped up its activity in this area, approving 5 regulatory technical standards (3 relating to resolution plans and 2 to recovery plans) and 3 guidelines on restructuring and resolution issues (most notably a guideline on measures to reduce or remove impediments to resolvability), together with several consultative documents. In 2015, the EBA will substantially step up its activity in this area.

In the field of home-host cooperation and supervision of cross-border banking groups, the EBA finalised and submitted to the Commission three technical standards contributing to the Single Rulebook for supervisory cooperation. Of these, two relate to the functioning of colleges of supervisors and another to joint decisions for approval of internal models. In addition, in 2014 the EBA began to draft technical standards on resolution colleges and their relationship with supervisory colleges.

The EBA continued working jointly with the Commission on a question and answer system (Single Rulebook Q&A process) with a view to ensuring that the new regulatory framework is consistently and effectively applied in the Single Market and to contributing to the creation of the Single Rulebook in banking. Given the growing importance of resolution issues, this tool has widened its scope in order to enable national supervisory authorities, institutions and their associations, and other stakeholders to send their questions about the practical implementation of the Capital Requirements Regulation and Directive (CRR, CRD IV), the related technical standards, the EBA guidelines and the Bank Recovery and Resolution Directive (BRRD).

Also noteworthy, within the framework of the obligations included in the Single Rulebook in banking, is the fact that work started on the notification requirements of national authorities to the EBA on a wide range of issues, including large exposures, information about remuneration, liquidity risk, sanctions or macro-prudential measures. To this end, the EBA has designed templates to be used by national authorities, when deemed necessary, for submitting information in a standardised manner.

In the supervisory area, the EBA remained very active in fostering convergence and cooperation. Colleges of supervisors continue to be essential for the supervision of cross-border banking groups and the EBA has been closely involved in monitoring their activities, while working to ensure that they function effectively, efficiently and consistently. It has played a very active role in the 44 colleges of supervisors, participating both in meetings and in other activities organised by 25 of the colleges, and monitoring different areas of work at the remaining 19. This was a year of transition for colleges of institutions with a presence in the euro area, owing to the launch of the SSM on 4 November 2014. However, overall, the number of colleges did not fall as significantly as expected with the arrival of the euro area supervisor. The EBA will continue to participate in these colleges to foster cooperation between the SSM, other European supervisors which have retained their own currencies and authorities of third countries.

On another front, the EBA also contributed in 2014 to the comprehensive assessment exercise for the European banking sector, developing the methodology applied to stress testing.

As regards risk and vulnerability monitoring, work proceeded on the development of the infrastructure needed to accommodate regulatory reporting data submitted regularly, as well as other data needed to prepare the numerous regular reports made by the EBA and the ad hoc analyses requested by the Board of Supervisors, the European Systemic Risk Board (ESRB), the Commission, the Council and Parliament. From the data provided quarterly by 55 European Economic Area banking groups, the EBA prepares a Risk Dashboard summarising conditions in the European banking sector by looking at the evolution of 18 key risk indicators. Although these data were used only internally in 2012 and 2013, the EBA started publishing a quarterly report in the last quarter of 2013 which includes the risk dashboard with aggregate data. The EBA also drafts and publishes a half-yearly report on risks and vulnerabilities in the European banking sector.

In respect of regular supervisory reporting requirements, 2014 saw the entry into force of Implementing Technical Standard 680/2014 issued by the EBA. This standard regulates the supervisory prudential reporting requirements of institutions, and presents as its main new feature the setting of uniform requirements for areas covered in all European Economic Area countries. Consequently, European credit institutions must submit, inter alia, prudential accounting statements (known as FINREP, FINancial REPorting) and solvency statements (known as COREP, COmmon REPorting) using the same format and to be completed using the same definitions. FINREP is confined to consolidated statements prepared according to International Financial Reporting Standards, but COREP is applicable both to consolidated and individual statements, regardless of which accounting framework is applied by the institution. This standardisation effort has led to an increase in the exchange of periodic information among national supervisors and, in particular, with European bodies with supervisory competence, such as the ECB and the EBA, always within the confidentiality regime established in CRD IV.

Lastly, the EBA also worked on a number of increasingly important tasks aimed at protecting consumers and monitoring the risks resulting from financial innovation. The work carried out by the EBA in this area is governed by various directives and regulations, such as Directive 2014/92/EU of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features, or Directive 2014/65/EU and Regulation (EU) No 600/2014 on markets and financial instruments. In other instances, the EBA directly detects the need for harmonised treatment.

In this respect, a technical standard was approved in 2014 on the minimum monetary amount of the professional indemnity insurance for mortgage credit intermediaries, together with guidelines on the security of internet payments. In addition, technical advice was provided to the European Commission on how to monitor structured deposits sold in the EU, temporarily prohibiting or restricting their sale in the event that they serious jeopardise the depositor or pose a threat to the functioning of financial markets or financial stability. Lastly, the EBA issued an Opinion on virtual currencies.

The EBA also worked on guidelines to establish criteria for NCAs to compile national (provisional) lists of the most representative services linked to a payment account and subject to a fee, as well as guidelines on creditworthiness assessment and on arrears and foreclosure. Furthermore, in line with other authorities which form part of the European System of Financial Supervision (ESMA and EIOPA), the EBA worked on identifying and assessing practices which could be detrimental to consumers, such as cross-selling (joint selling of banking, securities and insurance products), incentive-based remuneration practices for sales staff, or practices relating to product monitoring and governance arrangements for retail banking products. The EBA also analysed the risks involved in crowdfunding.

7.2.2 WORK OF THE EUROPEAN SYSTEMIC RISK BOARD (ESRB)

The ESRB is responsible for macro-prudential oversight within the European Union. In December 2014, the General Board of the ESRB elected Mr. Luis M. Linde, Governor of the Banco de España a member of its Steering Committee for a three-year term. This Committee guides the work of the General Board and ensures its efficient functioning. The Governor of the Banco de España replaces the Governor of the Banca d'Italia, Ignazio Visco, whose term of office had expired.

In 2014, the ESRB continued its work in the macro-prudential area. This work included, inter alia, monitoring the main risks that may threaten financial stability in the EU, and developing an analytical policy framework for macro-prudential supervision in the EU.

As regards risk monitoring, the ESRB continued with the quarterly publication of the Risk Dashboard, which compiles quantitative indicators of different areas of financial stability. Also, the ESRB regularly publishes on its website notifications concerning macro-prudential measures from different EU countries.

As regards progress made regarding the operationalisation of the EU's macro-prudential policies in the EU, the ESRB published two major reports, the Flagship Report on Macro-prudential Policy in the Banking Sector, and the ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector. Both reports aim to assist national authorities in the EU to operationalise a set of macro-prudential instruments for the bank-

ing sector. The Flagship report provides an overview of the macro-prudential policy framework and the instruments set out in the CRR/CRD IV, together with some other instruments which may be used by national authorities on a discretionary basis, for example, the loan-to-value ratios (LTV). The report also discusses the ESRB's role in this area. The Handbook analyses in depth the technical aspects of each instrument (for example, the indicators used for activating/deactivating instruments, the transmission mechanism, interaction with other policy areas), and establishes the legal basis in Europe, as well as decision-making, coordination and communication processes to be followed in each case.

Also within the area of macro-prudential instruments, the ESRB, as requested under the CRR/CRD IV, issued a Recommendation in June 2014 providing guidance for setting countercyclical buffer (CCB) rates in the EU (ESRB/2014/1). This Recommendation implements and adapts the Basel principles to the European Union and establishes two additional principles: one on communication, and the other on mutual recognition by countries of the buffer rate. It also establishes elements for measuring and calculating the credit-to-GDP gap and calculating the CCB rate to be applied. The Recommendation also offers guidance on which other quantitative indicators can help signal both the activation and deactivation of the CCB. The technical analysis which informed this Recommendation is described in Occasional Paper No 5 of the ESRB ("Operationalising the countercyclical capital buffer: indicator selection, threshold identification and calibration options").

Still on the subject of recommendations, the ESRB carried out an initial assessment of the implementation of its Recommendation on the macro-prudential mandates of national authorities (ESRB/2011/3) and published a follow-up report in this regard.

The ESRB has also continued working with other European authorities on macro-prudential matters, which notably include cooperation in the design of adverse scenarios for stress tests in the banking system (with EBA) and in the area of insurance (EIOPA). With regard to the EBA, the ESRB sent replies to some of the questions raised in the EBA's consultation paper on the transparency requirements for encumbered and unencumbered assets. The ESRB has also responded to the European Commission's request for guidance in connection with the macro-prudential regulations contained in CRR/CRD IV. Lastly, the ESRB published a response to ESMA's public consultation paper on mandatory clearing for OTC credit, interest rate and foreign exchange derivatives through central counterparties (CCP).

Publications of a technical nature on macro-prudential issues include two noteworthy reports by the Advisory Scientific Committee (ASC) of the ESRB: one on the size of the European banking system (Reports of the ASC No 4: *Is Europe overbanked?)* and another on the institutional models for macro-prudential authorities (Reports of the ASC No 5: *Allocating macro-prudential powers).* Furthermore, the ERSB published Occasional Paper No. 6 ("An analysis of the ESRB's first data collection on securities financing transactions and collateral (re)use"), which contains a descriptive analysis based on information obtained about securities lending transactions. The ESRB also published a report on its role and initial experiences in connection with the macro-prudential measures adopted in different EU countries *(Macro-prudential Commentaries, issue 7:* "The ESRB and national macro-prudential measures – its role and first experiences") and its Annual Report for 2013.

7.3 Work carried out jointly by banking, securities and insurance authorities

In the inter-sectoral arena, the Banco de España continued working at global level in the Joint Forum, an international group that draws together banking, securities and insurance supervisors, and at European level in projects of the supervisory authorities in banking (EBA), securities (ESMA) and insurance (EIOPA) through their Joint Committee.

The work of the Joint Forum notably included the publication of a report relating to the supervision of financial conglomerates which examines in depth the need for the existence of colleges of supervisors for financial conglomerates or the need to address inter-sectoral matters in already existing colleges. In addition, in order to provide investors with sufficient information about the risks associated with investment products, recommendations were published on the minimum information which institutions must provide to investors at the point of sale of certain financial products (point of sale disclosure).

In the global arena, the Banco de España also participates in the Senior Supervisors Group, which basically consists of banking supervisors and some securities supervisors from the countries where the most systemically important banks are headquartered. It is a forum basically for the exchange of supervisory experiences, analysing from a practical standpoint those issues considered to be important. In 2014 work focused on the area of IT security, identifying and explaining specific problems and analysing new risk channels, on the study of market operations using mathematical algorithms to generate purchase and sale orders (known as "high-frequency trading"), and on corporate governance issues (such as the interaction of supervisors with corporate senior management or the analysis of the suitability of directors).

Lastly, in the European arena, the Banco de España participates in the work of the Joint Committee through its presence in three of the four sub-committees through which the committee carries out its work: financial conglomerates, anti-money laundering, risk analysis and consumer protection, and financial innovation. Although the Banco de España only participates in the first three, it has recently begun working more intensively in the last sub-committee by taking part in several working sub-groups. In 2014 guidelines were adopted in the areas of financial conglomerates and financial services customer protection. Also noteworthy was the publication of the half-yearly report on risks and vulnerabilities of the European Union financial system which is submitted to the Financial Stability Table and to the Economic and Financial Committee (a Council group reporting directly to ECOFIN).

7.4 Other regional fora

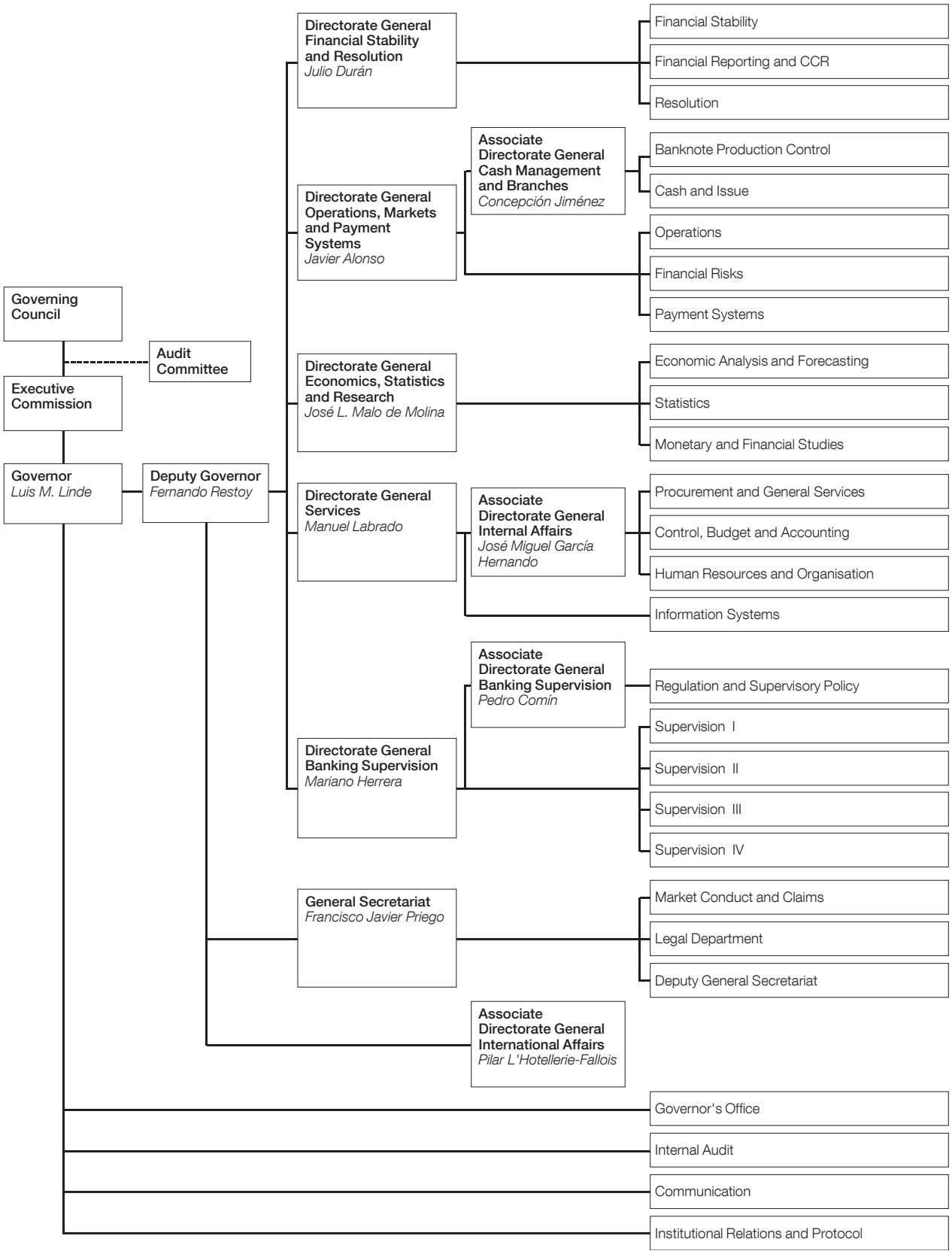
7.4.1 WORK OF THE ASSOCIATION OF SUPERVISORS OF BANKS OF THE AMERICAS (ASBA)

The ASBA is a high-level forum in which the banking supervision and regulation bodies of 35 countries of the Americas are represented. Its main aims are to develop and promote banking supervision practices in line with international standards and to support the development of banking supervision skills and resources through the organisation of training courses and the coordination of technical cooperation services. The Banco de España has been a collaborator member of the ASBA since its creation, and since 2006 it has been the only non-regional associate member, participating actively in the governing bodies of the Association, in its working groups and continuous training plans.

In 2014 the Banco de España attended the meetings of the ASBA's governing bodies, and also participated in a working group on matters relating to stress testing. It also made significant efforts in the area of supervisor training through seminars in the region and in Spain.

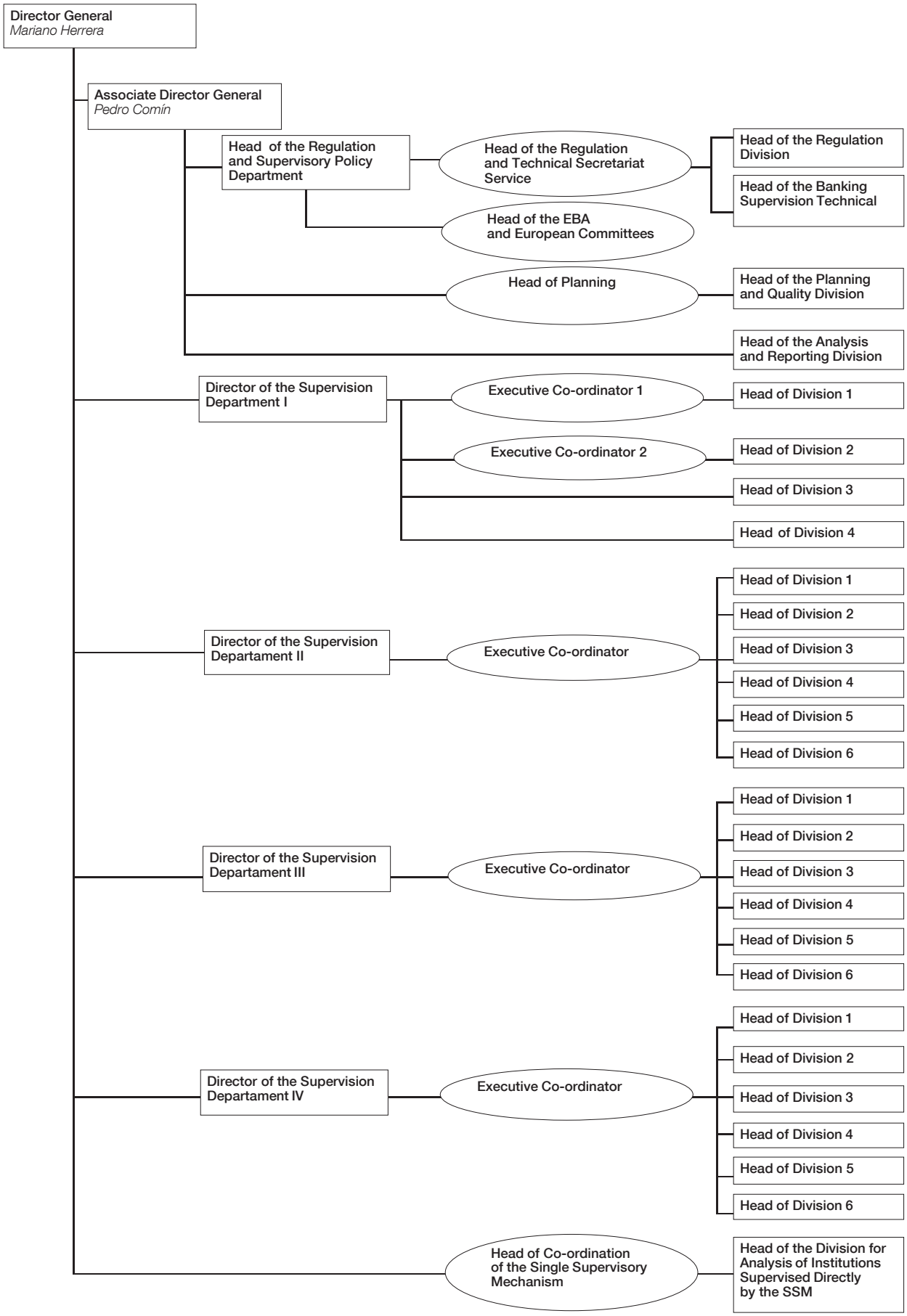
ANNEX 1 ORGANISATION OF BANKING SUPERVISION AT THE BANCO DE ESPAÑA

ORGANISATION CHART (29 April 2015) (a) **TABLE A.1.1**

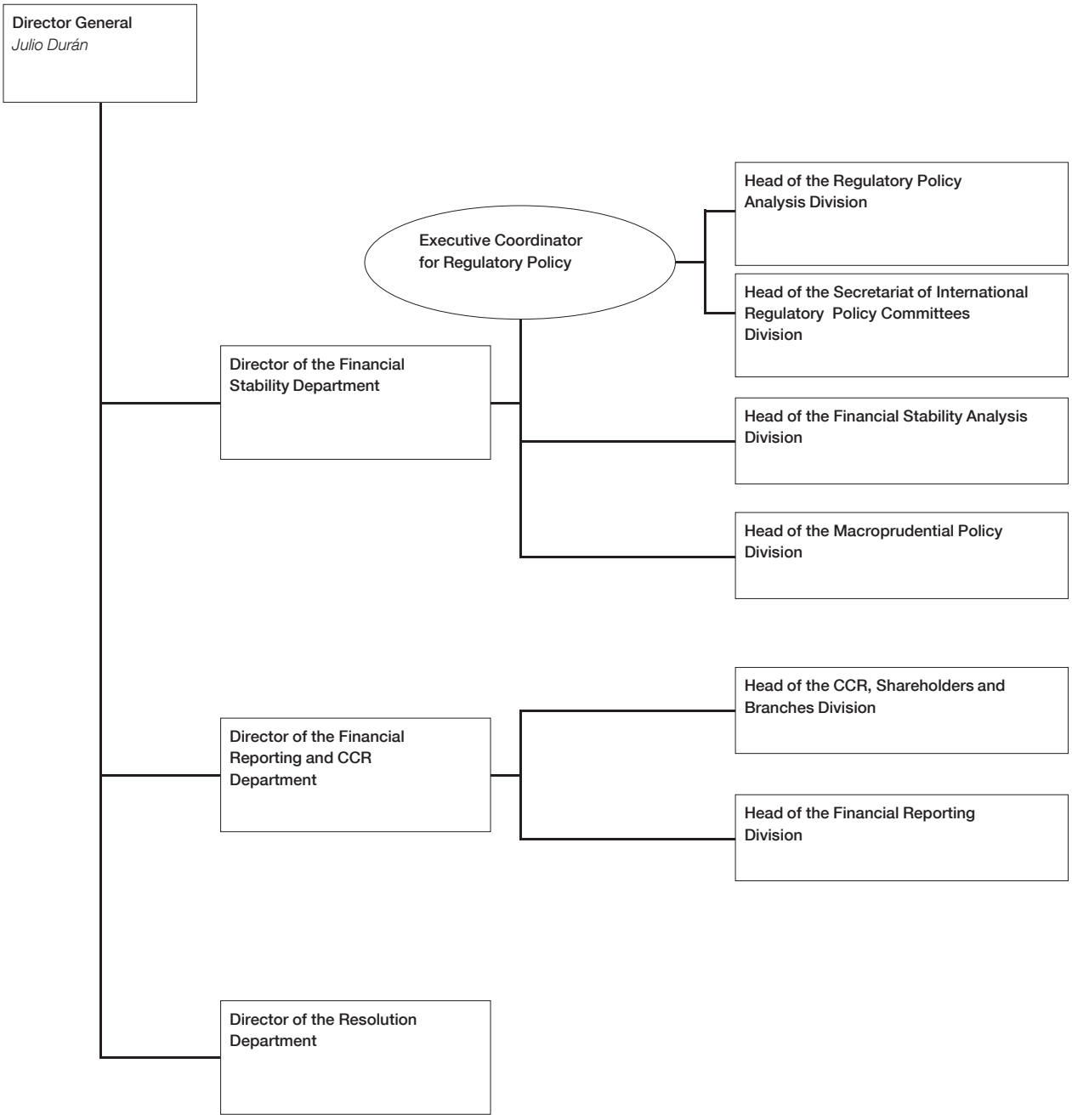


a On 29 April 2015 the Banco de España's Executive Committee approved the creation of the Associate Directorate General Cash Management and Branches in the Directorate General Operations, Markets and Payment Systems, and the reorganisation of the Directorate General Banking Regulation and Financial Stability and the Directorate General Banking Supervision. The changes may be viewed at http://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/15/Arc/Fic/presbe2015_17en.pdf. The respective updated organisation charts are shown in Tables A.1.1, A.1.2, A.1.3 and A.1.4 in this Annex.

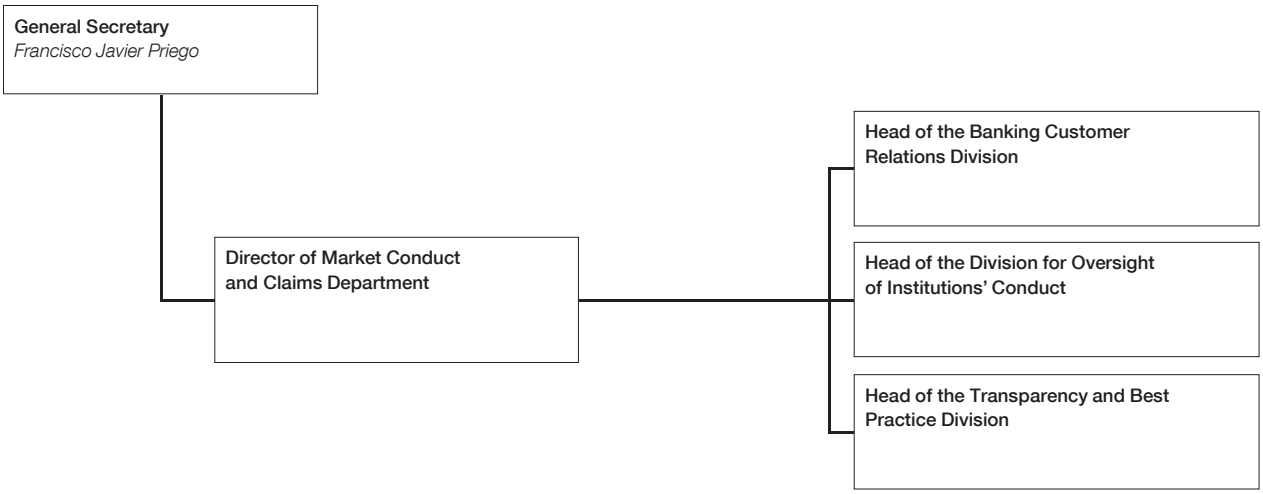
DIRECTORATE GENERAL BANKING SUPERVISION (29 April 2015) TABLE A.1.2



DIRECTORATE GENERAL FINANCIAL STABILITY AND RESOLUTION (29 April 2015) TABLE A.1.3



DIRECTORATE MARKET CONDUCT AND CLAIMS DEPARTMENT (29 April 2015) TABLE A.1.4



BANKING SUPERVISION, FINANCIAL STABILITY AND RESOLUTION, AND MARKET CONDUCT AND CLAIMS DEPARTMENT STAFF IN 2014 (a) TABLE A.1.5

Number

	Directorate General Banking Supervision (b)	Directorate General Financial Stability and Resolution (b)	Market Conduct and Claims Department (c)
Directors and other managers	40	29	8
Bank examiners/Inspection auditors	201	8	4
Senior analysts/lawyers/experts	3	25	10
IT auditors	41	0	0
Junior analysts	69	54	29
Adminsitrative staff	45	32	12
TOTAL	**399**	**148**	**63**

SOURCE: Banco de España.

a On 29 April 2015 the Executive Commission of the Banco de España approved the creation of the Associate Directorate General Cash Management and Branches within the Directorate General Operations, Markets and Payment Systems, and the reorganisation of the Directorates General of Regulation and Financial Stability (now renamed the Directorate General of Financial Stability and Resolution) and of Banking Supervision. The changes are described in http://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/NotasInformativas/15/Arc/Fic/presbe2015_17en.pdf. The related organisation charts can be found in Tables A.1.1, A.1.2 and A.1.3 of this annex.

b The staff of the Directorate General Banking Supervision have the following functions:
- 179 persons have functions relating to the ongoing supervision of significant institutions conducted through joint supervisory teams set up by the SSM.
- 21 persons have functions relating to the ongoing supervision of less significant institutions supervised directly by the Banco de España and indirectly by the ECB.
- 32 persons have functions relating to institutions whose supervision has not been taken on by the ECB.
- 81 persons have functions relating to the performance of on-site inspections or the review of models.
- 86 persons have cross-departmental functions.

c On 24.03.2015 the Executive Commission of the Banco de España approved the reorganisation of the department through the creation of a new unit in the Division for Oversight of Institutions' Conduct and the expansion of staff by 1 head of unit, 7 experts, 2 IT auditors and 6 technical staff under work-experience contracts (including 1 IT technician).

OFFICIAL REGISTERS OF INSTITUTIONS

TABLE A.2.1

Year-end data

Number (a)

	2011	2012	2013	2014
Institutions with an establishment	534	508	476	457
Credit institutions (b)	336	312	292	227
Specialised lending institutions (b)	(b)	(b)	(b)	47
Controlling companies	1	1	1	3
Representative offices	55	46	43	43
Mutual guarantee companies	24	24	24	24
Reguarantee companies	1	1	1	1
Appraisal companies	58	57	46	40
Foreign currency-exchange bureaux (c)	14	10	9	10
Payment institutions	41	46	48	45
Branches of EU payment institutions	2	7	6	8
Agent networks of EU payment institutions	1	2	2	3
Electronic money institutions	1	2	3	4
Branches of EU electronic money institutions	—	—	1	2
Institutions operating without establishment	640	719	813	877
EU CIs operating without an establishment	520	533	543	553
Non-EU CIs operating without an establishment	3	4	4	5
Financial subsidiaries of EU CIs	1	1	1	2
Electronic money institutions	14	29	44	55
Payment institutions (d)	105	152	221	262

SOURCE: Banco de España. Data available at 31 December 2014.

a The number of institutions also includes those that are non-operational and in the process of deregistering.

b Including ICO and branches of EU and non-EU credit institutions. For the period 2011-2013 the credit institution figures include specialised lending institutions (59, 54 and 48, respectively). The entry in force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs.

c Not including establishments only authorised to purchase foreign currency with payment in euro.

d In application of Directive 2007/64/EC and of Law 16/2009 on payment services.

OTHER INSTITUTIONAL INFORMATION

TABLE A.2.2

Year-end data and changes in the year

Number and %

	2011	2012	2013	2014
Senior officers	4,517	3,996	3,464	3,213
Legal persons	432	408	371	371
Individuals	4,085	3,588	3,093	2,842
Males	3,544	3,086	2,675	2,465
Females	541	502	418	377
Of which: Percentage in				
Banks (%)	9	10	11	11
Savings banks (%)	19	23	22	22
Credit cooperatives (%)	11	11	11	11
CFIs (%)	10	10	12	14
Other credit institutions (%)	14	15	14	15
Additions or deletions of senior officers	1,314	1,908	1,425	1,149
Of which: first-time additions	561	623	385	370
Reinstatements	64	89	62	70
Inquiries as to integrity of senior officers	159	88	143	91
Average number of people listed per document	3	2	2	2
Registered shareholders of banks	509	475	521	533
Individuals	100	114	102	93
Legal persons	409	361	419	440
Of which: credit institutions (a)	119	111	122	108
Of which: Spanish shareholders	343	314	317	
Registered members of credit cooperatives	496	454	434	398
Individuals	154	156	114	58
Legal persons	342	298	320	340
Of which: credit institutions (a)	224	152	169	182
Of which: Spanish members	494	447	431	397
Registered shareholders of CFIs	123	100	80	85
Individuals	21	17	18	18
Legal persons	102	83	63	67
Of which: credit institutions (a)	47	41	26	34
Of which: Spanish shareholders	102	80	64	69
Agency agreements	28,344	35,342	36,248	32,779
Banks	4,842	4,743	4,713	4,891
Savings banks	1	—	—	
Credit cooperatives	72	98	88	215
Specialised credit institutions	76	78	73	71
Branches of credit institutions	136	137	138	144
Currency exchange bureaux and/or money transfer agencies (b)	434	—	—	—
Payment institutions	22,783	30,286	31,204	27,458
Agency agreements with foreign CIs	107	105	105	105
Entries in the register of aricles of association	357	250	219	202
Cases processed of amendments to articles of association	88	94	81	60
Banks	36	36	24	23
Savings banks	4	3	—	—
Credit cooperatives	29	38	42	13
CFIs	9	6	7	3
MGCs	2	2	3	8
Electronic money institutions	1	—	—	1
Payment institutions	7	9	5	11
Reguarantee companies	—	—	—	1
Reported to Secretary General of the Treasury and Financial Policy	70	71	24	21
Reported to regional government	18	23	23	3
Authorised (c)	—	—	34	36

SOURCE: Banco de España.

a Spanish credit institutions and branches in Spain of foreign ones.

b From April 2011, money transfer agencies, and their agents, are included among payment institutions.

c From 14 April 2013, the power to authorise amendments to the articles of association of credit institutions is transferred from the General Secretariat of the Treasury and Financial Policy to the Banco de España in accordance with the changes introduced in the relevant regulations by Royal Decree 256/2013. This legislation incorporates into the regulations governing credit institutions the European Banking Authority's guidelines dated 22 November 2012 on the assessment of the suitability of members of the management body and key function holders.

ANNEX 3 MAIN DOCUMENTS PUBLISHED BY THE INTERNATIONAL SUPERVISORY FORA: FSB, BCBS, EBA, ESRB AND ECB IN THE FRAMEWORK OF FINANCIAL STABILITY

DOCUMENTS PUBLISHED BY THE FSB IN 2014 TABLE A.3.1

Policy documents	April	Guidance on Supervisory Interaction with Financial Institutions on Risk Culture: A Framework for Assessing Risk Culture
		Supervisory Intensity and Effectiveness: Progress Report on Enhanced Supervision
	October	Key Attributes of Effective Resolution Regimes for Financial Institutions: Additional guidance annexed to the 2011 document
	November	Transforming Shadow Banking into Resilient Market-Based Financing: Progress and Roadmap for 2015
		FSB Review of the Structure of its Representation
Reports to the G20	February	Financial reforms: Progress and Challenges - FSB Chair's Letter to G20 Ministers and Governors
	April	Financial reforms: Update on Progress Ahead - FSB Chair's Letter to G20 Ministers and Governors
	September	Update on Financial Regulatory Factors Affecting the Supply of Long-Term Investment Finance
		Financial Reforms: Completing the Job and Looking Ahead - FSB Chair's Letter to G20 Ministers and Governors
	November	Report to the G20 on Progress in Reform of Resolution Regimes and Resolution Planning for G-SIFIs
		Overview of Progress in the Implementation of the G20 Recommendations for Strengthening Financial Stability
		Financial Reforms: Completing the Job and Looking Ahead - FSB Chair's Letter to G20 Leaders for the Brisbane Summit
Reports	May	Thematic Review of the FSB Principles for Reducing Reliance on CRA Ratings: Peer Review Report
	September	2014 Progress Report on Implementation of the EDTF Principles and Recommendations
		The Financial Crisis and Information Gaps - Fifth Implementation Progress Report
	October	Structural Banking Reforms: Cross-border Consistencies and Global Financial Stability Implications
	November, April	Progress Reports on Implementation of OTC Derivatives Market Reforms
	November	Implementing the FSB Principles for Sound Compensation Practices and their Implementation Standards: 3rd Progress Report

DOCUMENTS PUBLISHED BY THE BCBS IN 2014 TABLE A.3.2

Standards	January	Basel III leverage ratio framework and disclosure requirements
		Liquidity coverage ratio disclosure standards - final document
		The Liquidity Coverage Ratio and restricted-use committed liquidity facilities
	March	The standardised approach for measuring counterparty credit risk exposures
	April	Capital requirements for bank exposures to central counterparties - final standard
		Supervisory framework for measuring and controlling large exposures - final standard
	June	Review of the Pillar 3 disclosure requirements - consultative document
	October	Operational risk - Revisions to the simpler approaches - consultative document
		Basel III: the net stable funding ratio
	November	The G-SIB assessment methodology - score calculation
	December	Net Stable Funding Ratio disclosure standards - consultative document
		Revisions to the securitisation framework
		Fundamental review of the trading book: outstanding issues - consultative document
		Capital floors: the design of a framework based on standardised approaches - consultative document
		Revisions to the standardised approach for credit risk - consultative document
Guidelines	January	Guidance for Supervisors on Market-Based Indicators of Liquidity
		Sound management of risks related to money laundering and financing of terrorism
	March	External audits of banks
	June	Supervisory guidelines for identifying and dealing with weak banks - consultative report
		Principles for effective supervisory colleges
	October	Corporate governance principles for banks - consultative document
Sound practices	January	A sound capital planning process: fundamental elements
	October	Review of the Principles for the Sound Management of Operational Risk
Implementation	October	Seventh progress report on adoption of the Basel regulatory framework
	November	Implementation of Basel standards
		Basel capital framework national discretions
	December	Regulatory Consistency Assessment Programme (RCAP) - Assessment of Basel III regulations - European Union
Reports	April	Point of Sale disclosure in the insurance, banking and securities sectors - final report
	September	Report on supervisory colleges for financial conglomerates
		Analysis of the trading book hypothetical portfolio exercise
		Basel III Monitoring Report as of 31 December 2013
	November	Reducing excessive variability in banks' regulatory capital ratios
		Impact and implementation challenges of the Basel framework for emerging market, developing and small economies
	December	Criteria for identifying simple, transparent and comparable securitisations - consultative paper

DOCUMENTS PUBLISHED BY THE EBA IN 2014 TABLE A.3.3

Guidelines	March	Guidelines on the applicable notional discount rate for variable remuneration
	June	Guidelines on disclosure of encumbered and unencumbered assets
		Guidelines on disclosure of indicators of global systemic importance
		Guidelines on harmonised definitions and templates for funding plans of credit institutions under recommendation A4 of ESRB/2012/2
	July	Guidelines on the data collection exercise regarding high earners
		Guidelines on the range of scenarios to be used in recovery plans
		Report on the peer review of the EBA Guidelines 31 regarding credit concentration risk
		Guidelines on significant risk transfer for securitisation
		Guidelines on the remuneration benchmarking exercise
	September	Guidelines on tests, reviews or exercises that may lead to support measures
	October	Joint guidelines for complaints-handling for the securities (ESMA) and banking (EBA) sectors
	December	Guidelines on criteria for the assessment of O-SIIs
		Guidelines on measures to reduce or remove impediments to resolvability
		Final guidelines on the security of internet payments
		Guidelines on common procedures and methodologies for SREP
		Joint guidelines on coordination arrangements for financial conglomerates
		Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under articles 432(1), 432(2) and 433 of Regulation (EU) 575/2013
Opinions and technical advices	January	European Supervisory Authorities' letter to Commissioner Barnier (European Commissioner, Directorate General Internal Market and Services) in relation to the Report by Philippe Maystadt “Should IFRS standards be more European?"
	April	Opinion on measures to address macroprudential or systemic risk
	June	Technical advice on the treatment of own credit risk related to derivative liabilities
	July	Opinion on the preferential capital treatment of covered bonds
		Opinion on virtual currencies
	October	Opinion regarding the principles on remuneration policies of credit institutions and investment firms and the use of allowances
		Opinion on the application of Articles 108 and 109 of Directive 2013/36/EU and of Part One, Title II and Article 113(6) and (7) of Regulation (EU) No 575/2013
	November	Opinion on matters relating to the perimeter of credit institutions
	December	Opinion on securitisation retention, due diligence and disclosure report
		Technical advice on criteria and factors for intervention powers concerning structured deposits
Discussion papers	February	Discussion paper on the impact on the volatility of own funds of the revised IAS 19 and the deduction of defined pension assets from own funds under article 519 of the capital requirements regulation (CRR)
	October	Discussion Paper on simple standard and transparent securitisations
	November	Key Information Documents for Packaged Retail and Insurance-based Investment Products (PRIIPs)
	December	Discussion Paper - The Use of Credit Ratings by Financial Intermediaries Article 5(a) of the CRA Regulation
		Discussion paper: draft requirements on passport notifications for credit intermediaries under the mortgage credit directive
Reports	February	Review of the Implementation of EBA-ESMA Recommendations to Euribor-EBF
		Consumer trends report 2014
		European Supervisory Authorities' Report - Final Report on mechanistic references to credit ratings in the ESAs’ guidelines and recommendations
	March	Report on impact of differences in leverage ratio definitions
	May	EBA 2013 Annual Report
	June	Fourth report on the consistency of risk weighted assets
		Benchmarking of remuneration practices at Union level
		Review of the macroprudential rules in CRR / CRD
	July	Report on EU covered bond frameworks and capital treatment
		Placement of financial instruments with depositors, retail investors and policy holders ('Self placement')
		Report on the use and benefits from central banks’ funding support measures
	September, March	Basel III monitoring exercise
	September, April	Joint Committee report on risks and vulnerabilities in the EU financial system
	September	List of Identified Financial Conglomerates as per 31 December 2013
	October	Report on monitoring of AT1 instruments of EU institutions
	December, June	Risk assessment of the European banking system

DOCUMENTS PUBLISHED BY THE ESRB IN 2014 TABLE A.3.4

Recommendations and Decisions	January	Decision on a coordination framework regarding the notification of national macro-prudential policy measures by competent or designated authorities and the provision of opinions and the issuing of recommendations by the ESRB (ESRB/2014/2)
	June	Recommendation on guidance for setting countercyclical buffer rates (ESRB/2014/1)
		ESRB Recommendation on the macro-prudential mandate of national authorities (ESRB/2011/3): Follow-up Report - Overall assessment
		January, March, June, September
Reports	January, March, June, September	ESRB Risk Dashboard
	March	Flagship Report on Macro-prudential Policy in the Banking Sector
		Handbook on Operationalising Macro-prudential Policy in the Banking Sector
	June	Is Europe Overbanked? - Report of the Advisory Scientific Committee
		Operationalising the countercyclical capital buffer: indicator selection, threshold identification and calibration options
	July	Annual Report 2013
		The ESRB and national macro-prudential measures - its role and first experiences
	November	Allocating macro-prudential powers - Report of the Advisory Scientific Committee

DOCUMENTS PUBLISHED BY THE ECB WITHIN THE FRAMEWORK OF FINANCIAL STABILITY IN 2014 TABLE A.3.5

February	Assessment guide for the security of internet payments
April	The impaired EU securitisation market: causes, roadblocks and how to deal with them (Joint paper by the ECB and the Bank of England)
	Financial Integration in Europe
May	The case for a better functioning securitisation market in the European Union: A discussion paper (Joint paper by the ECB and the Bank of England)
October	Banking Structures Report
November, May	Financial Stability Review

ANNEX 4 FINANCIAL AND STATISTICAL INFORMATION ON CREDIT INSTITUTIONS AND THEIR CONSOLIDATED GROUPS

ANNEX 4 FINANCIAL AND STATISTICAL INFORMATION ON CREDIT INSTITUTIONS AND THEIR CONSOLIDATED GROUPS

Methodological note on the statistical information on credit institutions,[1] consolidated groups and their categories

The information in Annex 4 of this Report is of a statistical nature. It is obtained by aggregating, in accordance with the criteria set out below, the data contained in the statements that credit institutions (CIs) send to the Banco de España.

In 2014 institutions can be divided, from the standpoint of their legal nature, into the following categories: the Official Credit Institute (ICO), commercial banks and savings banks, and credit cooperatives. In turn, commercial banks and savings banks can be divided into three sub-categories: domestic commercial banks and savings banks, subsidiaries of foreign banks and branches of foreign banks.

The information included in this Annex relates, on the one hand, to individual credit institutions and, on the other, to their consolidated groups (CGs). As a general rule, except when expressly indicated otherwise, CGs are groups that include, in addition to the parent institution (or, in the absence thereof, the reporting institution), one or more fully or proportionally consolidated financial institutions. The information on CGs also includes individual CIs with direct financial activity (DFA) that do not form part of a consolidated group.

Since 2010, and as a consequence of the restructuring and reorganisation of the Spanish financial system, there have been significant changes at CIs, especially among domestic commercial banks and savings banks. The most significant change was the emergence of a group of savings banks that ceased to engage directly in their traditional financial activity, having transferred their financial business to commercial banks specially set up for the purpose. Accordingly, CIs were divided into two groups: credit institutions with direct financial activity (CIs with DFA) and credit institutions without direct financial activity (CIs without DFA). Subsequently, the latter group of savings banks commenced their transformation into special foundations, a process which by end-2014 was virtually complete.[2]

The above-mentioned transfer of financial activity by most savings banks is the reason why the former categories of domestic commercial banks and savings banks have been merged into a single category.[3]

The balance sheet, income statement and solvency data refer to *credit institutions with direct financial activity* and do not include the ICO.[4] Also, unless expressly indicated otherwise, the data provided[5] in the Report on Banking Supervision relate to the total busi-

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1 Up to 31 December 2013, Spain's *establecimientos financieros de crédito (EFC)* were considered specialised credit institutions (SCIs). However, upon the entry into force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 on urgent measures to adapt Spanish law to EU law on supervision and solvency of financial institutions, they ceased to be considered credit institutions and are now known as specialised lending institutions (SLIs). In consequence, the balance sheet, income statement and solvency data in Annex 4 of this Report for the period 2011-2014 do not include these entities.

2 These transformations began in November 2011 (Royal Decree-Law 11/2010 of 9 July 2010, repealed by Law 26/2013 of 27 December 2013 on savings banks and bank foundations). As at 31 December 2014 only three savings banks remained to be transformed (Caja de Ahorros de Murcia, Caja de Ahorros y Monte de Piedad de Baleares and Caja de Ahorros de Guipúzcoa y San Sebastián).

3 By end-2014 only two small savings banks continued to conduct their financial activity directly: Caja de Ahorros y Monte de Piedad de Ontinyent and Colonya-Caixa d'Estalvis de Pollença.

4 The ICO is included in Table A.4.1 Registered credit institutions, consolidated groups and mixed groups.

5 The data in this Annex may differ from those contained in other Banco de España publications, such as the *Financial Stability Report,* the *Boletín Estadístico* or the *Annual Report* where, for reasons of comparability or analytical purpose, it may be considered more appropriate to use a different scope as regards the activity considered

ness of individual institutions and their consolidated groups. With just a few exceptions, the time horizon used is four years. In relation to the balance sheet, income statement and solvency data, the treatment given, for the purposes of statistical comparability, to the set of institutions included in each year of the time period considered is described below.

In general, the information contained in the tables of Annex 4 of this Report relates to the *individual CIs with DFA* and *CGs existing as at each date* to which each table refers. Accordingly, the composition of the different categories and classifications for which data are given varies, or may vary, from one year to another.

As an *exception* to this general rule, tables with information relating to the *income statements* of individual CIs and their CGs, which give data on the last four years, include information on CIs and CGs that were *active at some point in 2014,* so the institutions considered in each of the classifications and categories offered are the same throughout the period considered. In addition, the results of institutions that ceased to exist at some point during the last year considered are included in the category to which the institutions that have taken them over belong.

CLASSIFICATION CRITERIA FOR INDIVIDUAL INSTITUTIONS AND CONSOLIDATED GROUPS

The data offered for CIs and CGs are categorised by various criteria: by type of institution as described above, by size (CIs and CGs) and by the nationality of the institution or parent of the consolidated group (CIs and CGs).

Size of CIs and CGs

Individual institutions and consolidated groups are classified, with respect to balance sheet data and results, by volume of average total assets (ATAs).

It was considered useful to categorise individual institutions and CGs with average total assets of more than €100 billion. This classification is based on year-end data for the balance sheet figures and on the previous year's data for results. In 2014 the largest commercial banks and savings banks category comprises the following individual institutions: Banco Popular, Banco Sabadell, BBVA, CaixaBank, Santander and Bankia. These same institutions are, in turn, the parent institutions of the six CGs with average total assets of more than €100 billion, save in the case of Bankia whose parent institution is Banco Financiero y de Ahorro.

Nationality

In the case of individual institutions, the commercial banks and savings banks category is divided into three sub-categories: domestic institutions, subsidiaries of foreign banks and branches of foreign banks. Consolidated groups are classified by the nature and nationality of the parent institution, i.e., their classification depends on whether the parent institution is a credit institution, the type of credit institution it is, and its nationality.

(total business/business in Spain) or different data treatment (as, for instance, in the income statement data where the institutions considered in each of the classifications and categories are the same throughout the period considered, i.e., those existing at some point in 2014).

REGISTERED CREDIT INSTITUTIONS, CONSOLIDATED GROUPS AND MIXED GROUPS

TABLE A.4.1

Year-end data

Number

	2011	2012	2013	2014
CREDIT INSTITUTIONS REGISTERED IN SPAIN (a)	336	312	292	227
ICO	1	1	1	1
Credit institutions with direct financial activity (b)	306	286	275	223
Commercial banks and savings banks	171	162	160	158
Of which: FROB commercial banks and savings banks	*5*	*6*	*5*	*3*
Domestic banks	58	54	49	46
Savings banks with direct financial activity	6	2	2	2
Foreign-controlled subsidiaries	21	21	23	24
Foreign-controlled branches	86	85	86	86
Credit cooperatives	76	70	67	65
Of which: Heads of credit cooperative IPSs	*4*	*3*	*3*	*1*
Of which: Cooperatives participating in IPSs	*26*	*28*	*25*	*24* (c)
Specialised lending institutions (a)	59	54	48	47
Savings banks without direct financial activity	29	25	16	3
MEMORANDUM ITEMS				
Mergers and acquisitions (d)	6 (10)	11 (16)	8 (11)	8 (8)
Between banks	2 (2)	5 (5)	4 (5)	4 (4)
Between saving banks	—	—	—	—
Between credit cooperatives	4 (8)	4 (9)	1 (3)	2 (2)
Between SLIs	—	—	1 (1)	—
SLIs acquired by/merged with credit institutions	—	2 (2)	2 (2)	2 (2)
CONSOLIDATED GROUPS EXISTING AT YEAR-END (e)	67	62	57	62
Parent credit institution (f)	59	55	50	51
Spanish credit institutions (f)	46	40	37	35
Non-FROB commercial banks and savings banks	24	19	18	19
FROB commercial banks and savings banks	5	5	3	2
Credit cooperatives	16	15	15	14
Specialised lending institutions (f)	1	1	1	(f)
Foreign credit institutions	13	15	13	16
Other consolidated groups (f)	8	7	7	11
Spanish parent (f)	4	4	4	6 (f)
Foreign parent	4	3	3	5
MIXED GROUPS AND FINANCIAL CONGLOMERATES	23	18	17	17
Supervised by Banco de España	22	17	16	17
Supervised by DGS including CIs	1	1	1	(f)
MEMORANDUM ITEM				
Bank offices abroad	12,623	12,922	13,161	14,212

SOURCE: Banco de España. Data available at 16 April 2015.

a In 2010, 2011 and 2012 the total number of CIs recorded includes specialised lending institutions . The entry into force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished the credit institution status of SLIs, so the total number of CIs recorded in 2014 does not include the 47 SLIs existing at end-2014.

b The information in the rest of annex 4 relates to credit institutions, i.e. commercial banks, savings banks and credit cooperatives (see methodological note in Annex 4) with direct financial activity (CIs with DFI), so the ICO, SLIs and savings banks without direct financial activity are excluded unless otherwise stated.

c Of these, 19 credit cooperatives participate in an IPS headed by a Spanish bank.

d The figures in brackets are the number of institutions which have merged or been acquired.

e For the sole purpose of this table, a consolidated group (CG) is defined as a group which includes, in addition to the parent (or failing this the reporting institution), one or more fully or proportionally consolidated financial institutions; accordingly, individual CIs not forming part of consolidated groups are excluded. Unless indicated otherwise, in the rest of this Annex CGs include individual credit institutions not belonging to any consolidated group that have direct financial activity. The CG classification is based on the nature and nationality of the parent (ultimate holder).

f In 2011, 2012 and 2013 the total number of CGs with a CI parent includes one CG whose parent is a SLI. As indicated in footnote a), in 2014 the CG with a SLI parent is not included under the heading Credit institution parent, but rather in Other consolidated groups.

SERVING EMPLOYEES, OPERATIONAL OFFICES, ATMs AND AGENTS OF CIs WITH DFA (a)

TABLE A.4.2

Falta subtítulo, véase castellano

Falta texto

	Active institutions (b)	Serving employees		Hours worked (millions)	Operational offices	ATMs	Cards (000)	Point-of-sale terminals (000)	Agents	Employees per operational branch	Per 10,000 inhab. over 16 years old (c)				Cards per inhab. over 16 years old
		TOTAL	Of which: At offices								Serving employees	Operational offices	ATMs	Point-of-sale terminals	
TOTAL CREDIT INSTITUTIONS WITH DIRECT FINANCIAL ACTIVITY (a)															
2011	303	247,386	180,591	414	40,190	56,364	92,997	1,443	5,289	4.5	64.2	10.4	14.6	374.7	2.4
2012	283	235,974	172,850	385	38,207	54,143	89,025	1,442	5,127	4.5	61.6	10.0	14.1	376.4	2.3
2013	270	217,419	158,663	361	33,782	51,841	89,990	1,208	5,056	4.7	57.0	8.9	12.3	316.9	2.4
2014 (a)	219	202,783	150,577	335	31,876	46,449	61,015	890	4,957	4.7	52.6	8.3	12.1	231.0	1.6
TOTAL COMMERCIAL BANKS AND SAVINGS BANKS WITH DIRECT FINANCIAL ACTIVITY															
2011	171	222,314	163,483	373	35,025	51,231	71,129	1,332	5,149	4.7	57.2	9.0	13.2	342.5	1.8
2012	162	211,435	156,005	345	33,255	49,167	57,340	1,322	4,979	4.7	54.5	8.6	12.7	340.9	1.5
2013	159	193,870	142,713	323	29,071	47,070	57,359	1,056	4,880	4.9	50.3	7.5	12.2	274.0	1.5
2014	156	184,625	135,449	305	27,460	41,640	56,035	706	4,869	4.9	47.9	7.1	10.8	183.3	1.5
Domestic commercial banks and savings banks															
2011	63	205,667	157,145	344	33,714	49,916	63,108	1,319	4,094	4.7	52.9	8.7	12.8	339.3	1.6
2012	56	195,621	149,794	318	32,033	47,914	48,972	1,308	3,834	4.7	50.4	8.3	12.4	337.1	1.3
2013	51	178,116	136,383	297	27,848	45,801	47,961	1,041	3,683	4.9	46.2	7.2	11.9	270.1	1.2
2014	48	165,738	125,420	274	25,790	39,553	48,548	656	3,563	4.9	43.0	6.7	10.3	170.3	1.3
Foreign subsidiaries															
2011	21	9,885	5,260	17	1,094	1,226	6,164	12	916	4.8	2.5	0.3	0.3	3.2	0.2
2012	21	9,399	4,999	16	1,023	1,176	6,444	14	1,009	4.9	2.4	0.3	0.3	3.7	0.2
2013	23	9,169	5,055	14	1,028	1,137	7,165	15	1,060	4.9	2.4	0.3	0.3	3.8	0.2
2014	24	12,201	7,831	20	1,477	1,930	4,919	49	1,168	5.3	3.2	0.4	0.5	12.6	0.1
Foreign branches															
2011	87	6,762	1,078	11	217	89	1,857	0	139	5.0	1.7	0	0	0	0
2012	85	6,415	1,212	11	199	77	1,924	0	136	6.1	1.7	0.1	0	0	0
2013	85	6,585	1,275	11	195	132	2,233	0	137	6.5	1.7	0.1	0	0.1	0.1
2014	84	6,686	2,198	11	193	157	2,569	1	138	11.4	1.7	0.1	0	0.3	0.1
CREDIT COOPERATIVES															
2011	74	20,026	15,571	33	4,890	5,133	4,852	111	66	3.2	5.2	1.3	1.3	28.5	0.1
2012	68	19,737	15,517	32	4,732	4,976	4,854	120	72	3.3	5.1	1.2	1.3	31.1	0.1
2013	65	18,971	14,876	32	4,511	4,771	4,884	152	98	3.3	4.9	1.2	1.2	39.3	0.1
2014	63	18,158	15,128	30	4,416	4,809	4,979	184	88	3.4	4.7	1.1	1.2	47.8	0.1
SPECIALISED LENDING INSTITUTIONS (a)															
2011	58	5,046	1,537	8	275	0	17,016	0	74	5.6	1.3	0.1	0	0.1	0.4
2012	53	4,802	1,328	8	220	0	26,831	0	76	6.0	1.2	0.1	0	0.1	0.7
2013	46	4,578	1,074	7	200	0	27,747	0	78	5.4	1.2	0.1	0	0.1	0.7
2014	47	4,665	1,061	7	199	0	25,119	0	73	5.3	1.2	0.1	0	0.1	0.7

SOURCE: Banco de España. Data available at 16 April 2015.

a In 2011, 2012 and 2013 SLIs (then called SCIs) were classed as credit institutions. The entry into force on 1 January 2014 of Royal Decree-Law 14/2013 of 29 November 2013 abolished their credit institution status. Therefore the 2014 data on total CIs do not include SLIs.

b Those of the registered institutions which were actually performing transactions at each year-end.

c The population figure used as the denominator in the calculation of these ratios is the total Spanish resident population over 16 years of age according to the Spanish Labour Force Survey (EPA), while the numerator takes the total business of CIs in Spain and abroad. Nonetheless, given the marginal nature of the contribution of the latter, there is no problem of any significant mismatch in the ratio.

BREAKDOWN OF ACTIVITY OF CIs WITH DFA (a)

TABLE A.4.3

Total business. Year-end data

€m and %

	2011	2012	2013	2014	Memorandum item: 2014		
					Structure		(%) annual Δ
					%	Change in pp	
BALANCE SHEET TOTAL	**3,118,672**	**3,063,273**	**2,681,231**	**2,653,435**	**100.0**	**0.0**	**–1.0**
ASSETS	3,118,672	3,063,273	2,681,231	2,653,435	100.0	0.0	–1.0
Cash and central banks	63,960	84,605	48,263	32,014	1.2	–0.6	–33.7
Loans and advances to credit institutions	276,343	300,610	226,772	183,035	6.9	–1.6	–19.3
Of which: interbank	*235,434*	*257,901*	*174,062*	*120,157*	*4.5*	*–2.0*	*–31.0*
Loans and advances to other debtors	1,792,292	1,576,424	1,404,219	1,380,877	52.0	–0.4	–1.7
Resident general government	87,077	100,666	80,088	98,451	3.7	0.7	22.9
Resident private sector	1,613,878	1,397,275	1,258,919	1,214,452	45.8	–1.2	–3.5
Of which: commercial credit	*44,442*	*36,182*	*28,627*	*30,937*	*1.2*	*0.1*	*8.1*
Of which: secured by a mortgage	*982,322*	*856,473*	*753,856*	*704,994*	*26.6*	*–1.5*	*–6.5*
Non–residents	91,337	78,483	65,213	67,975	2.6	0.2	4.2
Debt securities	413,765	499,617	481,155	491,737	18.5	0.6	2.2
Other equity instruments	29,331	25,120	28,680	32,806	1.2	0.1	14.4
Trading derivatives	166,642	194,873	121,563	142,677	5.4	0.9	17.4
Other financial assets	46,633	50,071	35,802	41,423	1.6	0.3	15.7
Hedging derivatives	40,782	34,103	20,878	22,071	0.8	0.0	5.7
Investments	154,865	147,004	154,464	168,163	6.3	0.5	8.9
Insurance contracts linked to pensions	9,079	7,136	6,821	7,767	0.3	0.0	13.9
Fixed assets	25,618	22,034	20,572	20,010	0.8	0.0	–2.7
Tax assets	37,219	58,293	65,866	66,082	2.5	0.0	0.3
Other assets	62,143	63,383	66,176	64,772	2.4	–0.1	–2.1
LIABILITIES	2,931,506	2,898,561	2,480,260	2,432,657	91.7	–0.8	–1.9
Central banks	189,316	365,288	194,459	165,166	6.2	–1.1	–15.1
Deposits from credit institutions	464,287	416,608	369,746	339,655	12.8	–1.0	–8.1
Deposits from other creditors	1,452,121	1,393,984	1,384,555	1,392,617	52.5	0.9	0.6
Resident and non–resident general government	71,338	72,173	62,319	78,002	2.9	0.6	25.2
Resident private sector	1,302,635	1,261,657	1,264,684	1,250,748	47.1	–0.1	–1.1
Unadjusted overnight deposits	470,889	464,629	497,270	559,811	21.1	2.6	12.6
Current accounts	263,798	261,674	286,277	333,321	12.6	1.9	16.4
Savings accounts	203,016	199,135	206,557	222,012	8.4	0.7	7.5
Other deposits	4,075	3,820	4,436	4,478	0.2	0.0	0.9
Time deposits and redeemables at notice	786,106	757,557	729,773	651,579	24.6	–2.6	–10.7
Repos	31,847	27,031	29,023	30,592	1.2	0.1	5.4
Non–residents	78,148	60,154	57,552	63,868	2.4	0.3	11.0
Debt certificates including bonds	336,161	295,158	222,852	187,639	7.1	–1.2	–15.8
Of which: mortgage securities (b)	*241,439*	*295,581*	*247,631*	*208,587*	*7.9*	*–1.3*	*–15.8*
Trading derivatives	164,466	191,823	119,563	143,333	5.4	0.9	19.9
Subordinated liabilities	85,494	67,066	34,395	34,796	1.3	0.0	1.2
Other financial liabilities	30,616	35,429	29,667	35,273	1.3	0.2	18.9
Other liabilities	182,587	97,852	96,233	105,497	4.0	0.4	9.6
Provisions	26,459	35,353	28,791	28,680	1.1	0.0	–0.4
Of which: provisions for pensions and similar	*18,271*	*16,900*	*16,813*	*17,774*	*0.7*	*0.1*	*5.7*
EQUITY	187,166	164,713	200,971	220,778	8.3	0.8	9.9
Valuation adjustments	–4,243	–4,682	1,789	7,684	0.3	0.2	329.4
Own funds	191,409	169,395	199,181	213,094	8.0	0.6	7.0
Of which: capital and reserves (including share premium)	*194,344*	*231,068*	*188,491*	*202,181*	*7.6*	*0.6*	*7.3*
MEMORANDUM ITEMS							
Unadjusted earning financial assets	2,664,608	2,613,762	2,300,654	2,208,270	83.2	–2.6	–4.0
Unadjusted securities portfolio	624,585	724,654	726,995	751,609	28.3	1.2	3.4
Equity portfolio	211,733	220,203	246,040	261,191	9.8	0.6	6.2
Investments in the group	156,485	168,224	194,492	209,332	7.9	0.6	7.6
Other investments	25,916	26,859	22,868	19,052	0.7	–0.2	–16.7
Other equity securities	29,331	25,120	28,680	32,806	1.2	0.1	14.4
Contingent exposures	261,605	245,359	200,958	184,660	7.0	–0.5	–8.1
Variable–rate credit	1,456,381	1,332,810	1,185,462	1,126,875	42.5	–1.7	–4.9
Asset transfers	252,439	242,006	229,424	224,660	8.5	–0.1	–2.1
Of which: securitised (c)	*10,103*	*7,586*	*6,609*	*6,100*	*0.2*	*0.0*	*–7.7*
Total mortgage covered bonds issued (d)	375,702	411,017	340,136	284,834	10.7	–2.0	–16.3

SOURCE: Banco de España. Data available at 16 April 2015.

a SLIs (called SCIs in 2011, 2012 and 2013) not included in any year (see methodological note in Annex 4).
b This item almost entirely corresponds to mortgage covered bonds which are marketable securities. Accordingly, privately placed (and securitised) mortgage covered bonds are not included. Valuation adjustments are not included.
c This figure relates solely to the outstanding volume of securitisations whose underlying assets have been derecognised from the CI's balance sheet and thus classified as "transferred".
d Figure taken from the confidential return "Supplementary information on the Balance Sheet" of CIs, under the accounting rules in CBE 4/2004. It includes all mortgage covered bonds, whether marketable or not.

BREAKDOWN OF ACTIVITY BY INSTITUTIONAL GROUPS OF CIs WITH DFA

TABLE A.4.4

Total business. Data of existing institutions in December 2014

%

	Largest commercial banks and savings banks	Other commercial banks and savings banks				Credit cooperatives
		Total	Of which			
			Foreign subsidiaries	Branches		
				EU	Non-EU	
BALANCE SHEET TOTAL	**66.2**	**28.9**	**4.8**	**3.7**	**0.2**	**5.0**
ASSETS	66.2	28.9	4.8	3.7	0.2	5.0
Cash and central banks	79.1	17.4	3.1	1.8	0.2	3.5
Loans and advances to credit institutions	41.6	52.4	4.3	14.9	1.0	6.0
Of which: interbank	*25.4*	*66.2*	*6.0*	*21.4*	*1.5*	*8.4*
Loans and advances to other debtors	65.6	28.4	5.7	3.7	0.2	6.0
Resident general government	74.2	23.0	9.4	2.1	0.1	2.8
Resident private sector	64.0	29.5	5.4	3.8	0.2	6.5
Of which: commercial credit	*70.9*	*22.2*	*4.3*	*4.3*	*0.4*	*6.8*
Of which: secured by a mortgage	*60.8*	*31.5*	*5.7*	*1.8*	*0.0*	*7.7*
Non-residents	82.0	17.6	6.0	4.2	0.1	0.5
Debt securities	60.3	34.3	5.9	1.8	0.0	5.4
Other equity instruments	69.4	25.9	0.9	14.8	0.0	4.7
Trading derivatives	95.4	4.3	0.4	0.9	0.1	0.2
Other financial assets	86.1	12.3	3.0	2.6	0.1	1.5
Hedging derivatives	77.6	20.6	2.4	0.4	0.0	1.7
Investments	78.4	20.7	1.5	0.7	0.0	0.9
Insurance contracts linked to pensions	89.2	10.8	3.1	0.3	0.0	0.0
Fixed assets	52.4	36.6	4.7	1.2	0.0	11.0
Tax assets	63.8	33.3	6.1	2.2	0.1	2.9
Other assets	74.2	22.2	2.6	0.9	0.1	3.6
LIABILITIES AND EQUITY	66.1	28.9	4.9	3.9	0.1	5.0
Central banks	58.9	38.2	11.6	0.0	0.1	2.9
Deposits from credit institutions	60.1	35.7	6.8	13.5	0.8	4.2
Deposits from other creditors	62.8	30.3	4.7	3.2	0.0	6.9
Resident and non-resident general government	77.8	18.6	4.6	0.2	0.0	3.6
Resident private sector	61.0	31.6	4.6	3.4	0.0	7.4
Unadjusted overnight deposits	60.5	32.3	5.3	6.1	0.1	7.2
Current accounts	56.5	39.3	5.9	10.0	0.2	4.2
Savings accounts	66.0	22.1	4.4	0.3	0.0	11.9
Other deposits	83.0	15.0	2.7	3.8	0.5	2.0
Time deposits and redeemables at notice	61.8	30.4	4.2	1.1	0.0	7.8
Repos	59.4	38.9	2.3	3.9	0.0	1.7
Non-residents	79.8	19.5	6.5	4.2	0.1	0.8
Debt certificates including bonds	75.8	23.1	1.0	0.0	0.0	1.1
Of which: mortgage securities (a)	*76.4*	*20.4*	*5.3*	*0.0*	*0.0*	*3.2*
Trading derivatives	95.4	4.4	0.4	1.1	0.1	0.1
Subordinated liabilities	90.4	9.1	2.2	0.0	0.0	0.4
Other financial liabilities	70.1	26.7	2.6	3.8	0.1	3.1
Other liabilities	70.3	27.1	5.3	0.8	0.0	2.6
Provisions	72.8	25.6	4.4	1.6	0.1	1.6
Of which: provisions for pensions and similar	*89.3*	*10.4*	*3.3*	*0.1*	*0.0*	*0.3*
EQUITY	67.3	28.2	4.4	1.1	0.5	4.5
Valuation adjustments	72.0	16.9	-6.2	0.8	0.0	11.1
Own funds	67.1	28.6	4.8	1.1	0.6	4.3
Of which: capital and reserves	*68.0*	*27.6*	*4.4*	*0.9*	*0.6*	*4.3*
MEMORANDUM ITEMS:						
Unadjusted earning financial assets	62.7	31.5	5.5	4.1	0.2	5.7
Unadjusted securities portfolio	63.7	32.3	4.8	2.2	0.0	4.0
Equity portfolio	70.3	28.2	2.6	3.0	0.0	1.5
Investments in the group	69.1	29.9	3.1	1.5	0.0	1.0
Other investments	85.2	14.3	0.5	0.0	0.0	0.5
Other equity securities	69.4	25.9	0.9	14.8	0.0	4.7
Contingent exposures and liabilities	79.6	17.9	3.3	6.9	0.4	2.5
Variable-rate credit	63.8	29.5	6.0	3.1	0.2	6.7
Asset transfers	58.7	35.9	8.2	3.3	0.0	5.4
Of which: securitised (b)	*63.9*	*28.9*	*0.2*	*0.0*	*0.0*	*7.2*
Total mortgage covered bonds issued (c)	66.9	29.4	5.5	0.0	0.0	3.7

SOURCE: Banco de España. Data available at 16 April 2015.

a This item almost entirely corresponds to mortgage covered bonds which are marketable securities. Accordingly, privately placed (and securitised) mortgage covered bonds are not included.

b This figure relates solely to the outstanding volume of securitisations whose underlying assets have been derecognised from the CI's balance sheet and thus classified as "transferred".

c Figure taken from the confidential return "Supplementary information on the Balance Sheet" of CIs, under the accounting rules in CBE 4/2004. It includes all mortgage covered bonds, whether marketable or not.

CREDIT INSTITUTIONS WITH DFA: STRUCTURE OF LENDING TO RESIDENT PRIVATE SECTOR (a)

TABLE A.4.5

Business in Spain. Data of existing institutions at each year-end

%

	2011	2012	2013	2014
LENDING TO BUSINESS	53.5	50.4	48.3	47.8
Goods	14.9	14.3	13.5	13.1
Agriculture, fishing and extractive industries	1.5	1.6	1.6	1.6
Manufacturing	5.2	5.4	5.4	5.2
Energy and electricity	2.5	2.5	2.3	2.7
Construction	5.6	4.8	4.2	3.6
Services	38.6	36.1	34.8	34.7
Commerce, repairs and hotels and restaurants	6.5	7.0	7.3	7.3
Transport and communications	2.4	2.6	2.6	2.2
Real estate development	17.4	14.6	12.8	11.4
Financial intermediation	5.2	4.4	4.2	5.7
Other services	7.0	7.4	8.0	8.1
LENDING TO HOUSEHOLDS	45.4	48.3	50.7	51.0
Housing (purchase and refurbishing)	38.1	41.1	43.5	43.6
Consumer credit	1.8	1.7	1.5	1.7
Other purposes	5.5	5.5	5.8	5.8
OTHER	1.1	1.3	1.0	0.5

SOURCE: Banco de España. Data available at 16 April 2015.

a SLIs (called SCIs in 2011, 2012 and 2013) not included in any year (see methodological note in Annex 4).

BREAKDOWN OF CHANGES IN OWN FUNDS, IMPAIRMENT ALLOWANCES AND WRITTEN-OFF ASSETS OF CREDIT INSTITUTIONS WITH DFA (a)

TABLE A.4.6

Data of existing institutions at each year-end

€m

	2011	2012	2013	2014
DETAIL OF OWN FUNDS (b)				
Prior year balance	174,449	191,409	169,395	199,181
Total revenue and expenses recognised	–8,244	–67,373	8,369	11,845
Increase (decrease) in capital / endowment fund	53,272	47,374	8,671	7,939
Conversion of liabilities into own funds and other capital instrument increases	6,638	5,830	17,314	330
Distribution of dividends	–6,231	–4,210	–2,151	–3,117
Other increases (decreases) in equity	–28,475	–3,635	–2,418	–3,061
Of which: due to mergers, acquisitions and creation of IPSs and spin-off of CIs without DFA	*–25,619*	*–6,503*	*–5,412*	*–413*
Final balance	191,409	169,395	199,181	213,118
IMPAIRMENT ALLOWANCES. LOANS (c)				
Prior year balance	68,634	84,599	120,876	109,617
Movements reflected in income statement	22,432	79,122	20,951	12,634
Other movements	8,265	264	–6,146	–4,027
Balances used	–14,732	–43,109	–26,064	–21,900
Final balance	84,599	120,876	109,617	96,323
MOVEMENT IN THE WRITTEN-OFF ASSETS ACCOUNT (d)				
Prior year balance	45,521	53,220	60,791	70,479
Additions charged to impairment allowances	14,970	43,369	26,035	17,738
Additions charged directly to income	1,911	2,958	2,854	2,790
Past-due income receivable	1,826	2,936	2,621	3,219
Other	1,090	2,988	6,141	2,072
Total additions	19,797	52,251	37,651	25,820
Total reductions	–12,122	–44,676	–27,943	–22,407
Net change due to exchange differences	24	–4	–20	34
Final balance	53,220	60,791	70,479	73,926

SOURCE: Banco de España. Data available at 16 April 2015.

a SLIs (called SCIs in 2011, 2012 and 2013) not included in any year (see methodological note in Annex 4).
b Data from the statement of changes in equity. Confidential return A1.
c Data from breakdown of movements in impairment allowances. Confidential return T14.
d Data from movement of the written-off assets account during the current year. Confidential return T10.7.

BREAKDOWN OF THE INCOME STATEMENT FOR CREDIT INSTITUTIONS WITH DFA (a)

TABLE A.4.7

Data of institutions active at some time during 2014

€m and %

	Amount				% of ATA				% annual Δ			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Financial income	85,328	82,655	65,586	55,373	2.77	2.62	2.26	2.07	9.0	–3.1	–20.7	–15.6
Financial cost	–54,498	–48,489	–38,104	–27,709	–1.77	–1.54	–1.31	–1.03	26.7	–11.0	–21.4	–27.3
NET INTEREST INCOME (NII)	30,830	34,166	27,482	27,663	1.00	1.08	0.95	1.03	–12.5	10.8	–19.6	0.7
Return on equity instruments	12,034	13,984	7,973	9,921	0.39	0.44	0.28	0.37	0.1	16.2	–43.0	24.4
Non-interest income	15,119	12,472	20,627	18,878	0.49	0.40	0.71	0.70	–13.8	–17.5	65.4	–8.5
Fees and commissions (net)	12,177	11,816	11,248	11,594	0.39	0.38	0.39	0.43	–1.7	–3.0	–4.8	3.1
Collection and payment service (net)	5,180	5,195	4,660	4,199	0.17	0.16	0.16	0.16	–2.7	0.3	–10.3	–9.9
Securities service (revenue)	1,417	1,234	1,209	1,498	0.05	0.04	0.04	0.06	8.7	–12.9	–2.1	23.9
Marketing of non-banking products (revenue)	3,170	3,068	3,404	3,868	0.10	0.10	0.12	0.14	–1.2	–3.2	10.9	13.6
Contingent exposures and commitments (net)	1,792	1,844	1,750	1,676	0.06	0.06	0.06	0.06	2.4	2.9	–5.1	–4.2
Exchange of foreign currencies and banknotes (revenue)	56	61	58	57	0.00	0.00	0.00	0.00	9.9	10.1	–4.9	–2.1
Other fees and commissions (net)	563	414	167	296	0.02	0.01	0.01	0.01	–24.3	–26.5	–59.7	77.5
Income on financial assets and liabilities (net)	3,247	3,359	10,409	8,788	0.11	0.11	0.36	0.33	–26.2	3.4	209.9	–15.6
Held for trading	2,016	1,129	1,528	737	0.07	0.04	0.05	0.03	94.6	–44.0	35.3	–51.8
Other financial instruments at fair value	–11	70	162	112	0.00	0.00	0.01	0.00			131.9	–30.8
Other income on financial assets and liabilities	1,242	2,160	8,719	7,939	0.04	0.07	0.30	0.30	–62.4	73.8	303.7	–8.9
Exchange differences (net)	–104	–632	704	–99	0.00	–0.02	0.02	0.00	—	505.8	—	—
Other operating income (net)	–200	–2,071	–1,734	–1,405	–0.01	–0.07	–0.06	–0.05	—	933.1	–16.2	–19.0
GROSS INCOME (GI)	57,983	60,621	56,083	56,462	1.88	1.92	1.93	2.11	–10.5	4.5	–7.5	0.7
Administrative expenses	–26,926	–25,796	–24,941	–24,546	–0.87	–0.82	–0.86	–0.92	–2.4	–4.2	–3.3	–1.6
Personnel expenses	–17,264	–16,182	–15,341	–14,624	–0.56	–0.51	–0.53	–0.55	–3.6	–6.3	–5.2	–4.7
Other general expenses	–9,662	–9,614	–9,600	–9,922	–0.31	–0.31	–0.33	–0.37	–0.3	–0.5	–0.1	3.4
Amortisation	–2,105	–2,087	–2,217	–2,030	–0.07	–0.07	–0.08	–0.08	–6.7	–0.8	6.2	–8.5
Provisioning expenses (net)	–1,794	–7,174	–2,063	–1,870	–0.06	–0.23	–0.07	–0.07	–54.7	299.8	–71.2	–9.3
Impairment losses on financial assets (net)	–23,409	–84,837	–21,939	–14,780	–0.76	–2.69	–0.76	–0.55	32.2	262.4	–74.1	–32.6
Loans and receivables	–22,291	–77,138	–21,436	–14,447	–0.72	–2.45	–0.74	–0.54	33.4	246.0	–72.2	–32.6
Other financial instruments not measured at fair value	–1,118	–7,699	–503	–334	–0.04	–0.24	–0.02	–0.01	12.1	588.7	–93.5	–33.7
NET OPERATING PROFIT (NOP)	3,749	–59,273	4,923	13,236	0.12	–1.88	0.17	0.49	–71.7	—	—	168.9
Impairment losses on other assets (net)	–16,882	–25,737	–4,317	–1,364	–0.55	–0.82	–0.15	–0.05	250.3	52.4	–83.2	–68.4
Goodwill and other intangible assets	–46	–170	–60	–135	0.00	–0.01	0.00	–0.01	–34.8	265.1	–64.7	125.6
Other	–16,836	–25,567	–4,257	–1,229	–0.55	–0.81	–0.15	–0.05	254.6	51.9	–83.4	–71.1
Other income (net)	842	2,705	3,375	1,654	0.03	0.09	0.12	0.06	–56.2	221.2	24.8	–51.0
Other gains	1,844	3,848	3,519	2,783	0.06	0.12	0.12	0.10	–31.7	108.7	–8.6	–20.9
Other losses	–1,002	–2,077	–2,432	–1,129	–0.03	–0.07	–0.08	–0.04	28.8	107.3	17.1	–53.6
PROFIT BEFORE TAX (PBT)	–12,291	–82,305	3,982	13,526	–0.40	–2.61	0.14	0.50	—	569.6	—	239.7
Income tax	2,939	13,318	4,476	–1,809	0.10	0.42	0.15	–0.07	—	353.1	–66.4	—
Mandatory transfer to welfare funds (b)	–21	–14	–25	–42	0.00	0.00	0.00	0.00	–29.2	–34.8	80.9	68.0
PROFIT FOR THE PERIOD	–9,373	–69,001	8,433	11,675	–0.30	–2.19	0.29	0.44	—	636.1	—	38.4
MEMORANDUM ITEMS:												
Average total assets (ATA)	3,085,054	3,150,351	2,898,524	2,678,725	100.00	100.00	100.00	100.00	–1.0	2.1	–8.0	–7.6
Average own funds (c)	193,805	192,607	186,401	206,757	6.28	6.11	6.43	7.72	5.1	–0.6	–3.2	10.9
Net interest income due to the excess of EFAs over IBFLs (d)	522.0	547.0	1,333.0	1,297.0	0.02	0.02	0.05	0.05	–51.8	4.7	143.8	–2.7
Average return on earning financial assets (EFAs)					3.19	3.09	2.65	2.44				
Average cost of interest-bearing financial liabilities (IBFLs)					2.05	1.82	1.57	1.25				
Efficiency ratio (e)					50.07	46.00	48.43	47.07				
Return on average equity (ROE) (c)					–4.84	–35.82	4.52	5.65				
Provisioning for credit risk in the year:												
Specific allowances or provisions	–26,477	–88,451	–22,230	–12,302	–0.86	–2.81	–0.77	–0.46	16.2	234.1	–74.9	–44.7
General allowances or provisions	3,398	3,296	1,077	–145	0.11	0.10	0.04	–0.01	–41.1	–3.0	–67.3	
Net additions to country-risk allowances and provisions	12.0	29.0	–11.0	36.0	0.00	0.00	0.00	0.00	–46.8	136.6		

SOURCE: Banco de España. Data available at 16 April 2015.

a SLIs (called SCIs in 2011, 2012 and 2013) not included in any year (see methodological note in Annex 4).
b Only savings banks and credit cooperatives.
c Includes own funds for accounting purposes excluding retained earnings; also included are declared dividends and remuneration, and valuation adjustments arising from exchange differences.
d Calculated on the basis of the average return of EFAs on the positive difference between EFAs and IBFLs. For consistency with the definition of net interest income, the calculation of EFAs excludes the return on equity instruments.
e The efficiency ratio is defined as administrative expenses and amortisation divided by gross income.

MAIN INCOME AND PROFIT ITEMS OF THE INCOME STATEMENT FOR CREDIT INSITUTIONS WITH DFA (a) TABLE A.4.8

Data of institutions active at some time during 2014

€m and %

	Amount				% of ATA				% annual Δ			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
NET INTEREST INCOME (NII):												
Total credit institutions with DFA	30,830	34,166	27,482	27,663	1.00	1.08	0.95	1.03	–12.5	10.8	–19.6	0.7
Largest commercial banks and savings banks	19,470	20,777	15,811	16,430	0.98	1.03	0.85	0.95	–13.4	6.7	–23.9	3.9
Other commercial banks and savings banks	9,536	11,077	9,480	9,140	0.97	1.11	1.05	1.12	–12.2	16.2	–14.4	–3.6
Credit cooperatives	1,824	2,311	2,191	2,092	1.48	1.73	1.60	1.55	–3.3	26.7	–5.2	–4.5
GROSS INCOME (GI):												
Total credit institutions with DFA	57,983	60,621	56,083	56,462	1.88	1.92	1.93	2.11	–10.5	4.6	–7.5	0.7
Largest commercial banks and savings banks	39,491	41,367	34,909	36,675	1.99	2.05	1.87	2.12	–10.4	4.8	–15.6	5.1
Other commercial banks and savings banks	15,812	16,101	17,885	16,209	1.62	1.61	1.99	1.99	–12.3	1.8	11.1	–9.4
Credit cooperatives	2,680	3,154	3,289	3,578	2.18	2.37	2.41	2.65	0.6	17.7	4.3	8.8
NET OPERATING PROFIT (NOP):												
Total credit institutions with DFA	3,749	–59,273	4,923	13,236	0.12	–1.88	0.17	0.49	–71.7	—	—	169
Largest commercial banks and savings banks	2,482	–27,281	2,937	8,870	0.13	–1.35	0.16	0.51	–79.0	—	—	202
Other commercial banks and savings banks	785	–29,911	1,192	3,737	0.08	–3.00	0.13	0.46	–20.0	—	—	214
Credit cooperatives	482	–2,081	795	630	0.39	–1.56	0.58	0.47	9.2	—	—	–21
PROFIT BEFORE TAX (PBT):												
Total credit institutions with DFA	–12,291	–82,305	3,982	13,526	–0.40	–2.61	0.14	0.50	—	569.6	—	240
Largest commercial banks and savings banks	–4,593	–31,176	2,375	6,175	–0.23	–1.54	0.13	0.36	—	578.8	—	160
Other commercial banks and savings banks	–7,936	–48,436	1,226	6,821	–0.81	–4.86	0.14	0.84	5,600.8	510.3	—	456
Credit cooperatives	238	–2,693	381	530	0.19	–2.02	0.28	0.39	–29.4	—	—	39.2
PROFIT FOR THE PERIOD:												
Total credit institutions with DFA	–9,373	–69,001	8,433	11,675	–0.30	–2.19	0.29	0.44	—	636.1	—	38.4
Largest commercial banks and savings banks	–1,096	–24,266	3,926	5,575	–0.06	–1.20	0.21	0.32	—	2114	—	42
Other commercial banks and savings banks	–8,532	–42,807	4,155	5,647	–0.87	–4.29	0.46	0.69	—	402	—	35.9
Credit cooperatives	255	–1,927	352	453	0.21	–1.45	0.26	0.33	–18.1	—	—	28.8
MEMORANDUM ITEMS:												
AVERAGE TOTAL ASSETS (ATA):												
Total credit institutions with DFA	3,085,054	3,150,351	2,898,524	2,678,725	100.0	100.0	100.0	100.0	–1.0	2.1	–8.0	–7.6
Largest commercial banks and savings banks	1,983,410	2,020,032	1,861,996	1,730,605	64.29	64.12	64.24	64.61	–2.3	1.8	–7.8	–7.1
Other commercial banks and savings banks	978,842	997,057	899,808	812,896	31.73	31.65	31.04	30.35	1.5	1.9	–9.8	–9.7
Credit cooperatives	122,802	133,262	136,720	135,225	3.98	4.23	4.72	5.05	1.4	8.5	2.6	–1.1

SOURCE: Banco de España. Data available at 16 April 2015.

a SLIs (called SCIs in 2011, 2012 and 2013) not included in any year (see methodological note in Annex 4).

ACTIVITY OF CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (a)

TABLE A.4.9

Data of existing groups at each year-end

€m and %

	2011	2012	2013	2014	Memorandum item: 2014					
					Structure		% annual Δ	Of which: business in Spain		
					%	Change in pp		%	Change in pp	% annual Δ
BALANCE SHEET TOTAL	**3,891,922**	**3,867,253**	**3,472,362**	**3,578,959**	**100.0**	**0.0**	**3.1**	**66.6**	**–2.9**	**–1.2**
ASSETS	3,891,922	3,867,253	3,472,362	3,578,959	100.0	0.0	3.1	66.6	–2.9	–1.2
Cash and central banks	154,181	183,045	141,020	119,488	3.3	–0.8	–15.3	21.4	–6.6	–35.2
Loans and advances to credit institutions	196,153	237,032	183,756	170,916	4.8	–0.5	–7.0	85.4	5.3	–0.9
Loans and advances to other debtors	2,384,727	2,180,172	2,002,436	2,039,393	57.0	–0.7	1.8	63.5	–3.4	–3.3
Debt securities	496,472	574,350	562,006	619,941	17.3	1.1	10.3	74.0	–5.1	3.2
Investments	50,210	47,692	41,111	37,976	1.1	–0.1	–7.6	89.5	–2.0	–9.6
Tangible assets	48,398	43,673	45,298	49,619	1.4	0.1	9.5	66.4	–10.1	–4.9
Other assets	561,781	601,289	496,734	541,627	15.1	0.8	9.0	72.5	–2.4	5.5
Of which: consolidated goodwill	*33,204*	*32,363*	*30,554*	*34,654*	*1.0*	*0.1*	*13.4*	*3.5*	*0.2*	*21.3*
LIABILITIES AND EQUITY	3,668,889	3,652,141	3,240,057	3,322,226	92.8	–0.5	2.5	68.9	–3.3	–2.1
Central banks	207,434	381,181	215,501	187,253	5.2	–1.0	–13.1	86.4	–3.3	–16.3
Deposits from credit institutions	469,863	424,240	383,612	383,437	10.7	–0.3	0.0	76.3	–4.7	–5.9
Deposits from other creditors	1,878,237	1,829,978	1,838,610	1,916,504	53.5	0.6	4.2	66.1	–2.3	0.8
Debt certificates including bonds	541,463	508,077	412,892	395,199	11.0	–0.9	–4.3	63.9	–6.6	–13.2
Subordinated liabilities	94,510	65,638	45,388	46,725	1.3	0.0	2.9	69.1	–0.8	1.9
Tax liabilities	17,419	18,909	15,661	20,202	0.6	0.1	29.0	50.5	–0.2	28.4
Other liabilities	427,310	388,013	292,632	336,904	9.4	1.0	15.1	33.4	5.5	37.6
Provisions	32,653	36,105	35,760	36,002	1.0	0.0	0.7	77.5	–1.0	–0.7
EQUITY	223,033	215,112	232,305	256,733	7.2	0.5	10.5	88.5	–3.1	6.8
Minority interest	22,638	18,141	26,838	26,563	0.7	–0.1	–1.0	61.2	3.4	4.9
Valuation adjustments	–11,374	–11,800	–16,785	–6,315	–0.2	0.3	–62.4	–111.4	–109.2	1788.4
Own funds	211,769	208,770	222,251	236,485	6.6	0.2	6.4	86.2	–2.4	3.5
Of which: Capital and reserves (including share premium)	*207,098*	*249,770*	*211,081*	*219,459*	*6.1*	*0.0*	*4.0*	*90.8*	*–2.0*	*1.7*
MEMORANDUM ITEMS:										
Interest-bearing financial liabilities	3,302,612	3,240,746	2,943,703	2,971,342	83.0	–1.8	0.9	68.9	–3.4	–3.9
Off-balance-sheet customer funds	685,451	718,788	683,738	18,544	0.5	–19.2	–97.3	...	...	...
Of which: managed by the group	*434,631*	*424,254*	*348,575*	*7,038*	*0.2*	*–9.8*	*–98.0*	*100.0*	*22.2*	...
Unadjusted securities portfolio	585,940	659,289	643,025	703,281	19.7	1.2	9.4	75.1	–5.5	1.9
Of which: equity portfolio	*90,180*	*85,599*	*81,242*	*84,390*	*2.4*	*0.1*	*3.9*	*83.6*	*–7.0*	*–4.1*
Investments in the group	12,119	13,137	16,160	14,625	0.4	–0.1	–9.5	86.8	–2.3	–11.9
Other investments	33,404	33,503	26,134	21,159	0.6	–0.2	–19.0	93.8	–2.2	–20.9
Other equity securities	44,657	38,959	38,948	48,606	1.4	0.3	24.8	78.2	–9.3	11.4

SOURCE: Banco de España. Data available at 16 April 2015.

a The data refer to CGs which include the individual CIs that do not belong to any consolidated group.

LOCAL BUSINESS ABROAD OF CONSOLIDATED GROUPS (a)

TABLE A.4.10

Data of existing groups at each year-end

€m and %

	2011	2012	2013	2014	Memorandum item: 2014		
					Structure		% annual Δ
					%	Change in pp	
CONSOLIDATED BALANCE SHEET ABROAD	**1,072,889**	**1,097,263**	**1,057,541**	**1,194,259**	**33.4**	**2.9**	**12.9**
LOCAL BUSINESS:							
Financial assets	933,587	952,992	915,515	1,031,839	28.8	2.4	12.7
European Union	431,927	435,283	409,005	437,836	12.2	0.4	7.0
Latin America	334,791	353,138	339,722	382,030	10.7	0.9	12.5
Other	166,869	164,572	166,788	211,973	5.9	1.1	27.1
Financial liabilities	779,402	796,370	764,113	863,240	24.1	2.1	13.0
European Union	362,507	373,231	350,411	383,493	10.7	0.6	9.4
Latin America	275,104	288,003	282,056	302,562	8.5	0.4	7.3
Other	141,791	135,136	131,646	177,185	5.0	1.2	34.6
MEMORANDUM ITEMS:							
Funds managed (net asset value)	195,901	193,230	77,333	n.d	n.d	n.d	n.d
European Union	24,846	17,365	12,743	n.d	n.d	n.d	n.d
Latin America	168,759	174,228	63,837	n.d	n.d	n.d	n.d
Other	2,297	1,637	752	n.d	n.d	n.d	n.d
CIs abroad (number)	174	166	162	149			
Subsidiaries	119	110	109	97			
European Union	53	50	50	46			
Latin America	28	26	27	24			
Other	38	34	32	27			
Branches	55	56	53	52			
European Union	37	36	36	34			
Latin America	—	—	—	—			
Other	18	20	17	18			

SOURCE: Banco de España. Data available at 16 April 2015.

a The data refer to CGs which include the individual CIs that do not belong to any consolidated group.

BREAKDOWN OF THE INCOME STATEMENT FOR CONSOLIDATED GROUPS (a)

TABLE A.4.11

Data of groups existing at some during 2014

€m and %

	Amount				% of ATA				% annual Δ			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Financial income	145,923	146,223	123,448	117,718	3.75	3.61	3.28	3.32	13.5	0.2	–15.6	–4.6
Financial cost	–79,300	–73,871	–59,989	–51,258	–2.04	–1.83	–1.59	–1.45	31.3	–6.8	–18.8	–14.6
NET INTEREST INCOME (NII)	66,623	72,352	63,459	66,460	1.71	1.79	1.69	1.88	–2.2	8.6	–12.3	4.7
Equity instruments	6,077	4,995	5,709	5,071	0.16	0.12	0.15	0.14	–9.3	–17.8	14.3	–11.2
Return on equity instruments	2,460	1,897	1,342	1,770	0.06	0.05	0.04	0.05	–20.8	–22.9	–29.2	31.9
Share of profit of entities accounted for using the equity method	3,616	3,098	4,366	3,300	0.09	0.08	0.12	0.09	0.6	–14.3	40.9	–24.4
Associate entities	1,664	1,246	1,340	910	0.04	0.03	0.04	0.03	5.2	–25.1	7.5	–32.0
Jointly controlled entities	502	567	529	518	0.01	0.01	0.01	0.01	10.8	12.9	–6.7	–2.0
Group entities	1,450	1,285	2,498	1,872	0.04	0.03	0.07	0.05	–6.9	–11.4	94.4	–25.1
Non-interest income	30,048	29,447	34,100	32,090	0.77	0.73	0.91	0.91	–5.1	–2.0	15.8	–5.9
Fees and commissions (net)	24,665	24,851	23,674	23,677	0.63	0.61	0.63	0.67	4.4	0.8	–4.7	0.0
Collection and payment service (revenue)	11,326	12,201	12,144	11,640	0.29	0.30	0.32	0.33	6.8	7.7	–0.5	–4.1
Securities service (revenue)	2,600	2,466	2,434	2,722	0.07	0.06	0.06	0.08	6.3	–5.2	–1.3	11.8
Marketing of non-banking products (revenue)	7,669	7,676	7,469	7,780	0.20	0.19	0.20	0.22	5.5	0.1	–2.7	4.2
Contingent exposures and commitments (revenue)	2,141	2,197	2,138	2,121	0.05	0.05	0.06	0.06	3.8	2.6	–2.7	–0.8
Exchange of foreign currencies and banknotes (revenue)	328	313	323	340	0.01	0.01	0.01	0.01	35.6	–4.4	3.1	5.2
Other fees and commissions (net)	600	–2	–835	–926	0.02	0.00	–0.02	–0.03	–39.9	—	48,482.7	10.9
Income on financial assets (net)	6,209	7,415	12,243	11,419	0.16	0.18	0.33	0.32	–11.8	19.4	65.1	–6.7
Held for trading	3,451	2,436	2,627	2,082	0.09	0.06	0.07	0.06	24.0	–29.4	7.9	–20.8
Other financial instruments at fair value	36	323	140	266	0.00	0.01	0.00	0.01	–69.1	792.1	–56.7	90.5
Other income on financial assets and liabilities	2,721	4,657	9,476	9,071	0.07	0.12	0.25	0.26	–34.3	71.1	103.5	–4.3
Exchange differences (net)	252	423	1,372	55	0.01	0.01	0.04	0.00	–81.1	67.7	224.7	–96.0
Other operating income (net)	–1,077	–3,242	–3,189	–3,062	–0.03	–0.08	–0.08	–0.09	237.8	200.9	–1.6	–4.0
GROSS INCOME (GI)	102,748	106,794	103,268	103,620	2.64	2.64	2.74	2.93	–3.6	3.9	–3.3	0.3
Administrative expenses	–47,867	–48,151	–46,855	–45,791	–1.23	–1.19	–1.24	–1.29	5.3	0.6	–2.7	–2.3
Personnel expenses	–29,728	–29,557	–28,752	–27,355	–0.76	–0.73	–0.76	–0.77	5.0	–0.6	–2.7	–4.9
Other general expenses	–18,139	–18,594	–18,103	–18,436	–0.47	–0.46	–0.48	–0.52	5.7	2.5	–2.6	1.8
Amortisation	–4,894	–5,080	–5,333	–5,109	–0.13	–0.13	–0.14	–0.14	1.6	3.8	5.0	–4.2
Provisioning expenses (net)	–4,182	–9,050	–4,974	–5,316	–0.11	–0.22	–0.13	–0.15	–11.6	116.4	–45.0	6.9
Impairment losses on financial assets (net)	–33,272	–91,915	–34,175	–26,988	–0.85	–2.27	–0.91	–0.76	20.3	176.3	–62.8	–21.0
Loans and receivables	–30,906	–87,972	–33,136	–26,518	–0.79	–2.17	–0.88	–0.75	16.7	184.6	–62.3	–20.0
Other financial instruments not measured at fair value	–2,366	–3,943	–1,039	–470	–0.06	–0.10	–0.03	–0.01	101.1	66.7	–73.6	–54.8
NET OPERATING PROFIT (NOP)	12,533	–47,402	11,931	20,417	0.32	–1.17	0.32	0.58	–47.5	—	—	71.1
Impairment losses on other assets (net)	–15,453	–20,204	–6,278	–4,248	–0.40	–0.50	–0.17	–0.12	200.1	30.7	–68.9	–32.3
Goodwill and other intangible assets	–2,765	–1,028	–159	–735	–0.07	–0.03	0.00	–0.02	838.7	–62.8	–84.6	363.8
Other	–12,687	–19,176	–6,119	–3,513	–0.33	–0.47	–0.16	–0.10	161.4	51.1	–68.1	–42.6
Other income (net)	3,664	–416	6,002	7,522	0.09	–0.01	0.16	0.21	21.3	—	—	25.3
Other gains	5,186	4,808	10,597	9,727	0.13	0.12	0.28	0.27	26.3	–7.3	120.4	–8.2
Other losses	–1,522	–5,224	–4,595	–2,205	–0.04	–0.13	–0.12	–0.06	40.1	243.2	–12.0	–52.0
PROFIT BEFORE TAX (PBT)	744	–68,022	11,655	23,690	0.02	–1.68	0.31	0.67	–96.6	—	—	103.3
Income tax	1,026	10,915	1,492	–5,050	0.03	0.27	0.04	–0.14	—	963.9	–86.3	—
Mandatory transfer to welfare funds	–20	–18	–25	–42	0.00	0.00	0.00	0.00	–37.2	–9.7	41.5	68.0
CONSOLIDATED PROFIT FOR THE PERIOD	1,750	–57,124	13,121	18,598	0.04	–1.41	0.35	0.53	–90.3	—	—	41.7
Attributed to the parent	1,691	–47,983	10,809	16,540	0.04	–1.19	0.29	0.47	–89.4	—	—	53.0
Attributed to minority interests	60	–9,141	2,312	2,058	0.00	–0.23	0.06	0.06	–97.0	—	—	–11.0
MEMORANDUM ITEMS:												
Average total assets (ATA)	3,896,094	4,045,973	3,765,036	3,540,449	100.00	100.00	100.00	100.00	0.1	3.8	–6.9	–6.0
Average own funds of the group (b)	216,215	214,034	222,958	218,320	5.55	5.29	5.92	6.17	–1.4	–1.0	4.2	–2.1
Net interest income due to the excess of EFAs over IBFLs (c)	2,750	4,322	4,160	4,046	0.07	0.11	0.11	0.11	12.1	57.2	–3.8	–2.7
Average return on earning financial assets (EFAs)					4.25	4.27	3.97	3.81				
Average cost of interest-bearing financial liabilities (IBFLs)					2.35	2.21	1.99	1.71				
Efficiency ratio (d)					51.35	49.84	50.54	49.12				
Return on average equity of the group (ROE) (e)					0.78	–22.42	4.85	7.58				

SOURCE: Banco de España. Data available at 16 April 2015.

a The data refer to CGs which include individual CIs with DFA not belonging to any CG.
b Includes own funds for accounting purposes excluding retained earnings; also included are declared dividends and remuneration, and valuation adjustments arising from exchange differences.
c Calculated on the basis of the return of EFAs on the positive difference between EFAs and IBFLs. For consistency with the definition of net interest income, the calculation of EFAs excludes the return on equity instruments.
d The efficiency ratio is defined as administrative expenses and amortisation divided by gross income.
e Calculated on the basis of the consolidated profit for the period attributed to the parent on the average own funds of the group.

MAIN INCOME AND PROFIT ITEMS OF THE INCOME STATEMENT FOR CONSOLIDATED GROUPS (a)

TABLE A.4.12

Data of consolidated groups existing at some during 2014

€m and %

	Amount				% of ATA				% annual Δ			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
NET INTEREST INCOME (NII):												
Total consolidated groups	66,623	72,352	63,459	66,460	1.71	1.79	1.69	1.88	–2.3	8.6	–12.3	4.7
Largest CGs	54,167	58,440	52,029	55,531	1.93	1.99	1.86	2.06	–1.6	7.9	–11.0	6.7
Other CGs	12,456	13,912	11,430	10,929	1.14	1.25	1.18	1.29	–5.1	11.7	–17.8	–4.4
GROSS INCOME (GI):												
Total consolidated groups	102,748	106,794	103,268	103,620	2.64	2.64	2.74	2.93	–3.6	3.9	–3.3	0.3
Largest CGs	83,106	87,941	82,843	83,884	2.96	3.00	2.96	3.11	–2.8	5.8	–5.8	1.3
Other CGs	19,642	18,853	20,424	19,737	1.80	1.70	2.11	2.33	–6.7	–4.0	8.3	–3.4
NET OPERATING PROFIT (NOP):												
Total consolidated groups	12,533	–47,402	11,931	20,417	0.32	–1.17	0.32	0.58	–47.5	—	—	71.1
Largest CGs	11,135	–19,915	11,936	16,310	0.40	–0.68	0.43	0.61	–50.9	—	—	36.7
Other CGs	1,398	–27,487	–5	4,107	0.13	–2.48	0.00	0.49	19.8	—	–100.0	—
PROFIT BEFORE TAX (PBT):												
Total consolidated groups	744	–68,022	11,655	23,690	0.02	–1.68	0.31	0.67	–96.6	—	—	103.3
Largest CGs	2,866	–29,925	12,779	16,686	0.10	–1.02	0.46	0.62	–86.8	—	—	30.6
Other CGs	–2,122	–38,097	–1,124	7,004	–0.19	–3.43	–0.12	0.83	4,366.1	1,695.7	–97.1	—
CONSOLIDATED PROFIT FOR THE PERIOD:												
Total consolidated groups	1,750	–57,124	13,121	18,598	0.04	–1.41	0.35	0.53	–90.3	—	—	41.7
Largest CGs	2,881	–23,906	12,163	11,845	0.10	–0.81	0.44	0.44	–83.8	—	—	–2.6
Other CGs	–1,130	–33,218	958	6,753	–0.10	–2.99	0.10	0.80	—	2,839.1	—	604.9
MEMORANDUM ITEMS:												
AVERAGE TOTAL ASSETS (ATA):												
Total consolidated groups	3,896,094	4,045,973	3,765,036	3,540,449	100.0	100.0	100.0	100.0	0.1	3.9	–6.9	–6.0
Largest CGs	2,803,952	2,935,655	2,795,279	2,693,754	71.97	72.56	74.24	76.09	–1.1	4.7	–4.8	–3.6
Other CGs	1,092,141	1,110,318	969,757	846,695	28.03	27.44	25.76	23.91	3.4	1.7	–12.7	–12.7

SOURCE: Banco de España. Data available at 16 April 2015.

a The data refer to CGs which include individual CIs with DFA not belonging to any CG.

SOLVENCY OF CONSOLIDATED GROUPS: OWN FUNDS (a)

TABLE A.4.13

Data of groups existing at year-end

€m and %

	2014	
	Amount	Structure %
OWN FUNDS	225,757	100.0
Tier 1 capital	196,517	87.0
Common equity tier 1 capital	196,381	87.0
Eligible capital instruments and share premium	143,604	63.6
Reserves and similar items	75,804	33.6
Of which: Eligible profit or loss	*11,673*	*5.2*
Minority interests	15,450	6.8
Deductions	–70,827	–31.4
Transitional adjustments, transfer of excess of deduction and other	32,350	14.3
Additional tier 1 capital	136	0.1
Eligible capital instruments	10,177	4.5
Deductions	–113	–0.1
Transitional adjustments, transfer of excess of deduction and other	–9,927	–4.4
Tier 2 capital	29,240	13.0
Eligible capital instruments and subordinated loans	18,183	8.1
Eligible provisions (b)	8,277	3.7
Deductions	–15	0.0
Transitional adjustments, transfer of excess of deduction and other	2,795	1.2
SURPLUS/DEFICIT OF TOTAL CAPITAL	92,997	—
Total capital ratio (%)	13.6	—
SURPLUS/DEFICIT OF TIER 1 CAPITAL	96,947	—
Tier 1 capital ratio (%)	11.8	—
SURPLUS/DEFICIT OF COMMON EQUITY TIER 1 CAPITAL	121,703	—
Common equity tier 1 capital ratio (%)	11.8	—

SOURCE: Banco de España. Data available at 25 May 2015.

a The data refer to CGs which include individual CIs not belonging to any CG. Data and items in this table, unless otherwise stated, correspond to items of forms C 01.00 - OWN FUNDS (CA1) and C 03.00 - CAPITAL RATIOS AND CAPITAL LEVELS (CA3) of Commission Implementing Regulation (UE) No 680/2014. The changes in solvency regulations in 2014 resulting from the entry into force of Directive 2013/36/EU, Regulation (EU) No 575/2014 and the new supervisory reporting forms mean that the figures for 2014 are not comparable with those for previous years, so only the 2014 figures are shown.

b Comprising the amounts eligible as own funds of: (i) excess of provisions over expected losses under the IRB approach and (ii) general credit risk adjustments under the standardised approach.

SOLVENCY OF CONSOLIDATED GROUPS: REQUIREMENTS (a)

TABLE A.4.14

Data of groups existing at year-end

€m and %

	2014		
	Amount	Structure %	Average RW (b)
CAPITAL REQUIREMENTS	132,760	100.0	—
Credit, counterparty credit and dilution risks and free deliveries (c)	113,699	85.6	42.2
Standardised approach (SA) (excluding securitisation positions)	66,903	50.4	45.2
Central governments or central banks and similar categories (d)	5,087	3.8	9.8
Institutions	2,009	1.5	26.1
Corporates	17,084	12.9	94.2
Retail	12,788	9.6	70.4
Secured by by real estate	11,477	8.6	38.8
Exposures in default	5,700	4.3	107.1
Items associated with particular high risk	267	0.2	141.3
Other	12,492	9.4	73.7
Internal ratings-based (IRB) approach (excluding securitisation positions) (e)	45,590	34.3	38.1
Of which: Advanced IRB	*33,511*	*25.2*	*32.0*
Central governments and central banks	103	0.1	14.1
Institutions	2,745	2.1	18.1
Corporates	21,644	16.3	58.0
Of which: SMEs	*4,859*	*3.7*	*50.5*
Retail	13,058	9.8	22.7
Of which: SMEs	*1,888*	*1.4*	*30.3*
Of which: Secured by real estate, non-SME	*8,005*	*6.0*	*17.8*
Equity (f)	7,033	5.3	233.3
Other non credit-obligation assets	1,008	0.8	—
Risk exposure amount for contributions to the default fund of a central counterparty	69.3	0.1	—
Securitisation positions (g)	1,137	0.9	54.4
Standardised approach	869	0.7	59.5
IRB approach	268	0.2	43.6
Position, foreign exchange and commodities risk	5,255	4.0	—
Standardised approach	3,494	2.6	—
Of which: traded debt instruments	*1,488*	*1.1*	—
Of which: foreign exchange	*1,858*	*1.4*	—
Internal models	1,761	1.3	—
Operational risk	12,707	9.6	—
Basic indicator approach	2,022	1.5	—
Standardised and alternative standardised approaches	9,397	7.1	—
Advanced measurement approaches	1,288	1.0	—
Risk exposure amount for credit valuation adjustment (CVA)	671	0.5	25.0
Other risks	427	0.3	—

SOURCE: Banco de España. Data available at 25 May 2015.

a The data refer to CGs which include individual CIs not belonging to any CG. Data and items in this table, unless otherwise stated, correspond to items of form C 02.00 - OWN FUNDS REQUIREMENTS (CA2) of Commission Implementing Regulation (UE) No 680/2014. The changes in solvency regulations in 2014 resulting from the entry into force of Directive 2013/36/EU, Regulation (EU) No 575/2014 and the new supervisory reporting forms mean that the figures for 2014 are not comparable with those for previous years, so only the 2014 figures are shown.

b RW is the abbreviation of risk weight. Unless otherwise stated, the average risk weights in this table are calculated as the risk-weighted exposures divided by the exposure amounts reported in the related returns.

c The average risk weight for this row is calculated excluding the component "Risk exposure amount for contributions to the default fund of a central counterparty", for which no figure is available. Footnotes (e) and (f) also apply here.

d Comprising the exposure classes "Central governments or central banks", "Regional governments or local authorities", "Administrative bodies and non-commercial undertakings", "Multilateral Development Banks" and "International Organisations".

e The average risk weight for this row is calculated excluding the component "Other non credit-obligation assets", the exposure amount of which is not available. Footnote (f) also applies here.

f The average risk weight for this row is calculated excluding the component "Equity exposures subject to risk weights", the exposure value of which is not available. Since the component "Internal models approach" lacks an exposure value in the strict sense, the original exposure amount before applying the conversion factors was used.

g The average risk weight for securitisation positions is calculated after taking into account various adjustments to risk-weighted exposures (infringement of due diligence provisions; maturity mismatches) and after the impact of limits on risk-weighted exposures.

SOLVENCY OF NON-CONSOLIDATED MIXED GROUPS (MGs) OF FINANCIAL INSTITUTIONS AND FINANCIAL CONGLOMERATES (FCs) SUBJECT TO SUPERVISION BY THE BANCO DE ESPAÑA (a)

TABLE A.4.15

Data of existing MGs and FCs at year-end

€m and %

	Amount				Structure %				% annual Δ			
	2011	2012	2013	2014	2011	2012	2013	2014	2011	2012	2013	2014
Effective own funds	227,551	186,512	193,902	199,936	100.0	100.0	100.0	100.0	–3.1	–18.0	4.0	3.1
Credit institutions or groups	220,413	180,577	189,541	198,046	96.9	96.8	97.8	99.1	–3.1	–18.1	5.0	4.5
Insurance undertakings or groups	9,448	11,154	10,319	8,313	4.2	6.0	5.3	4.2	2.1	18.1	–7.5	–19.4
Deductions	–2,310	–5,219	–5,957	–6,423	–1.0	–2.8	–3.1	–3.2	22.7	125.9	14.2	7.8
Capital requirements	149,846	132,974	119,911	122,824	100.0	100.0	100.0	100.0	–5.4	–11.3	–9.8	2.4
Credit institutions or groups	145,814	128,937	115,944	119,430	97.3	97.0	96.7	97.2	–5.6	–11.6	–10.1	3.0
Insurance undertakings or groups	4,756	4,832	4,359	4,469	3.2	3.6	3.6	3.6	5.3	1.6	–9.8	2.5
Deductions	–724	–795	–391	–1,075	–0.5	–0.6	–0.3	–0.9	35.6	9.8	–50.8	174.8
Surplus or deficit	77,705	53,538	73,991	77,112	—	—	—	—	1.8	–31.1	38.2	4.2
Surplus or deficit of CGs	74,599	51,639	73,597	78,616	—	—	—	—	2.3	–30.8	42.5	6.8

SOURCE: Banco de España. Data available at 16 April 2015.

a Data refer to mixed groups and financial conglomerates subject to compliance with the solvency ratio in Spain.

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1 The publications in this section distributed by the Banco de España [all of them, except those marked (*) and (**), which are distributed by Alianza Editorial and Macmillan (London)] have been removed from the catalogue.
2 Moreover, it is updated daily in the Statistics section.
3 A quarterly update of the tables of this publication is also disseminated on the Internet.
4 Available only on the Banco de España website until it is included in the publication *Circulares del Banco de España. Recopilación.*

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E-mail: publicaciones@bde.es
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