BANCO DE ESPAÑA
Eurosistema

PRESENTATION OF THE RESULTS OF THE ECB'S COMPREHENSIVE ASSESSMENT

Madrid, 26 October 2014

Fernando Restoy
Deputy Governor of the Banco de España

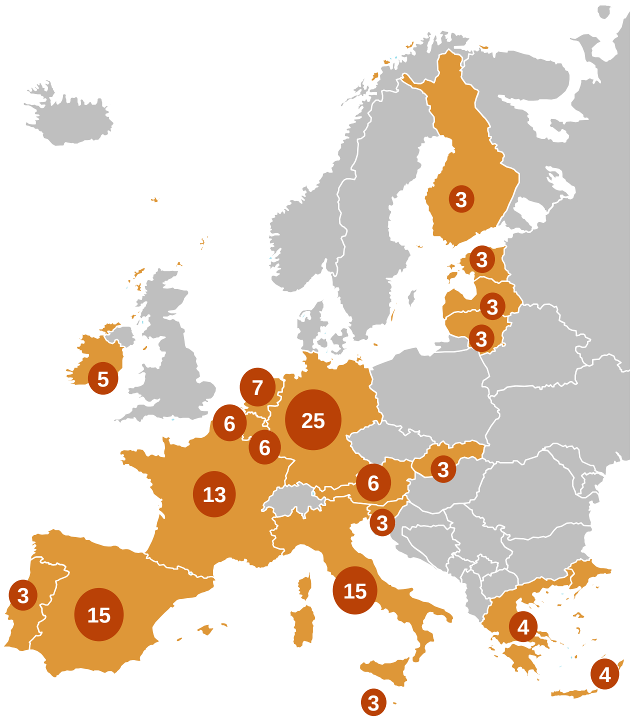
CONTENTS

DESCRIPTION OF THE EXERCISE

		Description	Measurement of the result	CET1% threshold
AQR	*Asset Quality Review*	Data quality review, asset valuation, classification of exposures (performing/non-performing), valuation of collateral and provisions	Impact on capital of incidents detected	8%
ST	*Stress Test*	Forward-looking analysis of the banks' loss-absorption capacity under two scenarios (baseline and adverse)	Projection of capital ratios in both scenarios from 2014 to 2016	Baseline 8% Adverse 5.5%

SCOPE OF THE EXERCISE (I): BANKS REVIEWED

Number of banks reviewed by country, detailing the 15 Spanish banks



Santander
BBVA
"la Caixa"
Bankia
Sabadell
BANCO POPULAR
CX CatalunyaCaixa
kutxabank
bankinter.
ABANCA
iberCaja
BMN
liberbank
cajamar
Unicaja

- 130 banks from 18 euro area countries + Lithuania were reviewed, which represents 81.6% of total risk-weighted assets in the euro area
- Spain is ranked second in terms of the number of banks included in the exercise (15), together with Italy
- Most of these banks will be supervised directly by the SSM from 4 November

SCOPE OF THE EXERCISE (II): MAIN CHARACTERISTICS

Coordination between authorities	• The exercise involved various European (ECB, EBA, ESRB), national (supervisors) and independent participants (advisors, auditors and appraisers) • The governing bodies of the ECB (Governing Council and Supervisory Board) led the exercise and two ad-hoc committees were set up (CASC and CAST) • The Project Management Offices at the ECB and at the various national supervisors coordinated implementation of the exercise
Broad coverage	• The exercise covered the entire balance sheet of the banks reviewed including their international business • The main risks - credit, market, counterparty and real estate - were analysed.
Consistent methodology	• The European authorities, mainly the EBA and the ECB, were responsible for defining common methodologies • Detailed templates were used for the exercise to ensure equal treatment
Thorough Quality Assurance	• Thorough quality assurance process implemented at three different levels: auditors, national supervisor and ECB • The Stress Test incorporated the results of the AQR

COMPREHENSIVE ASSESSMENT RESULTS - CAPITAL SHORTFALL (WORST-CASE SCENARIO AND WORST-CASE YEAR)

Capital shortfall by bank (€bn)		Gross shortfall	2014 capital increases	Net shortfall
GR	Eurobank	4.63	2.86	1.76
IT	Monte dei Paschi di Siena	4.25	2.14	2.11
GR	National Bank of Greece	3.43	2.50	0.93
IT	Banca Carige	1.83	1.02	0.81
CY	Cooperative Central Bank	1.17	1.50	0.00
PT	Banco Comercial Português	1.14	-0.01	1.15
CY	Bank of Cyprus	0.92	1.00	0.00
AT	Oesterreichischer Volksbanken-Verbund	0.86	0.00	0.86
IE	permanent tsb	0.85	0.00	0.85
IT	Veneto Banca	0.71	0.74	0.00
IT	Banco Popolare	0.69	1.76	0.00
IT	Banca Popolare di Milano	0.68	0.52	0.17
IT	Banca Popolare di Vicenza	0.68	0.46	0.22
GR	Piraeus Bank	0.66	1.00	0.00
IT	Credito Valtellinese	0.38	0.42	0.00
BE	Dexia	0.34	0.00	0.34
IT	Banca Popolare di Sondrio	0.32	0.34	0.00
CY	Hellenic Bank	0.28	0.10	0.18
DE	Münchener Hypothekenbank	0.23	0.41	0.00
BE	AXA Bank Europe	0.20	0.19	0.01
FR	CRH - Caisse Refinancement l'Habitat	0.13	0.25	0.00
IT	Banca Popolare dell'Emilia Romagna	0.13	0.76	0.00
SI	Nova Ljubljanska Banka	0.03	0.00	0.03
ES	Liberbank	0.03	0.64	0.00
SI	Nova KreditnaBanka Maribor	0.03	0.00	0.03

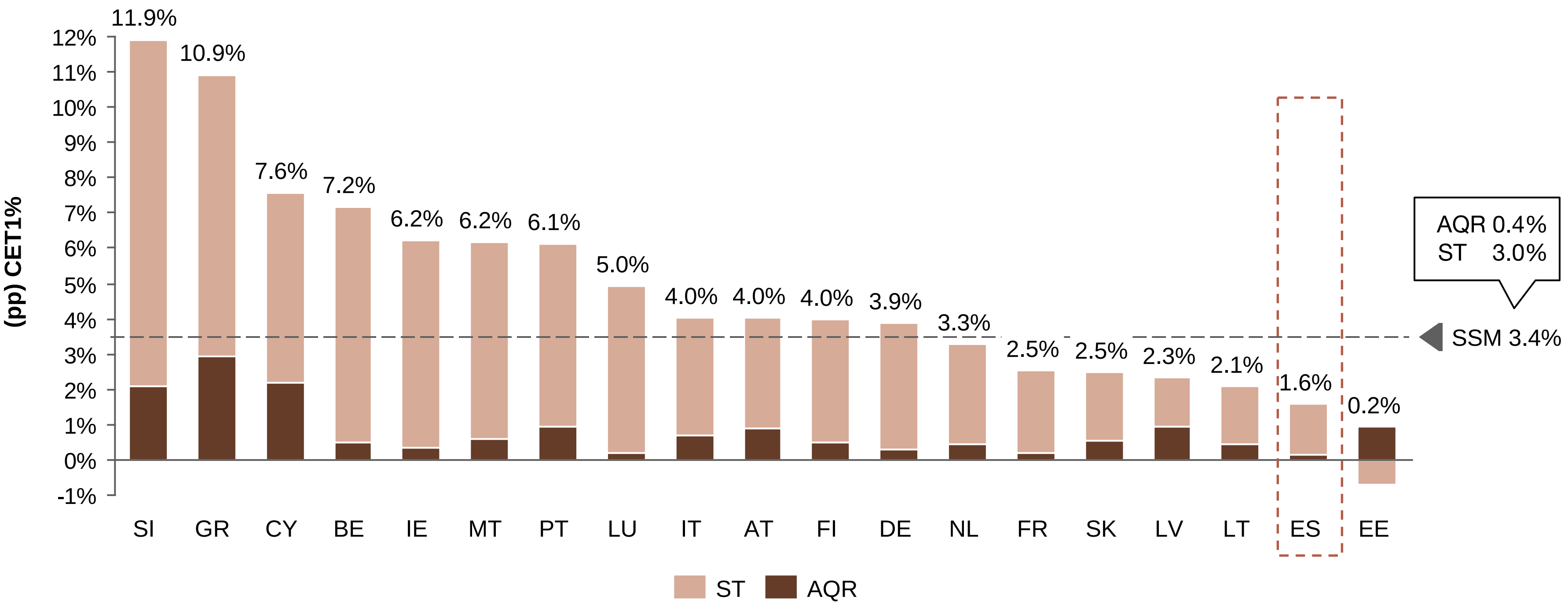
☐ Banks with net capital requirements

☐ Banks with gross capital requirements covered by capital measures in 2014

- The capital shortfall for the whole of Europe is approximately €24.6 billion (gross) and €9.5 billion (net)
- Out of the 130 banks, 25 have a gross capital shortfall in relation to one or more of the thresholds (AQR, baseline ST or adverse ST)
- Of these banks, 12 increased capital sufficiently during 2014 with the result that there are now 13 banks with a net capital shortfall
- In Spain only one bank has a small gross capital shortfall of €32 million, which is amply covered by capital measures in 2014 (€637 million)

RESULTS OF COMPREHENSIVE ASSESSMENT IMPACT ON CET1% (ADVERSE SCENARIO)

Net impact of adverse scenario on CET1% by country



The comprehensive assessment shows a small impact of 159 basis points (bp) in terms of CET1 for the Spanish banking system, arising mainly from the Stress Test (ST)

Note: The chart shows the impact in terms of average capital by country, calculated as the difference between the initial CET1 ratio and the CET1 ratio resulting from the worst–case year of the exercise, weighted by the risk-weighted assets for the worst-case year for each bank (adverse scenario)

RESULTS OF COMPREHENSIVE ASSESSMENT IMPACT ON CET1% (ADVERSE SCENARIO)

Net impact on capital (CET1%) in the adverse scenario

Breakdown by bank, in bp of CET1%

Bank	Original CET1%	Impact (bp)			Post-CA CET1%	Buffer/ shortfall relative to threshold of 5.5%
		AQR	ST	Total CA		
Santander	10.4%	-4	-140	-143	9.0%	345
BBVA	10.8%	-21	-158	-178	9.0%	347
La Caixa	10.3%	-4	-99	-103	9.3%	375
BFA/Bankia	10.7%	-8	-30	-39	10.3%	480
Banco Popular	10.6%	-57	-250	-307	7.6%	206
Sabadell	10.3%	0	-193	-193	8.3%	283
Kutxabank	12.1%	-8	-22	-30	11.8%	632
Unicaja-CEISS	11.1%	-21	-199	-220	8.9%	339
Ibercaja	10.0%	-2	-219	-221	7.8%	232
Bankinter	12.0%	-37	-87	-124	10.8%	530
Grupo Cajamar	11.0%	-105	-196	-301	8.0%	249
Abanca-NCG	10.3%	-7	-104	-111	9.1%	364
BMN	9.4%	-43	-93	-135	8.1%	259
Liberbank	8.7%	-83	-220	-304	5.6%	12
Catalunya Banc	12.3%	-10	-420	-430	8.0%	252
Spain	**10.6%**	**-14**	**-144**	**-159**	**9.0%**	**347**
SSM	**11.7%**	**-42**	**-297**	**-339**	**8.4%**	**286**

- The **overall impact** of the exercise is clearly **lower than the SSM average** for all banks, except one
- An analysis of each block shows:
  - AQR: 11 out of 15 banks have an impact below the SSM average
  - ST: 14 out of 15 banks have a lower impact
- The final margin over the benchmark threshold is very high (more than 2 pp for all banks, except for one)

Note 1: The table shows results of the worst –case year for each bank in the adverse scenario. The worst-case year is always 2016, expect for two banks for which it is 2015

Note 2: The results are prior to the capital measures taken in 2014, e.g. Liberbank does not include the capital increase or the conversion of hybrid debt instruments for an amount of €637 million, which account for 333 bp of its capital measured in terms of RWAs for the 2016 adverse scenario

ASSET QUALITY REVIEW (AQR) (I)

General framework of the exercise

Phase I
Portfolio selection
Sep 13-Jan 4

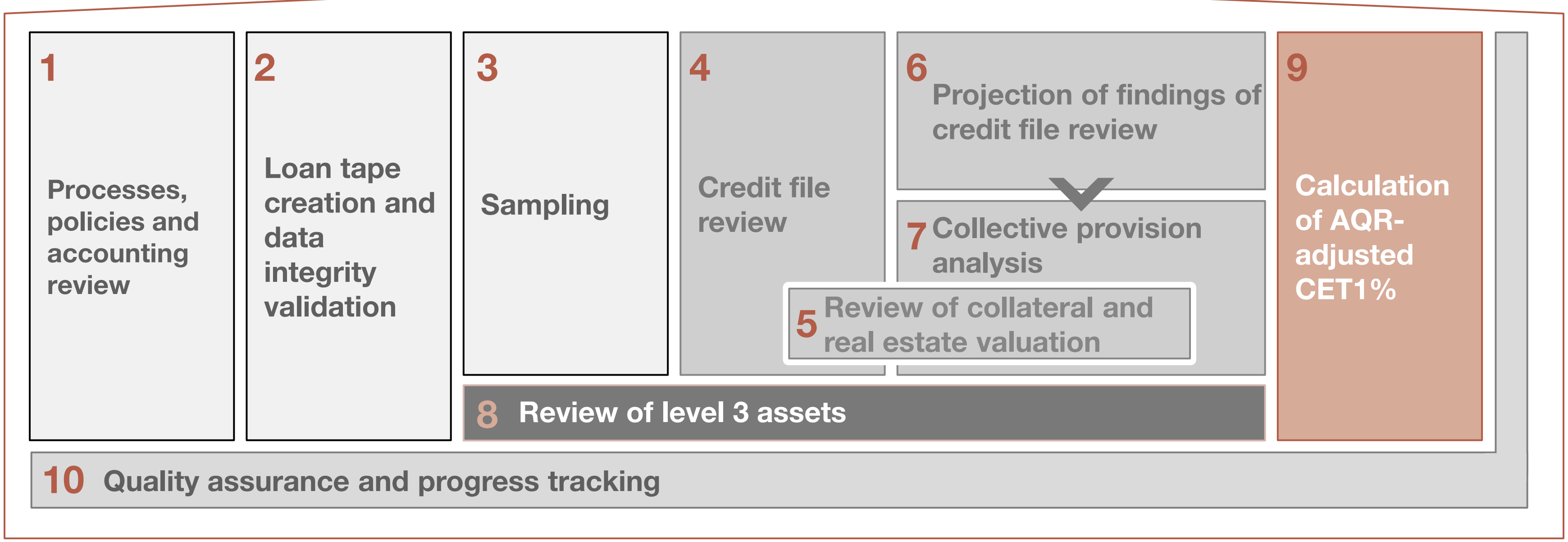
- Selection of portfolios with the highest level of risk/exposure
- Coordinated decision taking by ECB and BdE
- Micro (portfolio characteristics) and macro-financial criteria were used

Phase II
Execution of the AQR
Jan 14-Jul 14

- Execution of the review of the portfolios selected in Phase I
- Divided into 9 workblocks
- Intensive quality assurance performed by national supervisor and ECB

Phase III
Collation of results
Jul 14-Sep 14

- Final consistency exercise to ensure the comparability of results across portfolios and banks



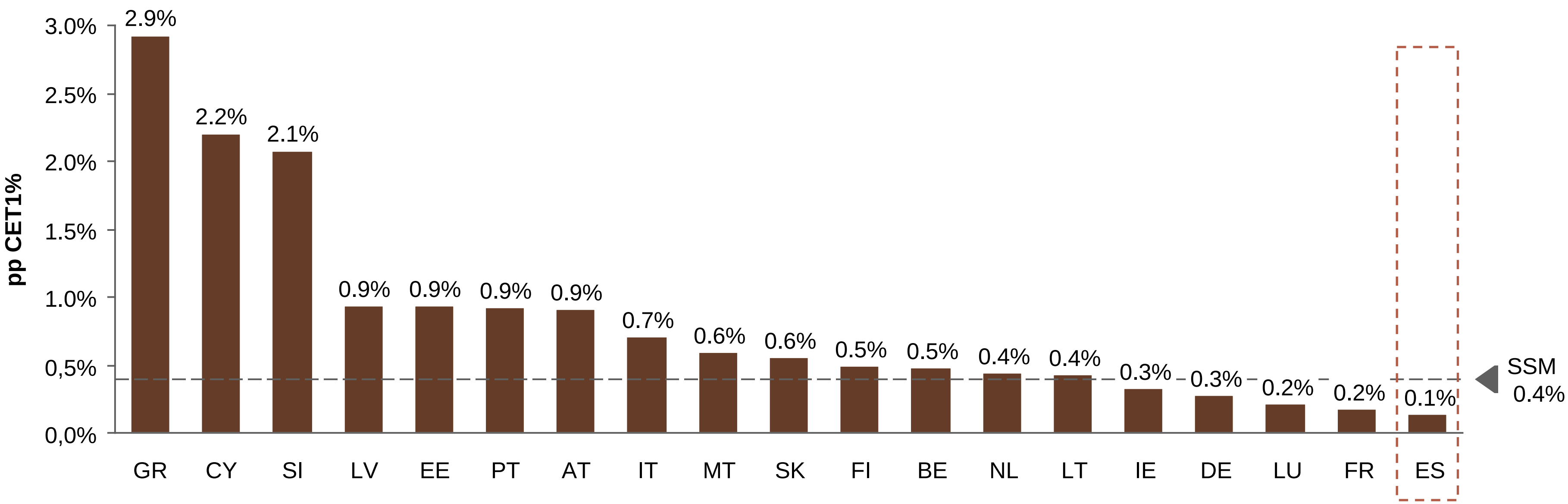
ASSET QUALITY REVIEW (AQR) (II)

Key figures of the exercise

	Spain	Total
Portfolio selection		
No. of portfolios	104	>800
% Risk-weighted assets	55%	57%
Sample of files reviewed		
No. of debtors	Approx. 17,000	>119,000
No. of mortgages	Approx. 53,000	>170,000
Review of other level 3 assets		
Models reviewed	2	100
Resources		
Staff involved	>600	>6,000

ASSET QUALITY REVIEW (AQR) (III)

Net impact of AQR on CET1%



Net impact in billions of euro

Spain	2.2	SSM	33.8

- The impact of the AQR on the Spanish banking system is 14 bp, the lowest in the SSM
- This outcome reflects the appropriate classification, valuation and provisioning in Spanish bank balance sheets

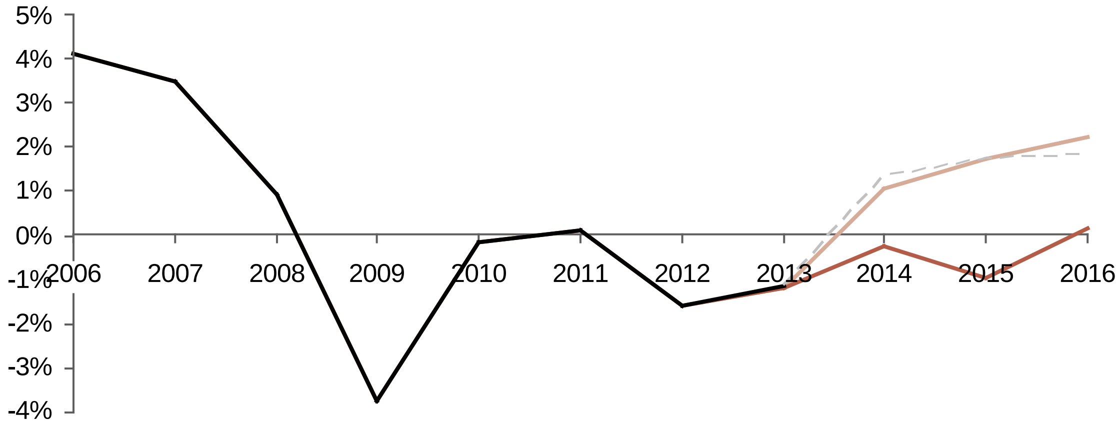
Note. The chart shows the impact on average capital by country, calculated as the difference between the initial CET1 ratio and the CET1 ratio resulting from the exercise weighted by the risk-weighted assets for the worst-case year for each bank.

STRESS TEST (ST) (I)

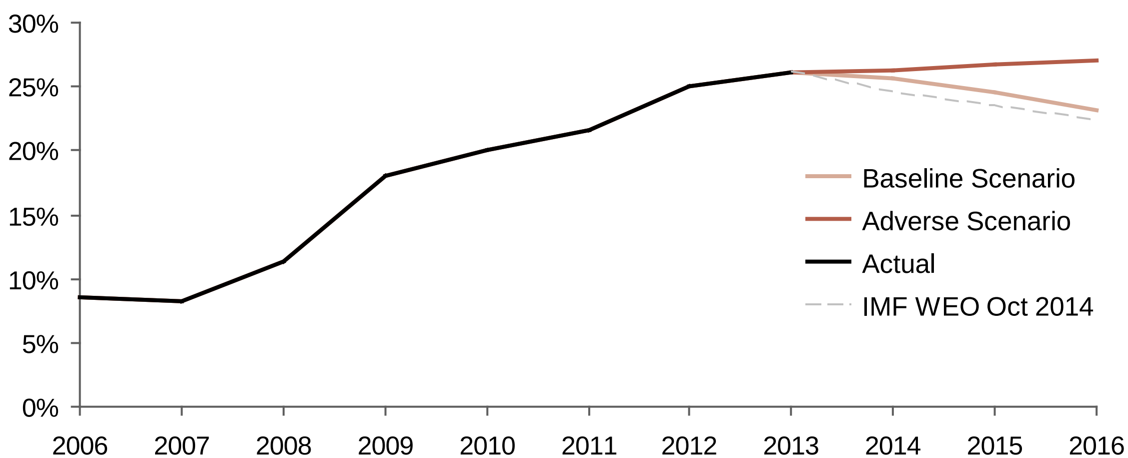
Aim	• To assess the resilience of banks in stress scenarios
Scope	• The exercise covers a very extensive set of risks (credit, market, sovereign, securitisations, etc.)
Method and process	• Methodology defined by the EBA • Exercise performed by the banks (bottom-up approach) • Results revised in depth by the national authority and the ECB (quality assurance)
Scenarios	• Two scenarios: baseline, based on the European Commission's forecasts; and adverse, provided by the ESRB • They include additional market shocks affecting all the geographical business areas (including emerging markets) and sovereign debt
Other rules	• Restrictive assumptions (e.g. Static balance sheet) and a series of maximum/minimum requirements (e.g. Net interest income cannot grow in adverse scenario relative to 2013) • Capital is defined as CET1 as at 31 December 2013 with rules applicable as at 1 January 2014 in each jurisdiction
Join-up	• Conclusions of the AQR incorporated into the result, adjusting the starting point and, in some cases, the projections, too • Conducted centrally by the ECB in conjunction with national supervisors • Result of the join-up exercise is already integrated into the stress test

STRESS TEST (ST) (II)

Spanish GDP growth



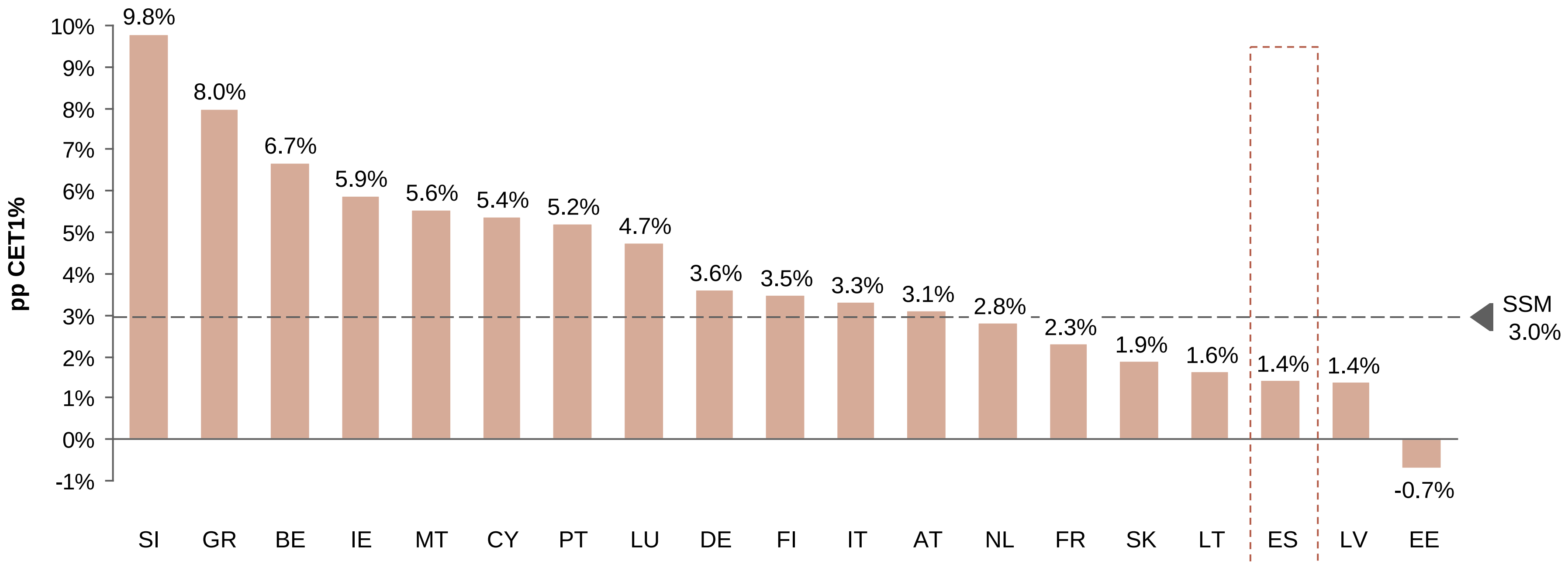
Unemployment rate in Spain



- The adverse scenario considers a substantial worsening in the economy over the entire horizon
- The cumulative deviation by GDP in the adverse scenario from the baseline is 5.9 pp in 2016
  - This deviation is greater than that in the 2012 exercise (4.8 pp)
  - Albeit on a more favourable baseline scenario than in 2012
- In terms of unemployment, the cumulative deviation in 2016 is 3.9 pp

STRESS TEST (ST) (III)

Net impact of the adverse scenario of the ST on CET1%



Net decline in capital in billions of euro

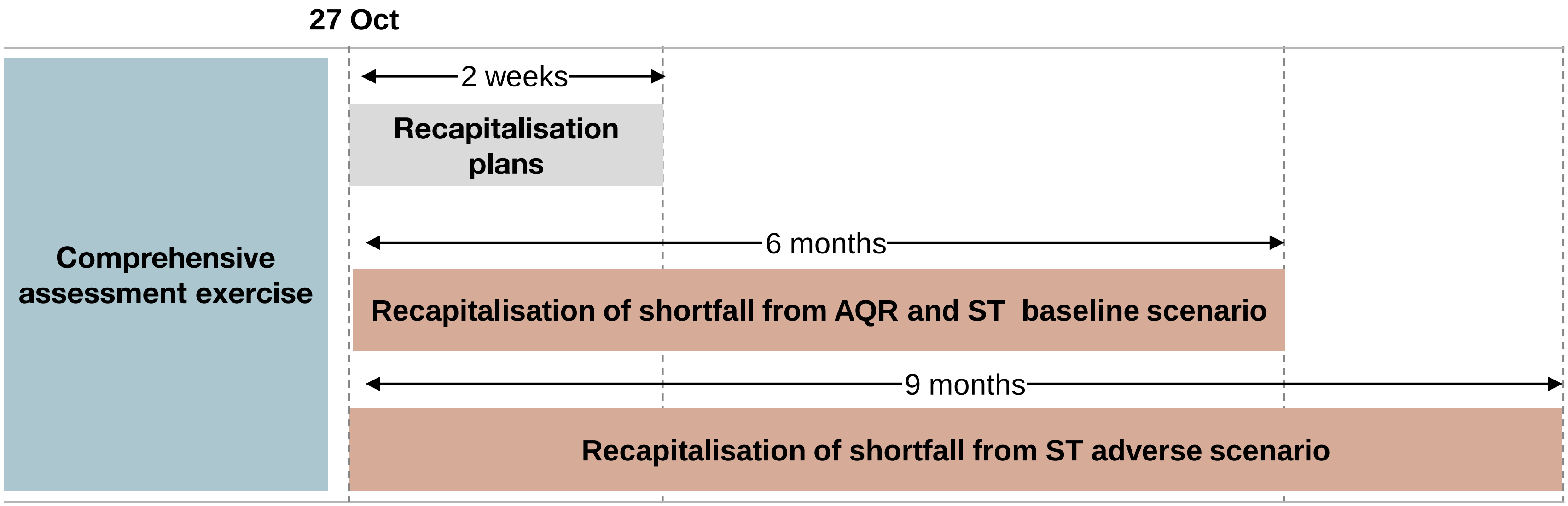
Spain	17.2	SSM	181.7

The net decline in capital arising from the stress test is small (€17.2 billion), and does not give rise to a capital shortfall at any Spanish bank

Note. The chart shows the impact on average capital by country, calculated as the difference between the initial CET1 ratio and the CET1 ratio resulting in the worst-case year of the exercise weighted by the risk-weighted assets for the worst-case year for each bank (adverse scenario).

NEXT STEPS

Calendar for recapitalisation measures



- Banks have already made significant recapitalisation efforts
  - Since the start of the year, European banks have increased their capital by €57.1 billion (€40.5 billion taking into account repayment of CET1 capital or buy-backs)
  - In Spain's case the capital measures taken in 2014 amount to €3.7 billion (net)
- In Spain, only one bank (Liberbank) has evidenced a capital shortfall, for a very small amount (€32 million)
  - This shortfall is sufficiently covered thanks to the capital measures taken by the bank in 2014, for an amount of €637 million

CONCLUSIONS AND FUTURE CHALLENGES (I)

- **The SSM** has concluded the European bank exercise fulfilling **high standards,** which has enabled the intended aims to be met.

- **Spanish banks have satisfactorily passed the examination:**
  - ✓ No Spanish bank as of today has a capital shortfall
  - ✓ The margin over the minimum thresholds set is generally a very comfortable one
  - ✓ The financial information disclosed offers a rigorous (the most rigorous of the SSM countries) view of asset values
  - ✓ The impact of an adverse scenario on banks' capital position is limited

CONCLUSIONS AND FUTURE CHALLENGES (II)

- **These results reflect the progress made in recent years in terms of:**
  - ✓ balance sheet clean-up, provisioning drive, recapitalisation and consolidation of the industry.

- **But the challenges the industry must face are significant,**
  - ✓ … arising from reinforced regulation and convergence towards best supervisory practices,
  - ✓ … in a complex setting marked by the weakness of economic conditions in Europe affecting the banking industry,
- **… although the results of the exercise show that Spanish banks are in a healthy position to face them**

APPENDICES

RESULTS OF THE COMPREHENSIVE ASSESSMENT – IMPACT ON CET1% (BASELINE SCENARIO)

Net impact on capital (CET1%) in the baseline scenario

Breakdown by bank, in bp of CET1%

Bank	Original CET1%	Impact (bp)			Post-CA CET1%	Buffer/ shortfall relative to threshold of 8%	Worst -case year
		AQR	ST	Total CA			
Santander	10.4%	-4	0	-4	10.3%	234	2013
BBVA	10.8%	-21	-31	-52	10,2%	223	2014
La Caixa	10.3%	-4	0	-4	10.2%	224	2013
BFA/Bankia	10.7%	-8	0	-8	10,6%	260	2013
Banco Popular	10.6%	-57	0	-57	10.1%	206	2013
Sabadell	10.3%	0	-10	-10	10.2%	216	2015
Kutxabank	12.1%	-8	0	-8	12.0%	404	2013
Unicaja-CEISS	11.1%	-21	0	-21	10.9%	287	2013
Ibercaja	10.0%	-2	0	-2	10.0%	201	2013
Bankinter	12.0%	-37	-4	-41	11.6%	363	2014
Grupo Cajamar	11.0%	-105	0	-105	10.0%	195	2013
Abanca-NCG	10.3%	-7	0	-7	10.2%	218	2013
BMN	9.4%	-43	0	-43	9.0%	101	2013
Liberbank	8.7%	-83	0	-83	7.8%	-17	2013
Catalunya Banc	12.3%	-10	-45	-55	11.8%	376	2014

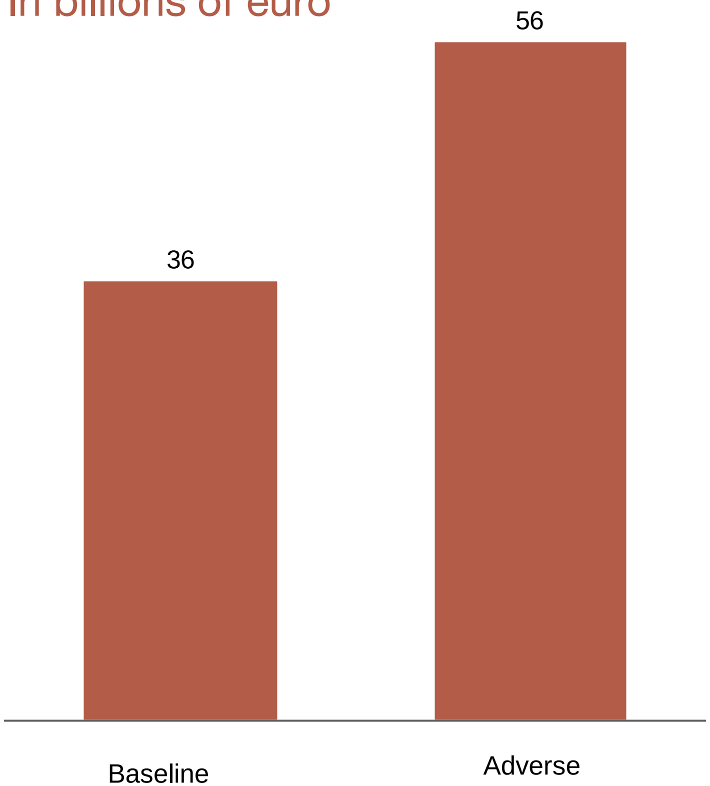
- The capital shortfall for a Spanish bank arises from the baseline scenario
- For the other banks the worst-case year is between 2013 and 2014
- In no case (except one) does the capital ratio fall below 9%

Note 1. The table shows results for the worst-case year for each bank, in the baseline scenario
Note 2. The results are prior to capital measures taken in 2014, e.g. Liberbank does not include the either the capital increase or the conversion of hybrid debt instruments for an amount of €637 million, which accounts for 352 basis points of its capital measured in terms of RWAs for 2013

RESULTS OF THE COMPREHENSIVE ASSESSMENT
CAPITAL BUFFERS

Capital buffer above minimum required CET1% (8% in baseline and 5.5% in adverse)

In billions of euro



Bank	Baseline scenario		Adverse scenario	
	Billions	bp	Billions	bp
Santander	12.4	234	19.4	345
BBVA	7.8	223	13.2	347
La Caixa	3.8	224	6.6	375
BFA/Bankia	2.7	260	4.8	480
Banco Popular	1.8	206	1.8	206
Sabadell	1.8	216	2.3	283
Kutxabank	1.4	404	2.3	632
Unicaja-CEISS	1.0	287	1.1	339
Ibercaja	0.5	201	0.6	232
Bankinter	0.9	363	1.3	530
Grupo Cajamar	0.4	195	0.6	249
Abanca-NCG	0.6	218	0.8	364
BMN	0.2	101	0.5	259
Liberbank	0.0	-17	0.0	12
Catalunya Banc	0.8	376	0.4	252

Note 1: The table shows results of the worst–case year for each bank, in the baseline and adverse scenarios.
Note 2: The results are prior to the capital measures taken in 2014, e.g. Liberbank does not include either the capital increase or the conversion of hybrid debt instruments for an amount of €637 million, which accounts for 352 bp of its capital measured in terms of RWAs for 2013.