Up to her appointment as Deputy Governor, her career has been inextricably linked to banking supervision. Firstly at the Banco de España, with over 25 years' experience in supervision, and latterly at the ECB, as Deputy Director General of the SSM in the Directorate General Micro-Prudential Supervision I during the last four years. Let's review the four-year period the SSM has been running. In your opinion, what are its greatest achievements to date? What still remains to be done?

Undoubtedly, experiencing at first hand the start-up of the SSM was a most considerable personal and professional challenge. And seeing how it has evolved in its initial years has been very enriching. As might be expected, developing single supervisory arrangements for the euro area is proving to be a complex and most challenging project. Evidently, the implementation of a common supervisor involves the National Competent Authorities (NCAs) assuming most significant changes. Each Authority has had to accept that certain technical criteria it had been applying were not in keeping with best practices and that they had to change. I believe that in a little over 4 years we have managed to make significant progress in developing a harmonised methodology and supervisory approach which should contribute to levelling the playing field for banks, and which should ultimately be conducive to a greater integration of the banking market in Europe.

However, the work is not over; much remains to be done. Within the SSM, the Banco de España will continue contributing to promote effective and robust European supervision. Moreover, as regards the institutional architecture, we must evidently continue pushing ahead to complete the Banking Union. True, the crisis is progressively behind us; but we should bear in mind that we may once again face tense situations in the future. It is important in this connection that we are prepared and have all the tools available to manage such situations. It is thus a priority to lay the foundations for the creation of a European Deposit Insurance Scheme and to promote the common backstop for the Single Resolution Fund.

What in your opinion are the main challenges currently facing Spanish credit institutions?

Spanish credit institutions have made an enormous effort to write down their impaired assets and strengthen their solvency, enabling them to face the future from a sounder position. However, there can be no room for complacency; ahead lies an even more demanding environment from a regulatory and competitive standpoint. In this respect, I would highlight four major challenges that they largely share with other EU banking systems:

— To improve profitability levels, in an increasingly aggressive competitive environment due to new non-bank competitors and the emergence of new technologies. In this connection, banks must overhaul their business models.

— To continue strengthening capital and eligible liabilities (MREL) levels, enabling them to shore up their financial situation with a view to facing future challenges.

— To make further progress in reducing the volume of impaired assets and to adopt provisioning policies consistent with the level of risk assumed. To improve the image and reputation of the banking sector as a whole in order to restore the confidence of customers, the sector's main asset.

You've cited the problem of the weight of non-performing loans on bank balance sheets. What are you expecting from banks?

In recent years, Spanish banks have made considerable progress in reducing these risks. Looking at the sector's figures for business in Spain, the resident private sector's non-performing loans have fallen by 63% from their end-2013 peak. At that point they accounted for close to €190 billion, whereas in September 2018 they stood at €72 billion. While a clear effort has been made, banks should retain their current momentum in reducing non-earning assets. Significant steps were taken in 2018 in this respect, since Spanish banks have been very active in the disposal of impaired portfolios and foreclosed real estate, enabling them to continue improving the quality of their assets and to save on management costs.

It is also important that banks should achieve an appropriate level of coverage in the medium term for these non-earning assets they retain on their balance sheets. Here, each bank should plan its own divestment strategy, taking into account the guidelines published by the European Central Bank (ECB) in March 2017, and its addendum in March 2018. Once set, this stretagy should be evaluated by the Supervisor.

In step with the need for banks to have sufficient provisions to cover their credit risk, which aspects of the transposition of IFRS 9 would you highlight?

The new accounting circular 4/2017 adapts the accounting framework to International Financial Reporting Standards (IFRSs), more specifically to IFRS 9, which includes most significant advances in the accounting management of credit risk. As is known, IFRS 9 moves from an incurred-loss to an expected-loss framework, using internal provisioning models to estimate credit portfolio impairment. To be able to apply this new approach, banks must conduct an eminently rigorous study of each borrower's credit quality from the time each transaction is originated, allowing the recognition of losses to be brought forward and thereby contributing to a more timely and appropriate coverage of credit exposures.

Evidently, applying internal models for expected-loss estimation is a challenge for banks. In this respect, I consider it vital that the governance of models is appropriate, which will need senior management involvement, starting with the institution's Board; the correct valuation of collateral; and the establishment of an effective internal validation process for the models for calculating provisions before they are put in place, their review by internal audit and the full integration of these models into banks' day-to-day management.

Finally, we should not forget that this new accounting framework also makes demands on us as supervisors to follow a learning curve and adapt when it comes to verifying the consistency and reasonableness of these provisions-calculation models. In this connection, we are working within the SSM on the preparation of specific methodologies for the review of provisions-calculation models in inspections.

In an environment as competitive as today's, with the emergence of fintechs, how can banks address the challenge to improve profitability levels?

Banks, like any other company, can only survive if they are profitable. Given the current interest rate environment, and the emergence of new technologies and of new non-bank competitors (fintech and bigtech), banks should evaluate and adapt their strategy and business model with a view to setting medium and long-term targets, enabling them to generate recurrent results.

Each bank must find its own way. It is most important that, in designing this way forward, each institution should apply an appropriate pricing policy. This will enable it to cover the associated costs and risks, and set in place effective governance structures and the risk-management processes to ensure effective management of these risks.

Evidently, the emergence of new, nimble competitiors, carrying few costs, is a threat to the traditional banking model. But it is no less true that digitalisation and technological innovation in financial services offer new opportunities in terms of efficiency, new business and more dynamic means of gaining access to customers. To harness these opportunities, banks must optimise the use of the information on customers they already have; that means they must ensure the quality of the data and their rigorous processing, so that such data can be useful in management and decision-making.

Lastly, we must not forget that innovation entails fresh risks which need to be understood, managed and controlled by banks. And, as supervisors, we should be ready to identify them, be knowledgeable about them and act when necessary. Further, we should bear in mind that the materialisation of these types of risks, such as those associated with cybersecurity, have a practically immediate impact.

Bearing in mind your thoughts on the problem of profitability and the growing competitiveness in the sector, do you believe mergers may be a reasonable solution for tackling these challenges?

On this matter I should stress that the role of the supervisor is not to decide which mergers are desirable and which not, but to assess to what extent a new bank resulting from a merger has a sound business model and generates value overall. That said, I do consider that, in the current setting of low interest rates, where many banks are operating with profitability below their cost of capital and with very unwieldy cost structures, mergers are a clear alternative for improving profitability and gaining in efficiency.

So far we have only had experience of mergers at the national level, where cost savings resulting from synergies and network optimisation are evident. But as the Banking Union moves forward, cross-border mergers should not be ruled out, which would be clearly conducive to greater financial integration in Europe.

Another challenge for Spanish banks you have indicated is that they continue strengthening their solvency. Do you consider the steps taken to date by Spanish banks to reinforce their capital levels sufficient?

Admittedly, compared with the European average, Spanish banks have low leverage levels; but it is no less true that, despite the efforts in recent years, their capital ratios remain clearly below those of their competitors. As a result, it is essential that banks should continue reinforcing their capital, both by increasing its volume and by improving its quality.

In the wake of the crisis, we have witnessed a regulatory maelstrom. In your opinion, are Spanish banks prepared to face all these regulatory changes?

True, stricter regulation contributes to safeguarding the soundness and stability of the banking system. But in the short run it poses a challenge to banks, which must react swiftly to adopt strategic decisions, enabling them to comply with the new demands. Spanish banks have already adapted to the main requirements introduced after the crisis, but some reforms that will require additional efforts are still pending.

Among these, I would highlight the new minimum requirement for own funds and eligible liabilities (MREL) that arose as part of the banking resolution framework. In the case of large banks, the Single Resolution Board (SRB) has already established binding MREL targets and no major difficulties in reaching these targets are envisaged. Other small and medium-sized banks face a greater challenge in reaching the MREL levels finally set, given their more limited access to the markets.

At the national level, I wish to refer to the payments regulations amended in 2018, further to the partial transposition of the Second Payment Services Directive (PSD2), which affords payments greater security and regulates access to information on payment transactions by third parties with the prior consent of the customer. Also of note is the recent transposition to Spanish law of the Directive on real estate credit, which introduces appropriate measures protecting banking customers and contributes to restoring the necessary legal safeguards in the real estate market.

In light of the situation of credit institutions you have described, what are the main supervisory priorities for the coming year?

The priorities are set by the main challenges facing Spanish credit institutions that I cited earlier. I would highlight three major areas on which our work as supervisors will focus.

Firstly, the monitoring of credit risk. As I indicated, banks should continue reducing the volumes of impaired assets on their balance sheets and adopt a non-performing loans provisioning policy in step with the risk assumed. Moreover, we wish to assess banks' lending policies. We must ensure that, in the search for profitability, banks do not relax lending standards.

Secondly, it is vital to focus on banks' risk management, given that this is a key factor for generating recurrent results and for the creation of value. Specifically, there are three elements we consider as priorities for the coming year: i) the Targeted Review of Internal Models (TRIM); ii) internal capital and liquidity adequacy assessment processes (ICAAPs and ILAAPs); and iii) the assessment of the mechanisms banks have to manage, control and mitigate technological risk.

Finally, assessing credit institutions' conduct vis-à-vis their customers will be an area where intense supervisory activity will continue to be deployed.

Regarding this last priority, much remains to be done in restoring the banking industry's reputation. How can the supervisor help banks develop this culture of compliance?

I believe there should be a change in culture as to how banks relate to their customers. Naturally, as in any other change in culture, if the introduction of these changes is to be successful the initiative must stem from the managers of the banks themselves.

To develop and extend this new culture, what is vital is the commitment of the governing bodies and their involvement in aspects such as the design and governance of the products the bank markets and the incentives for sales staff. In short, customer safeguards must be built into the risk-appetite framework and into the three lines of defence, boosting both the control of regulatory compliance regarding bank services and products, and customer care services.

Our challenge as the banking supervisor is to be able to appropriately combine inspection, which enables discrete misconduct to be identified and corrected, with actions encouraging banks to entrench good conduct that permeates the entire organisation and strengthens their reputation with customers.

So far we have focused essentially on the microprudential facet of supervision. What characterises macroprudential policy and what progress has there been in this area during 2018?

The aim of macroprudential policy is to contribute to the correction of macrofinancial imbalances, reinforcing the banking system's solvency and controlling more closely the credit cycle, which should result in more stable and sustainable economic growth. To be able to perform this function, the early identification of macroeconomic imbalances and the analysis of interconnections between individual banks and the markets is a necessary condition.

Since 2014, the Banco de España, as the authority tasked with the application of macroprudential policy instruments, has been identifying and monitoring the vulnerabilities in the financial system and potential macoreconomic imbalances.

In this area, at end-2018 the Banco de España was assigned, under a Royal Decree-Law, additional regulatory competencies in the form of new macroprudential tools. These included the sectoral countercyclical capital buffer, and limits on lending standards and on the sectoral concentration of credit exposures. These instruments, added to those already available, will provide for strengthening the banking system's solvency, better controlling the credit cycle and mitigating the development of macrofinancial imbalances. The upshot will be more stable and sustainable economic growth.

On 1 March 2019 the Government approved the creation of the Macroprudential Authority Financial Stability Board (AMCESFI), a new authority in which the Banco de España is to play a key role. AMCESFI is structured as a collegiate body reporting to the Ministry of Economy and Business, and it will be made up of senior representatives from this Ministry and from the sectoral financial supervisors: the Banco de España, the CNMV (Spanish National Securities Market Commission) and the DGSFP (Directorate General for Insurance and Pension Funds). AMCESFI is tasked with regularly conducting risk analyses. It may also issue warnings and recommendations on matters potentially affecting financial stability, and opinions on macroprudential measures proposed by the sectoral authorities.

Lastly, a new area – "green finance" – has been identified at the global level over the last few years and will have to be taken into consideration by the supervisory authorities. Could you comment on what it is and on the role of the Banco de España in this field?

Firstly, I would like to underscore the importance we should all attach to environmental sustainability and, more specifically, to climate change control measures. The response to these new challenges, which affect all of us on planet Earth, should come from all economic agents and, as banking supervisors, we should be involved and contribute resolutely to this collective task.

From a banking standpoint, it should be said that the risks associated with climate change and the environment may significantly impact the financial system. Over the coming years, then, we should take an interest in them, as should banks. First are the physical risks arising from events such as flooding, storms, drought, etc. which, by causing losses to individuals and firms, may prompt declines in the value of banks' assets and collateral. Then there is so-called "transition risk", the shift towards a low carbon-emissions economy, which may affect specific sectors as well as energy and commodities prices, with the subsequent potential impact on banks' exposures. The consequences of these risks materialising affect the global economy, that is to say, they are systemic. Accordingly, as supervisors, we must ensure the financial system's resilience against such risks.

Accordingly, the ecological transition directly affects banks' solvency; but, in turn, through the correct evaluation, discrimination and assignment of these risks, the financial system can and should contribute to achieving this ecological transition.

In this regard, I must highlight two European initiatives launched this year, which I consider to be most important. First, the European Commission unveiled a plan of action on sustainable finances aimed at: i) re-directing capital flows towards sustainable investments; ii) managing the financial risks arising from climate change; and iii) promoting transparency and long-termism in financial activities. And secondly, the EBA has been entrusted with analysing the possibility of including environmental and social risks in supervisory assessment.

To conclude, I would like to stress once more that at the Banco de España we are mindful of the importance of promoting sustainable finances. This is why, among other initiatives, we have joined this year the Network for Greening the Financial System (NGFS), which was created in December 2017 and whose members are central banks and supervisors from across the world. Its intention is to define and promote good practices in climate and environmental risk management in the financial sector, to conduct analysis on green finance and to support the transition to a sustainable economy.