

## ANNEX VII

### **CONFIDENTIAL RETURNS RELATING TO THE ECONOMIC AND MONETARY UNION STATISTICAL REQUIREMENTS**

## SUMMARY BALANCE SHEET (Operations in Spain)

ASSETS	Total	Residents of Spain		Residents of the other euro area Member Status		Rest of the world
		Euro	Foreign Currencies	Euro	Foreign Currencies	All Currencies
<b>1. Cash</b>						
<b>2. Loans</b>						
2.1. Monetary Financial Institutions (MFIs)						
2.2. Central government						
2.3. Other general government						
2.4. Other sectors						
<b>3. Securities other than shares (+/-)</b>						
3.1. Monetary Financial Institutions (MFIs)						
3.1.1. Up 1 year						
3.1.2. Over 1 and up 2 years						
3.1.3. Over 2 years						
3.2. Central government						
3.3. Other general government						
3.4. Other sectors						
<b>4. Monetary market fund shares/units (+/-)</b>						
<b>5. Shares and other equity (+/-)</b>						
5.1. Monetary Financial Institutions (MFIs)						
5.2. Other sectors						
<b>6. Fixed assets</b>						
<b>7. Remaining Assets</b>						
<b>TOTAL</b>						
<b>LIABILITIES</b>						
<b>9. Deposits</b>						
9.1. Monetary Financial Institutions (MFIs)						
9.1.1. Central banks and institutions subject to RRs						
9.1.1.1. Overnight						
9.1.1.2. Deposits over 2 years						
9.1.1.3. Repos						
9.1.1.4. Other						
9.1.2. Other						
9.1.2.1. Overnight						
9.1.2.2. Deposits over 2 years						
9.1.2.3. Repos						
9.1.2.4. Other						
9.2. Central Government						
9.2.1. Overnight						
9.2.2. Deposits over 2 years						
9.2.3. Repos						
9.2.4. Other						
9.3. Other general government						
9.3.1. Overnight						
9.3.2. With agreed maturity						
9.3.2.1. Up to 1 year						
9.3.2.2. Over 1 and up 2 years						
9.3.2.3. Over 2 years						
9.3.3. Redeemable at notice						
9.3.3.1. Up to 3 months						
9.3.3.2. Over 3 months						
9.3.4. Repos						
9.4. Other sectors						
9.4.1. Overnight						
9.4.2. With agreed maturity						
9.4.2.1. Up to 1 year						
9.4.2.2. Over 1 and up 2 years						
9.4.2.3. Over 2 years						
9.4.3. Redeemable at notice						
9.4.3.1. Up to 3 months						
9.4.3.2. Over 3 months						
9.4.4. Repos						
<b>11. Debt securities issued</b>						
11.1. Up 1 year						
11.2. Over 1 and up 2 years						
11.3. Over 2 years						
<b>12. Capital and reserves</b>						
<b>13. Remaining liabilities</b>						
<b>TOTAL</b>						
Exigible liabilities with 2% ratio						
Minimum reserves to be held (daily average)						
Electronic money. Hardware (a)						(b)
Electronic money. Software						

## Notes:

- (a) Balance of pre-paid electronic cards.  
(b) Balance of electronic money for paying by Internet  
(c) Items "1.Cash" and "11. Debt securities issued, though not sectorisable, shall be classified by currency under the heading "Residents of Spain"  
(d) The maturities are in all cases original maturities

**CLASSIFICATION OF CERTAIN ASSETS AND LIABILITIES BY SECTOR  
OTHER NON-MFI SECTORS AND REST OF THE WORLD  
(Operations in Spain)**

ASSETS	Other non-MFI sectors															
	Other non-monetary financial institutions (a)		Insurance corporation and pension funds		Non-MFI mutual funds (b)		Non-financial corporations		NDISH (c)		Households (d)					
	Euro	FCs	Euro	FCs	Euro	FCs	Euro	FCs	Euro	FCs	Consumer credit		Housing credit		Other	
											Euro	FCs	Euro	FCs	Euro	FCs
<b>RESIDENTS OF SPAIN</b> <b>Loans</b> Up to 1 year Over 1 and up 5 years Over 5 years <b>Securities other than shares</b> Up to 1 year Over 1 year <b>Shares and other equity</b> <b>RESIDENTS OF THE OTHER EURO AREA MEMBER STATES</b> <b>Loans</b> Up to 1 year Over 1 and up 5 years Over 5 years <b>Securities other than shares</b> Up to 1 year Over 1 year <b>Shares and other equity</b>																
<b>LIABILITIES</b> <b>RESIDENTS OF SPAIN</b> <b>Deposits</b> Overnight With agreed maturity Up to 1 year Over 1 year and up 2 years Over 2 years Redeemable at notice Up to 3 months Over 3 months Repos <b>RESIDENTS OF THE OTHER EURO AREA MEMBER STATES</b> <b>Deposits</b> Overnight With agreed maturity Up to 1 year Over 1 year and up 2 years Over 2 years Redeemable at notice Up to 3 months Over 3 months Repos																
<b>REST OF THE WORLD</b> <b>ALL SECTORS</b>	Euro							Foreign currencies								
<b>ASSETS</b> Total loans Up to 1 year Over 1 year <b>LIABILITIES</b> Total loans Up to 1 year Over 1 year Memorandum item: Overnight Deposits with agreed maturity over 2 years Repos																

Notes:

- (a) Includes all non-monetary financial institutions, except mutual funds, insurance corporations and pension funds.  
 (b) Includes mutual funds not classified as monetary financial institutions.  
 (c) Non-profit institutions serving households.  
 (d) The sub-sector households includes sole proprietors, whose operations shall be included in the column "Other".  
 (e) The maturities are in all cases original maturities.

**LOAN WRITE-DOWNS AND RECOVERIES. NET AMOUNTS**  
(Operations in Spain)

	Residents of Spain		Residents of the other euro area Member States		Rest of the world
	Euro	Foreign currencies	Euro	Foreign currencies	
<b>Monetary financial institutions (MFIs)</b> <b>Central Government</b> <b>Other sectors</b> <ul style="list-style-type: none"> <li>▪ Financial auxiliaries and other financial intermediaries</li> <li>▪ Insurance corporations and pension funds.</li> <li>▪ Non financial corporations</li> <li>▪ Non-profit institutions serving households</li> <li>▪ Households: <ul style="list-style-type: none"> <li>– Consumer credit</li> <li>– Housing credit</li> <li>– Other</li> </ul> </li> </ul>					
TOTAL					

Notes:

- (a) This return records the loan "write-downs and recoveries" made during the month. The amount shall be equal to the balances written off assets in respect of all the write-downs made (directly charged to the income statement or using bad-debt or country risk provisions) less the balances that may have been recovered or restored to the assets as a result of debt restructuring classified as "write-offs".
- (b) When the amounts recovered or reinstated to the assets are greater than the amounts written off the balance sheet, the net amount will be shown as negative.
- (c) The write-downs and recoveries made in relation to transactions with sole proprietors are included under "other".

**CLASSIFICATION OF CERTAIN ASSETS AND LIABILITIES BY SECTOR  
OTHER GENERAL GOVERNMENT  
(Operations in Spain)**

ASSETS	Other General Government		
	Regional Government (a)	Local Government	Social Security Funds
<b>RESIDENTS OF SPAIN</b> <b>Loans</b> Up to 1 year Over 1 year and up 5 years Over 5 years <b>Securities other than shares</b> Up to 1 year Over 1 year <b>RESIDENTS OF THE OTHER EURO AREA MEMBER STATES</b> <b>Loans</b> Up to 1 year Over 1 year and up 5 years Over 5 years <b>Securities other than shares</b> Up to 1 year Over 1 year			
LIABILITIES			
<b>RESIDENTES EN ESPAÑA</b> <b>Deposits</b> Overnight With agreed maturity Redeemable at notice Repos <b>RESIDENTES EN OTROS ESTADOS UEM</b> <b>Deposits</b> Overnight With agreed maturity Redeemable at notice Repos			

## Notes:

(a) All maturities are original maturities.





**ADJUSTMENTS TO MOVEMENTS IN THE SECURITIES PORTFOLIO**  
(Operations in Spain)

<b>ASSETS</b>	Residents of Spain	Residents of other euro area status	Rest of the world
<b>Securities other than shares at over 2 years</b>			
Monetary financial institutions (MFIs)			
General government			
Other sectors			
<b>Shares and other equity</b>			
Monetary financial institutions (MFIs)			
Other sectors			
<b>TOTAL</b>			

Notes:

- (a) Adjustments to movements in the securities portfolio comprise increases and decreases in the book value of securities held in portfolio owing to price changes not attributable to exchange rate fluctuation, and gains and losses realised on the securities sold in the period.
- (b) When the decreases in value plus realised losses are greater than the increases in value plus realised gains, the net amount shall be shown with a minus sign.

**BREAKDOWN OF THE OTHER NON-MONETARY FINANCIAL INSTITUTIONS  
RESIDENTS IN SPAIN  
(Operations in Spain)**

	LOANS	DEPOSITS			
		Overnight	With agreed maturity	Redeemable at notice	Repos
<b>Other financial intermediaries</b>					
Securities-dealer companies					
Collective investment undertaking other than (monetary and non-monetary) mutual funds					
Venture capital companies and funds					
Securitisation special purpose vehicles					
Special purpose vehicles issuing preference shares or other financial instruments					
Other					
<b>Financial auxiliaries</b>					
Deposit guarantee funds					
Money brokers					
Appraisal companies					
Mutual guarantee companies and reguarantee companies					
Currency-exchange bureaux					
Securities agencies					
Governing companies (1)					
Management companies of other financial intermediaries (2)					
<i>Servicio de compensación y liquidación de valores</i>					
Other (3)					

(1) This line includes the data relating to the stock exchange governing companies, *Sociedad de Bolsas* and the governing companies of other official fixed-income markets, futures and option market governing companies and central counterparties.

(2) This line includes the data relating to portfolio management companies and to the management companies of collective investment undertakings, securitisation special purpose vehicles, venture capital funds and pension funds.

(3) This line includes the data relating to insurance brokers and agents, the financial markets and systems holding company *Bolsas y Mercados Españoles* and credit card issuers.

# ANNEX VIII

## **SECTORISATION**

## MINIMUM SECTORISATION SCHEME IN THE ACCOUNTING RECORDS

## A. SECTOR RESIDENTS IN SPAIN

**Credit system**

- Banco de España
- Credit institutions
  - Spanish credit institutions
    - Commercial banks
    - Savings banks
    - Credit co-operatives
    - Instituto de Crédito Oficial*
    - Specialised credit institutions
  - Foreign credit institutions (branches in Spain)

**General government**

- Central government
  - State
  - Other central government
- Territorial government
  - Regional (autonomous) government
  - Local government
- Social security funds

**Other resident sectors**

- Other financial institutions
  - Other monetary financial institutions
    - Money market funds
    - Other institutions
  - Non-monetary financial institutions
    - Insurance corporations and pension funds
    - Other financial intermediaries
      - Collective investment undertakings of a financial nature
        - Non-MFI mutual funds
        - Investment companies
      - Collective investment undertakings of a non-financial nature
      - Other
- Financial auxiliaries
  - Central counterparties
  - Other
- Non-financial corporations
  - Public non-financial corporations
    - Public non-financial corporations linked to local governments
    - Other
  - Private non-financial corporations
    - Private non-financial corporations linked to local governments
    - Other
- Non-profit institutions serving households
- Households

## B. SECTOR RESIDENTS IN OTHER EUROPEAN UNION COUNTRIES

### **Credit system**

- European Central Bank
- Central banks and national monetary authorities
- Credit institutions
  - Foreign credit institutions
  - Spanish credit institutions (foreign branches)

### **General government**

- Central government
- State government
- Local government
- Social security funds

### **Other sectors**

- Other financial institutions
  - Other monetary institutions
    - Money market funds
    - Other institutions
  - Non-monetary financial institutions
    - Insurance corporations and pension funds
    - Other financial intermediaries
    - Financial auxiliaries
      - Central counterparties
      - Other
- Non-financial corporations
- Non-profit institutions serving households
- Households

## C. SECTOR RESIDENTS IN THE REST OF THE WORLD

### **Credit system**

- Central banks and national monetary authorities
- Credit institutions
  - Foreign credit institutions
    - OECD
    - Other
  - Spanish credit institutions (foreign branches)

### **Multilateral development banks <sup>(a)</sup>**

### **General government**

- Central, state and local government and social security funds
- International and supranational organisations
  - European institutions
  - Other international organisations

### **Other sectors**

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<sup>(a)</sup> Multilateral development banks shall be included in the EMU returns in general government and in the rest of the statements and returns in the credit institutions sector.

**ENTITIES CLASSIFIED AS “OTHER FINANCIAL INTERMEDIARIES”  
AND “FINANCIAL AUXILIARIES”**

**A) OTHER FINANCIAL INTERMEDIARIES**

1. Securities-dealer companies registered with the *Comisión Nacional del Mercado de Valores* (National Securities Market Commission)
2. Collective investment undertakings registered with the National Securities Market Commission and not classified as “Other monetary financial institutions”. Specifically:
  - 2.1. Collective investment undertakings of a financial nature
    - 2.1.1. Non-MFI mutual funds
    - 2.1.2. Investment companies
  - 2.2. Collective investment undertakings of a non-financial nature
    - 2.2.1. Real estate mutual funds and investment companies
    - 2.2.2. Other
3. Venture capital companies and funds
4. Securitisation special purpose vehicles
5. Preference share issuing special purpose vehicles (Law 19/2003)
6. Entities whose main activity is to hold interests in financial institutions

**B) FINANCIAL AUXILIARIES**

1. Deposit guarantee funds
2. Money brokers
3. Appraisal companies
4. Mutual guarantee companies and reguarantee companies
5. Currency-exchange bureaux
6. Securities agencies
7. Insurance brokers and agents
8. The financial markets and systems holding company *Bolsas y Mercados Españoles*
9. Stock exchange governing companies, *Sociedad de Bolsas* and the governing companies of other official fixed-income markets
10. Futures and options market governing companies
11. Collective investment undertakings management companies and portfolio management companies
12. Securitisation special purpose vehicle management companies
13. Venture capital fund management companies
14. Pension fund management companies
15. *Servicio de Compensación y Liquidación de Valores* (Securities Clearing and Settlement Service)
16. Credit card issuers
17. Central counterparties

# **ANNEX IX**

CREDIT RISK

# ANALYSIS AND ESTIMATION OF ALLOWANCES AND PROVISIONS FOR CREDIT RISK

## I. INTRODUCTION

1. Entities shall establish the policies, methods and procedures to be applied in the granting, analysis and documentation of debt instruments, contingent exposures and contingent commitments (hereafter “transactions”), and in the identification of their impairment and calculation of the amount needed for credit risk allowances and provisions, in respect both of insolvency attributable to the customer and of country risk, for all the entities of the group, Spanish and foreign alike.

The policies, methods and procedures should:

- a) Be approved by the entity’s board of directors, or equivalent body, and ratified by the parent in the case of subsidiaries of Spanish groups.
- b) Be properly substantiated and documented. The necessary documentation shall include the proposals and opinions of the relevant internal departments of the entity.
- c) Detail, among other things, the following:
  - (i) The criteria for the granting of transactions, including matters such as the market, product, type of customer, etc. with which transactions are to be conducted and the overall risk limits for each of these, the requirements customers must meet and the guarantees or collateral they must offer for the transactions to be granted.
  - (ii) The pricing policy to be applied.
  - (iii) The responsibilities and powers delegated by the various bodies and individuals entrusted with granting, entering into, monitoring, assessing and controlling the transactions.
  - (iv) The requirements to be met in the studies and analyses of the proposed transactions before they are granted and during the period they are current.
  - (v) The minimum documentation required in the different types of transactions for the granting thereof and during the period they are current.
  - (vi) The definition of the criteria for classifying transactions on the basis of their credit risk and the means of quantifying individual and collective estimates of impairment losses, including in this latter case the parameters to be used in the estimate.

The Audit Committee and the Internal Audit Department shall ensure that the policies, methods and procedures are appropriate, effectively in place and regularly reviewed.

The documentation referred to in this section shall be at the disposal of the Banco de España and of the external auditors.

2. Entities shall, in any event, apply the following criteria:
  - a) They shall exercise the utmost care and diligence in the rigorous and individual analysis of the credit risk associated with their transactions, not only at the time of their being granted but also continuously during the period they are current, and they shall not delay either their reclassification into an inferior category due to deterioration of credit quality or the recognition of adequate allowances or provisions, this being done as soon as the presence of an abnormal situation or deterioration of credit risk is discernible.
  - b) They shall properly document all transactions. This documentation shall include at least: the agreements entered into with customers and, where applicable, the guarantors, duly verified to ensure they have no legal defects that may impair the recovery of the transaction amount; the information needed to be able to determine the fair value of the collateral received, including the appropriate appraisals, which must be updated, as a minimum, if there are signs that their value may have been impaired; and economic and financial information enabling customers' and guarantors' solvency and ability to pay to be analysed. When the latter are companies, this information shall comprise their duly updated financial statements. Notwithstanding, it will not be necessary to update the documentation of those customers with outstandings of less than €150,000, exclusively under finance lease transactions, or who have effective guarantees or collateral, provided that they have no past-due amounts, there is no indication that the customer is in difficulty and the estimated value of the leased assets or of the effective guarantees or collateral is, under any objective criterion, greater than the amount not yet due.
  - c) The methods and procedures used to estimate the impairment due to credit risk shall be incorporated into entities' risk management systems and, in addition to all the factors listed in paragraph two of Rule twenty-nine, they shall take into account past experience, the geographical and business areas in which the entity and the group operate, risk levels and all the information available at the date the estimate is made.
  - d) In the analysis of credit risk and in the estimation of impairment losses on available-for-sale financial assets, regard shall be had to the cash disbursed by the entity pending amortisation, rather than to its fair value.
3. Parents of groups of credit institutions or, where applicable, of consolidable groups of credit institutions, with foreign subsidiaries shall set in place a corporate methodology for the classification of credit risk and criteria for the calculation of impairment. These criteria shall be similar to those envisaged in this annex for Spanish entities, albeit adapted to the particular circumstances of the country in which their subsidiaries operate.

## **II. CLASSIFICATION OF TRANSACTIONS ON THE BASIS OF CREDIT RISK**

4. Portfolios of debt instruments, contingent exposures and contingent commitments,

whosoever the obligor and whatsoever the instrument or guarantee or collateral, shall be analysed to determine the credit risk to which the entity is exposed and to estimate the allowance or provision required due to impairment of their value. In this connection, the entities shall set corporate criteria for rating credit exposures.

5. To prepare their financial statements, entities shall classify their transactions on the basis of credit risk, analysing first, the insolvency risk attributable to the customer, and second, the country risk - if any - to which they are exposed, applying the criteria indicated in this annex. This shall be without prejudice to the greater detail they may establish for their internal control and, in the case of foreign subsidiaries, to the regard to be had to the particular characteristics of the market in which they operate.
6. If there are reasons for rating a transaction in terms of credit risk due to both risk attributable to the customer and country risk, that transaction shall be classified in the category of the risk attributable to the customer, unless a more severe country-risk category has been assessed. Notwithstanding this, impairment losses attributable to customer risk may be recognised under the country-risk heading if the latter entails greater requirements.

#### **A) INSOLVENCY RISK ATTRIBUTABLE TO THE CUSTOMER**

7. Debt instruments not measured at fair value through profit or loss, and the contingent exposures and contingent commitments mentioned in 7.c) and 7.d) below, shall be classified, on the basis of insolvency risk attributable to the customer or to the transaction, in one of the following categories:
  - a) **Standard:** This comprises all debt instruments and contingent exposures that do not meet the requirements for classification in other categories. The transactions included in this category shall be sub-divided in turn into the following risk classes:
    - (i) **Negligible risk.** This comprises the following transactions: exposures to the general governments of European Union countries, including those arising on public debt reverse repurchase agreements, to the public non-financial corporations referred to in Rule sixty-six, paragraph 7.b.(i) and to the central governments of countries classified in group 1 for country-risk purposes; transactions guaranteed or reguaranteed by such general governments directly, or indirectly through agencies with an unlimited guarantee thereof; advances on pensions and wages for the following month, provided that the paying entity is part of general government and the pensions or wages are direct-debited at the entity; the covered portion of transactions underwritten, guaranteed or reguaranteed by agencies or public enterprises of countries classified in group 1 for country-risk purposes whose main activity is the underwriting or backing of credit; transactions that are in the name of credit institutions; those that have a full, joint and several, explicit and unconditional personal guarantee given by the aforementioned credit institutions and by Spanish reciprocal guarantee companies that can be claimed on first demand; exposures in the name of Deposit Guarantee Funds, provided they are on an equivalent footing in terms of credit quality to those of the European Union; and transactions collateralised by cash deposits or for which interests in monetary financial institutions or debt securities issued by general government or credit institutions are pledged as collateral, if the outstanding exposure is equal to or less than 90% of the redemption value of the interests in monetary financial institutions and of the market value of

the securities accepted as collateral.

- (ii) **Low risk.** The following transactions are included: assets used as collateral in monetary policy operations of the European System of Central Banks, except those included in point (i) above; mortgages on completed housing and finance leases on such assets in which the outstanding exposure is less than 80% of the appraised value of the dwelling; ordinary mortgage-backed securities; transactions with obligors that are companies whose long-term debt has a credit rating of at least A awarded by a reputable credit rating agency; and securities issued in local currency by the central governments of countries not classified in group 1 for country-risk purposes that are recorded in the books of branches established in the issuer's country.
- (iii) **Medium-low risk.** This includes the following transactions: finance leases not included in other risk classes and exposures collateralised in some other way than indicated in the foregoing points, provided that the estimated value of the leased assets and of the collateral fully covers the outstanding exposure.
- (iv) **Medium risk.** This encompasses those exposures to residents in Spain or in countries included in groups 1 and 2 for country-risk purposes that are not included in the foregoing risk classes, unless they qualify for classification in medium-high or high-risk classes.
- (v) **Medium-high risk.** The following transactions are included, unless they qualify for classification in the high-risk class: personal credit for purchases of consumer durables and of other current goods and services not assigned to a business activity, unless they are registered in the Instalment Sales of Movable Goods Register, and exposures to ultimate obligors resident in countries in groups 3-6 for country-risk purposes excluded from allowance or provision for such exposure that are not included in other classes.
- (vi) **High risk.** This comprises the following transactions: credit card balances, current account overdrafts and credit account overdrafts, whosoever the obligor, except those mentioned in points (i) and (ii) above.

Within this category it will be necessary to identify the transactions that call for special monitoring, these being understood as those evidencing minor weaknesses which, while not requiring a greater allowance or provision than that established for standard exposures, advise special monitoring by the entity. Among the transactions identified as meriting special monitoring are: until their extinguishment, restructured loans (extended, rearranged or held by customers declared subject to a creditors' agreement and that have been reclassified out of one of the doubtful categories due to meeting the requirements therein); and the transactions classified as standard of customers who have one or more transactions classified as doubtful due to arrears.

- b) **Substandard.** This includes all debt instruments and contingent exposures which, without qualifying individually for classification as doubtful or write-off, show weaknesses that may entail the entity assuming losses higher than the allowances

and provisions for impairment of exposures under special monitoring. This category includes, inter alia, the transactions of customers who form part of groups in difficulty (such as the residents in a specific geographical area at sub-country level, or those belonging to a specific, ailing economic sector), for which overall losses higher than those in the foregoing category are estimated, and transactions that are not properly documented.

- c) ***Doubtful due to customer arrears.*** This includes the total amount of debt instruments, whoever the obligor and whatever the guarantee or collateral, any part of whose principal, interest or contractually agreed expenses is past-due more than three months, unless such instruments should be classified as write-off. Also included are contingent exposures the obligor of which is in arrears.

This category will also include the amounts of all the transactions of a customer if the balances classified as doubtful due to arrears exceed 25% of the outstandings. For the sole purpose of determining the percentage indicated, the past-due cash balances in respect of the principal, interest and expenses of transactions classified as doubtful due to arrears and as write-off shall be included in the numerator, and all cash receivables, excluding unaccrued interest, in the denominator. If the resulting percentage exceeds 25%, both the money exposures and the contingent exposures to the customer, with the exception of non-financial guarantees (*avales no financieros*), shall be transferred to the “doubtful due to customer arrears” category.

In overdrafts and other demand debit balances without an agreed maturity, the age of the unpaid amounts shall be counted from the first repayment demand by the entity, or from the first interest settlement, that goes unpaid.

In transactions with regular repayment instalments, the first due date for the purposes of classification of transactions in this category shall be that of the oldest instalment for which, as at the balance sheet date, any principal or interest remains unpaid.

Transactions classified in this category may be reclassified as standard if, as a result of the collection of a portion of the unpaid instalments, the reasons for classifying them as doubtful assets in accordance with the foregoing paragraphs cease to exist, unless other reasons remain for classifying them as doubtful.

The time extension or rearrangement of transactions does not interrupt their arrears and nor will it give rise to their reclassification to one of the foregoing categories unless there is reasonable certainty that the customer can make payment on schedule, or unless new effective guarantees or collateral are provided and, in both cases, unless at least the current interest receivable, disregarding interest for late payment, is paid.

For the purposes of the preceding paragraph, effective guarantees or collateral are considered to be the following: collateral in the form of cash deposits, quoted equity instruments and debt securities issued by creditworthy issuers; mortgages on completed housing, offices and multi-purpose premises and on rural property, net of any prior charges; and personal guarantees (bank guarantees and other, inclusion of new obligors, etc.) which entail the direct and joint and several liability of the new guarantors to the entity, these being persons or entities whose solvency is sufficiently demonstrated as to ensure the full repayment of the transaction under the

agreed terms. The amount of these guarantees or collateral must fully cover the exposure they are guaranteeing.

Multi-purpose offices and premises are considered to be all those that, without structural or architectural alteration, can be used for different business activities and by different companies or economic agents, without any legal or administrative restrictions appreciably limiting their use or the possibility of their sale.

- d) ***Doubtful for reasons other than customer arrears.*** This includes debt instruments, whether due or not, which are not classifiable as write-off or doubtful due to customer arrears, but for which there are reasonable doubts about their full repayment (principal and interest) under the contractual terms. Also included are contingent exposures and contingent commitments not classified as doubtful due to customer arrears whose payment by the entity is likely and whose recovery is doubtful.

This category shall include, inter alia: the transactions of customers in situations signifying a deterioration in their solvency, such as negative equity, persistent losses, general delays in payment, inadequate economic or financial structure, insufficient cash flows to meet debts or impossibility of obtaining further financing; amounts claimed and amounts for the repayment of which the entity has decided to take legal action, even when they are guaranteed; transactions which the debtor has legally disputed, the collection of which depends on the lawsuit's outcome; finance leases in which the entity has decided to terminate the contract to recover possession of the asset; the transactions of customers that are declared - or of which there is notice that they are to be declared - subject to bankruptcy proceedings without a request for liquidation; and all the transactions (including contingent exposures and commitments for which it is considered that payments will have to be made) of customers with one or more balances classified as doubtful due to arrears that do not reach the percentage indicated in c) above if, after they are analysed individually, it is concluded that there are reasonable doubts as to their full repayment (principal and interest). Also included shall be the contingent exposures to guaranteed debtors who have been declared subject to bankruptcy proceedings with notice that the liquidation phase has been or is to be declared, or whose solvency has undergone a notable and irreversible deterioration, even if the creditor has not claimed payment under the guarantee.

The exposures of customers declared as subject to a creditors' agreement without a liquidation request shall be reclassified to the standard category if the borrower has paid at least 25% of the credit from the entity that is affected by the suspension of payments (once the agreed partial acquittance of debt, if any, has been deducted), or if two years have elapsed since the order approving the creditors' agreement was registered at the Mercantile Register, provided that such agreement is being faithfully performed and the financial condition of the firm dispels any doubts regarding full repayment of its debts. Risks incurred subsequent to the approval of the creditors' agreement need not be classified as doubtful as long as the agreement is complied with and there are no reasonable doubts about collection.

- e) ***Write-off.*** This category shall include the amount of the debt instruments, whether due or not, for which the entity, after analysing them individually, considers the possibility of recovery to be remote and proceeds to derecognise them. Unless there is evidence to the contrary, this category shall include all the debits, except amounts covered by sufficient effective guarantees or collateral, of customers that are

declared subject to bankruptcy proceedings for which there is notice that the liquidation phase has been or is to be declared, or whose solvency has undergone a notable and irreversible deterioration, and the balances of transactions classified as doubtful due to arrears that are more than four years old.

Classification in this category does not signify that the entity should interrupt negotiations and legal action to recover the amount.

## **B) CREDIT RISK ATTRIBUTABLE TO COUNTRY RISK**

8. Debt instruments not measured at fair value through profit or loss and contingent exposures, whose customer, shall be analysed to determine their credit risk attributable to country risk.

For this purpose, country risk is understood as the risk associated with customers resident in a specific country due to circumstances other than normal commercial risk. Country risk comprises *sovereign risk*, *transfer risk* and *other risks arising from international financial activity*, as defined below.

- a) *Sovereign risk* is that of the creditors of states or of state-guaranteed institutions insofar as legal action may be ineffective against the borrower or the ultimate obligor for reasons of sovereignty.
  - b) *Transfer risk* is that of the foreign creditors of the residents of a country that experiences a general inability to meet its debts owing to a lack of the foreign currency or currencies in which they are denominated.
  - c) *Other risks arising from international financial activity* are those resulting from one of the following situations: civil or international war, revolution, or any similar or catastrophic event; particularly serious political or economic events, such as balance of payments crises or significant exchange rate fluctuations giving rise to widespread insolvency; expropriation, nationalisation or seizure mandated by foreign authorities, and express or tacit measures adopted by a foreign government or by the Spanish authorities that give rise to breach of contract.
9. Transactions shall be allocated to the customer's country of residence as at the date of the analysis, except in the following cases in which they shall be classified as indicated below:
- a) Those that are guaranteed by residents of another, better rated country, or by the CESCE (Spain's official export credit company) or other residents of Spain shall be classified, for the guaranteed portion of the credit, in the same group as the guarantor provided that the guarantor has sufficient financial capacity to meet the commitments assumed.
  - b) Those that are secured by collateral, for the secured portion of the credit, provided that the collateral is sufficient and it is located and is realisable in Spain or another country in group 1, shall be classified in group 1.

- c) Exposures to an entity's foreign branches shall be classified on the basis of the situation of the country of residence of the central headquarters of these branches.
10. Debt instruments and contingent exposures shall be classified for country risk purposes in the groups 1 to 6 indicated in this section. To do this, entities shall make an overall assessment of the exposure to the countries to which they allocate transactions on the basis of their economic performance, political situation, regulatory and institutional framework, and payment capacity and record. For these purposes, the following indicators regarding the country shall be taken into account:
- a) *Payment record*, with particular attention, where appropriate, to compliance with renegotiation agreements and the payments to be made to international financial institutions.
  - b) *The external financial position*, particularly taking into account the indicators of total external debt, short-term external debt, debt service in relation to GDP and to exports, and external reserves.
  - c) *The economic situation*, based essentially on:
    - (i) Indicators relating to budgetary, monetary and balance-of-payments aggregates.
    - (ii) Indicators relating to economic growth (level of income, savings or investment rates, GDP growth, etc.) and to vulnerability (export diversification, dependence on aid, etc.)
  - d) *Market indicators*: in particular, credit ratings by reputable credit rating agencies, secondary-market debt prices, market access and debt yield spreads shall be taken into account.

Transactions shall be classified in the following groups bearing in mind the relative significance of the foregoing indicators:

- (a) **Group 1.** This group shall include transactions with ultimate obligors resident in European Union countries, Norway, Switzerland, Iceland, the United States, Canada, Japan, Australia and New Zealand.
- (b) **Group 2.** This group shall include transactions with ultimate obligors resident in countries which, while being low-risk, are not included in group 1.
- (c) **Group 3.** This group shall at least include transactions with ultimate obligors resident in countries that show a significant macroeconomic deterioration that may affect the country's ability to pay. This deterioration may manifest itself as: significant and persistent current-account deficits, a high proportion of short-term debt in relation to total foreign debt or net external reserves, sharp depreciations of the currency or substantial changes in the exchange-rate regime (e.g. the abandonment or imminent risk of abandonment of monetary arrangements such as currency boards or managed float systems), heavy falls in stock exchange prices, external-debt and debt-service ratios far higher than those of the countries in groups 1 and 2 or those

of neighbouring countries.

- (d) **Group 4.** This group shall at least include transactions with ultimate obligors resident in countries that show a profound macroeconomic deterioration that may seriously affect the country's ability to pay. Included in this group shall be transactions allocated to countries classified in group 3 that experience a deterioration in the indicators mentioned in (c) above.
- (e) **Group 5.** This group shall include transactions with ultimate obligors resident in countries that have had long-standing difficulties in servicing their debt, the possibility of recovering such debt being considered as doubtful.
- (f) **Group 6.** This category shall include transactions the recovery of which is considered a remote possibility due to circumstances attributable to the country. In any event, this group shall include transactions with ultimate obligors resident in countries that have repudiated their debt or have not made repayments of principal and payments of interest for four years.

Transactions with multilateral agencies made up of countries classified in groups 3, 4 and 5 shall be classified in the group in which most of the participating countries are situated, with the exception of the multilateral development banks listed in paragraph 1.II.a) of Rule thirteen of Circular 5/1993 of 26 March 1993, which shall be classified in group 1. Where there are objective reasons for a better classification, a reasoned consultation shall be submitted to the Banco de España proposing the classification deemed appropriate.

- 11. Debt instruments and contingent exposures classified in groups 3 to 6, except for the transactions excluded from country-risk allowances and provisions in accordance with the following section, shall be classified in the following categories for the purposes of estimating the impairment due to country risk:
  - a) **Substandard due to country risk:** Transactions classified in groups 3 and 4, unless the transactions should be classified as doubtful or write-off due to risk attributable to the customer.
  - b) **Doubtful due to country risk:** Transactions classified in group 5 and contingent exposures and contingent commitments classified in group 6, unless the transactions should be classified as doubtful or write-off due to risk attributable to the customer.
  - c) **Write-off due to country risk:** Transactions classified in group 6, unless the transactions should be classified as write-off due to risk attributable to the customer. Debt instruments classified in this category shall be derecognised.
- 12. The following debt instruments and contingent exposures shall be excluded from country-risk allowances and provisions:
  - a) Exposures allocated to a country, whatsoever the currency in which they are denominated, recorded at subsidiaries and jointly controlled entities established in the country of residence of the obligor; exposures in local currency, whatsoever the obligor, recorded at branches established in the country of residence of the obligor; and exposures other than to general government denominated in the currency of the

country of the obligor and recorded in the financial statements of branches or subsidiaries or jointly controlled entities established in a country other than that in which the obligor resides.

- b) Monetary or non-monetary commercial credits, and the financial credits arising therefrom, with a maturity not exceeding one year from the date of utilisation of the initial credit.
- c) Pre-financing credit with terms of six months or less for specific export contracts, provided that this credit matures at the date of export.
- d) Interbank transactions with the branches established in European Economic Area Member States of foreign credit institutions located in other countries, provided that the criteria applied by these branches for recording credit risk allowances and provisions in their financial statements are equivalent to those indicated in this annex.
- e) Private-sector transactions of countries belonging to the monetary zone of a foreign currency issued by a country classified in group 1.
- f) Financial assets of whatsoever class acquired for placement with third parties as part of a portfolio separately managed for this purpose, with less than six months in the hands of the entity.

### **III. ALLOWANCES OR PROVISIONS FOR CREDIT RISK IMPAIRMENT LOSS**

- 13. In calculating the amounts needed for credit risk allowances and provisions, entities shall apply the following criteria:
  - a) In accordance with the provisions of this annex, they shall calculate the amount of the allowance or provision needed for insolvency risk attributable to the customer and also for country risk. If there are reasons for simultaneously recording allowances or provisions for both types of risk in a transaction, the impairment recognition criteria that are the most demanding shall be applied.
  - b) Entities shall develop internal models to calculate the allowance or provision for insolvency risk and country risk, which will take the methodology described in the following sections as an obligatory reference. These models shall form part of a suitable credit risk measurement and management system and use parameters obtained from data in the entity's historical database, which should span a complete business cycle and not be skewed by any growth in business that affects their representativeness. Once the Banco de España establishes the remaining minimum requirements that models must meet, and once conformity has been verified, entities may use their internal models to prepare their financial statements.

- c) The allowances to be recorded for transferred financial assets that remain on the balance sheet because they do not meet the requirements laid down in Rule twenty-three for their derecognition shall be those applicable to such assets, with a limit equal to the amount assumed by the entity as its maximum loss.
- d) The appraised values of property located in Spain shall be those that appear in the reports by appraisal companies registered in the Banco de España Official Register, applying the criteria laid down by Ministerial Order ECO/805/2003 of 27 March 2003. In the event of the execution of the collateral and if there has been an evident deterioration in the property, these reports shall be updated by an independent appraisal company in accordance with the criteria indicated in paragraph 5 of Rule fourteen.
- e) In consolidated statements with an unqualified opinion by the external auditors, the allowance or provision for credit risk impairment in the official balance sheets of foreign subsidiaries calculated in accordance with current local regulations, cannot be reversed; without prejudice to additional allowances or provisions having to be made if the impairment recognised is not sufficient under the criteria set by this Circular.
- f) The overall allowance or provision existing at any time shall be the sum of those for losses on specific transactions (specific allowance or provision) and for inherent losses or losses not specifically allocated (general allowance or provision) relating to the customer's insolvency risk, plus the country risk allowance or provision.

## **A) ALLOWANCES AND PROVISIONS FOR INSOLVENCY RISK ATTRIBUTABLE TO THE CUSTOMER**

### **1. Specific allowance or provision**

#### **1.1. Debt instruments**

- 14. The impairment of debt instruments not measured at fair value through profit or loss that are classified as doubtful shall be recognised in accordance with the criteria indicated in the following sections.

##### **1.1.1. Assets classified as doubtful due to customer arrears**

- 15. Entities shall evaluate assets classified as doubtful due to customer arrears individually, especially those of significant amount, to estimate impairment allowances, taking into account the age of the past-due amounts, the guarantees or collateral provided and the economic situation of the customer and the guarantors.

In addition, entities shall develop methods for the calculation of collective allowances for these assets in which the amounts shall be determined on the basis of the age of the past-due amounts. In this connection, entities shall classify their assets on the basis of the age of the unpaid instalments and of the guarantees or collateral in place, and they shall maintain

historical statistical databases on how they are performing and on the final outcome.

16. The Banco de España, based on its experience of and information on the Spanish banking sector, has estimated minimum allowance percentages for default schedules. These percentages are indicated in the following sections. The allowance percentages included in these default schedules take into account the time value of money. Entities shall apply at least these percentages in estimating the specific allowances for collective estimation of the losses arising from transactions recorded at Spanish institutions and of those arising from transactions recorded in the name of Spanish residents at foreign subsidiaries. The Banco de España shall regularly update these schedules to reflect changes in the data for the sector, through the appropriate amendment to this Circular.

To estimate the specific allowance for transactions with non-residents in Spain recorded at foreign subsidiaries, the methods and criteria indicated in the following sections shall be applied, using default schedules adapted to the specific circumstances of the country in which the subsidiary operates. For these purposes, entities shall take the scales included in the following section as a required reference.

17. The impairment of assets classified as doubtful due to customer arrears, except those regulated in the following sections, shall be recognised by applying the percentages indicated below on the basis of the time elapsed since the date of the first missed payment that remains unpaid on any single transaction:

**a) *Unsecured* transactions**

The allowance percentages applicable to transactions other than those included in the risk class “negligible risk”, provided they do not have any of the collateral mentioned in b) or in the following section, shall be as indicated below, distinguishing customers that are companies or sole proprietors from other types of customer:

	<u>Companies and sole proprietors</u>	<u>Other customers</u>
Up to 6 months	5.3%	4.5%
Over 6 months and up to 12	27.8%	27.4%
Over 12 months and up to 18	65.1%	60.5%
Over 18 months and up to 24	95.8%	93.3%
Over 24 months	100%	100%

The foregoing scale shall be applied to transactions classified as “doubtful due to customer arrears” because of the accumulation of arrears on other transactions. For these purposes, the date for calculating the allowance percentage of these transactions shall be deemed to be that of the oldest missed payment that remains unpaid, or that of the classification of the assets as doubtful, whichever is earlier.

When it is not possible to identify the transactions made by individuals in their capacity as sole proprietors, all their transactions shall have applied to them the percentages established for other customers.

b) **Secured** transactions

The allowance percentages for these transactions shall, depending on the type of collateral, be as indicated below:

**(i) Transactions secured by completed houses**

The allowance percentage to be applied to debt instruments secured by a first-mortgage on finished houses, and to finance leases on such assets, provided that the outstanding exposure is equal to or less than 80% of the appraised value of the houses, shall be 2%.

If three years elapse without the debt being extinguished or the entity acquiring ownership of the houses, it will be considered that the entity cannot or does not intend to proceed with foreclosure, and the following allowance percentages shall be applied to the outstanding exposures:

Over 3 years and up to 4 years	25%
Over 4 years and up to 5 years	50%
Over 5 years and up to 6 years	75%
Over 6 years	100%

Notwithstanding the foregoing, the allowance percentage to be applied to transactions classified as “doubtful due to customer arrears” because of the accumulation of arrears on other transactions shall, so long as they are current in payment, be 1%.

For this purpose, buildings used as offices, etc. are considered to be houses, provided that they have been built for residential purposes, continue to be legally capable of being so used and do not require a significant transformation to be reused as a house.

If the entity eventually acquires the housing, the credit-risk allowances previously established shall be reversed provided that the acquisition cost less the estimated selling costs (which shall be at least 30% of such value) exceeds the amount of the debt disregarding allowances, unless the acquisition cost is greater than the mortgage value, in which case the latter value shall be taken as reference.

**(ii) Other secured transactions**

The allowance percentages applicable to transactions secured by real property, including those transactions secured by completed houses excluded from b.(i) above, provided that the entity has initiated procedures to foreclose such assets and their value is substantial in relation to the amount of the debt, shall be as indicated below, distinguishing customers that are companies or sole proprietors from other types of customer:

	<u>Companies and sole proprietors</u>	<u>Other customers</u>
Up to 6 months	4.5%	3.8%
Over 6 months and up to 12	23.6%	23.3%
Over 12 months and up to 18	55.3%	47.2%
Over 18 months and up to 24	81.4%	79.3%
Over 24 months	100%	100%

The foregoing scale shall be applied to transactions classified as “doubtful due to customer arrears” because of the accumulation of arrears on other transactions. For these purposes, the date for calculating the allowance percentage of these transactions shall be deemed to be that of the oldest missed payment that remains unpaid, or that of the classification of the assets as doubtful, whichever is earlier.

When it is not possible to identify the transactions made by individuals in their capacity as sole proprietors, the percentages established for other customers shall be applied to all their transactions.

If the entity eventually acquires the housing, the credit-risk allowances previously established shall be reversed provided that the acquisition cost less the estimated selling costs (which shall be at least 30% of such value) exceeds the amount of the debt disregarding allowances, unless the acquisition cost is greater than the mortgage value, in which case the latter value shall be taken as reference.

18. The impairment of transactions in the name of customers other than those referred to in the following section that have any of the collateral indicated below shall be recognised by applying the following criteria:
  - a) The impairment of transactions with partial cash collateral shall be recognised by determining the difference between the amount at which they are recorded in assets and the present value of the deposits, and applying to that difference the allowance percentages listed in the previous section for unsecured transactions.
  - b) The impairment of transactions with partial collateral consisting of interests in monetary financial institutions or of debt securities issued by general government or credit institutions included in the “negligible risk” risk class, or other financial instruments quoted on active markets, shall be recognised by determining the difference between the amount at which they are recorded in assets and 90 per cent of the fair value of such financial instruments, and applying to that difference the allowance percentages listed in the previous section for unsecured transactions.
19. Transactions included in the “negligible risk” risk class shall be individually analysed, the necessary allowance being the difference between the amount recorded in assets and the present value of the cash flows expected to be received.
20. In finance lease transactions, instalments due and unpaid shall, until the time of

physical recovery of possession or use of the leased assets, follow the impairment treatment specified for other transactions.

When the decision has been taken to terminate the contract so as to recover the asset, if the latter has a fair value of less than the carrying amount of the finance lease, an impairment allowance shall be made for the estimated amount of the loss; until the fair value is determined by means of the appropriate appraisals or valuations, the amount of the allowance shall be no less than 10% of the carrying amount of the finance lease in the case of real property (except for that used as housing, offices or multi-purpose commercial premises, which shall not require additional allowance), and 25% in the case of fixtures and movable property.

21. The impairment of transactions in which there are other reasons apart from arrears for classifying them as doubtful shall be recognised at the amount calculated in accordance with the most demanding requirement. Transactions of a significant amount for the entity shall be individually analysed to determine whether higher allowance percentages than those indicated in the foregoing sections would be appropriate.

#### ***1.1.2. Assets classified as doubtful for reasons other than customer arrears***

22. Debt instruments classified as doubtful for reasons other than customer arrears shall be analysed individually. Their allowance shall be equal to the difference between the amount recorded in assets and the present value of the cash flows expected to be received.

In general, the allowance for these transactions shall be no less than 25% of the balances classified as doubtful. When the classification as doubtful has been made because the customer has an inadequate economic or financial structure, the allowance shall be at least 10%. The credit risk allowance for customers declared subject to a creditors' agreement, without liquidation having been commenced, shall be reduced to 10% if one year has elapsed since the order approving the agreement was registered in the Mercantile Register, the order is being faithfully performed and the course taken by the financial condition of the firm has reduced the uncertainty over the repayment of its debts, provided that interest rates markedly below market rates have not been agreed.

In transactions secured by completed houses and in finance leases of real property, the applicable allowances shall be made after deducting from the amount of the exposure 70 per cent of the appraised value of the property, provided that there is no doubt that the property can be separated from the debtor's assets in the event of bankruptcy and restored to the credit institution.

#### ***1.1.3. Substandard assets***

Transactions classified in the substandard category shall be analysed to determine the allowance necessary, which shall be more than the general allowance that would be applicable if they were classified as standard. In addition, the net impairment charges made in the period in which a transaction is classified in this category shall be greater than the charges that would have had to have been made if the transaction had continued to be classified as standard.

In particular, the following criteria shall be applied:

- a) The allowance for each of the homogeneous groups of debt instruments classified as substandard because their holders are in difficulty shall be estimated by a procedure that results in amounts similar to the difference between the amount recorded in assets for such instruments and the present value of the cash flows expected to be collected from the group, discounted at the average contractual interest rate. In any case, the allowance percentages shall be lower than those that would be required if the criteria of section 1.1.2 above were applied.
- b) An allowance percentage of 10% shall be applied to loans for an amount of over 25,000 euro that are not adequately documented.

## **1.2 Contingent exposures and commitments**

- 24. Doubtful contingent exposures and commitments, except for guarantees and other indemnities, shall be provisioned for the estimated amount of the disbursements expected to be made that is considered to be unrecoverable, determined by prudent measurement criteria. The provisions shall be calculated by criteria similar to those set for assets classified as doubtful for reasons other than customer arrears .

The classification of a contingent exposure or commitment as doubtful shall entail, where applicable, reclassification of the amount at which it is recognised in the liabilities item “accrued expenses and deferred income” to the item “provisions for contingent exposures and commitments”, and impairment charges shall be made until the necessary provisioning level according to this Annex has been reached. In addition, an impairment allowance shall be recognised up to the amount recorded, where applicable, under the item “other financial assets”, provided that the principal debtor under the guarantee is responsible for paying the outstanding fees associated with the financial guarantee, or the receipt of such amount is considered doubtful.

- 25. The provisions for the guarantees and other indemnities given that are classified as doubtful shall be equal to the amount estimated as non-recoverable using prudent measurement criteria. In all cases, the doubtful amounts shall be provisioned by at least the percentages established for doubtful assets, subject to the following requirements:

### **a) Provisions due to customer arrears**

- (i) The provision percentages applied to financial guarantees (*avales financieros*) classified as doubtful due to arrears on the exposures guaranteed, and to the monetary exposures deriving from such guarantees shall, based on the guarantees held by the guarantor, be the same as those that would be applied to arrears on the monetary exposures guaranteed by them. The date taken for determining the period used to fix the minimum provision percentage shall be the due date of the first payment or instalment of the monetary exposure not paid by the debtor to its lenders that remains wholly or partially unpaid at the balance sheet date.

- (ii) For non-financial guarantees (*avales no financieros*) and for the monetary exposures deriving therefrom, the date to be taken for the purpose of fixing the minimum provision percentage shall be the earliest for which the creditor has claimed payment from the debtor among those with some remaining unpaid amount at the balance sheet date, except when the claim has been made directly to the guarantor, in which case the date of this request shall be taken.
- (iii) The amount of the exposures covered by the guarantees referred to in section 7.a).(i) of this annex as “negligible risk” shall be excepted from the stipulations of (i) and (ii) above.

**b) Provisions for reasons other than customer arrears**

- (i) Financial guarantees (*avales financieros*) shall be provisioned in full if the debtor is declared subject to bankruptcy proceedings for which there is notice that the liquidation phase has been or is to be declared, or if the debtor’s solvency has undergone a notable and irreversible deterioration, even though the creditor may not have claimed payment under the guarantee.
- (ii) In financial guarantees (*avales financieros*) where the debtor has negative equity or persistent losses, or where the debtor is subject to bankruptcy proceedings without any notice that the liquidation phase has been or is to be declared, or where there is a general delay in payments, or similar circumstances, 25 per cent of the total amount of the guarantee shall be provisioned, even if the creditor has not claimed payment.
- (iii) In other guarantees classified as doubtful for reasons other than arrears, at least 10 per cent of the amounts not claimed by the creditor shall be provisioned, while the percentages to be provisioned of the amounts claimed shall be those that, based on the situation of the debtor, should be applied in accordance with the criteria established in (i) and (ii) above.
- (iv) The amount of exposures backed by the guarantees mentioned in section 7.a) (i) of this annex or by a mortgage over the assets referred to in section 17.b) (i) of this annex relating to “transactions secured by completed houses”, provided, in this latter case, that there is no doubt that, in the event of the debtor’s bankruptcy, the assets concerned can be separated from the debtor’s assets to satisfy the monetary exposure that may arise from the guarantee, shall be excepted from the stipulations of (i), (ii) and (iii) above.

26. The contingent exposures classified in the substandard category shall be analysed to determine the provision necessary, which shall in all cases be more than the general provision that would be applicable if they were classified as standard.

**2. General allowance or provision**

27. In recognising the losses inherent in debt instruments not measured at fair value through profit or loss, and in contingent exposures classified as standard, entities shall take into

account the historical experience of impairment and the other circumstances known at the time of the assessment. For these purposes, inherent losses are the losses incurred as at the date of the financial statements, calculated using statistical procedures, that have not been allocated to specific transactions.

28. The Banco de España, based on its experience of and information on the Spanish banking sector, has determined that the method and amount of the parameters entities must use to calculate the amounts needed to cover the impairment losses inherent in debt instruments and contingent exposures classified as standard, that are recorded by Spanish entities or that arise from transactions in the name of residents in Spain recorded in the books of foreign subsidiaries, shall be those described in the following section. The Banco de España shall, by means of the appropriate amendment to this Circular, periodically update the parameters used in the method to reflect changes in the data for the sector.

To estimate the general allowance or provision for transactions with non-residents in Spain recorded at foreign subsidiaries, the methods and criteria indicated in the following section, adapted to the particular circumstances of the country in which the subsidiary operates, shall be applied. For these purposes, entities shall take as required reference the parameters indicated in section 29.b) below.

29. The method for estimating the general allowance or provision mentioned in the previous section is as follows:

- a) The general impairment charge to an allowance or provision to be made in each period shall be equal to (i) the sum of the products of the positive or negative change during the period in the amount of each risk class and the related  $\alpha$  parameter, plus (ii) the sum of the products of the total amount of the transactions included in each risk class at the end of the period and the related  $\beta$ , less (iii) the amount of the overall net impairment charges for the relevant specific allowances or provisions made in the period.
- b) The parameters  $\alpha$  and  $\beta$  take into account the historical inherent loss and the adjustments to adapt them to the current economic circumstances. Their values for each of the risk classes are:

		<u><math>\alpha</math></u>	<u><math>\beta</math></u>
(i)	Negligible risk	0%	0%
(ii)	Low risk	0.6%	0.11%
(iii)	Medium-low risk	1.5%	0.44%
(iv)	Medium risk	1.8%	0.65%
(v)	Medium-high risk	2.0%	1.10%
(vi)	High risk	2.5%	1.64%

- c) The overall balance of the general allowance or provision shall at all times be between 33% and 125% of the sum of the products obtained by multiplying the amount of each risk class by its related  $\alpha$  parameter.
- d) The amounts to be taken as the basis for calculating the general allowances or provisions for contingent exposures shall be those calculated as specified in paragraph 2 of Rule sixty-five of this Circular weighted by the percentages established in Rule fourteen of Circular 5/1993 of 26 March 1993.
- e) With regard to specific allowances and provisions, the overall net impairment

charges are equal to the specific impairment charges for customer insolvency arising from debt instruments and contingent exposures less the reversals of such specific allowances or provisions and of asset write-offs in the period. Impairment charges for country risk are not included.

## **B.2) COUNTRY RISK ALLOWANCE OR PROVISION**

30. The amounts of debt instruments and contingent exposures classified for the purposes of country risk in groups 3 to 6, with the exception of the transactions indicated in section 12 of this annex, shall be subject to at least the following allowance or provision percentages :

a)	Group 3.....	10.1%
b)	Group 4.....	22.8%
c)	Group 5.....	83.5%
d)	Group 6.....	100%

Notwithstanding the foregoing, the allowance or provision percentage for interbank credit with maturities of up to three months shall be 50% of those established in this section, provided that the country is included in groups 3 or 4 for the purposes of country risk and the debt has been serviced normally, without delays or renewals.

31. The financial, monetary or off-balance-sheet support provided to branches, subsidiaries and jointly controlled entities resident in countries classified in groups 3 to 6 for the purposes of country risk, denominated in a currency other than that of the country in which they are established, shall give rise to the recording of country risk allowances or provisions in the individual statements and, where applicable, also in the consolidated statements of the entities providing the support, even if such support does not appear in such statements as a consequence of their process of preparation, unless the support consists of the financing of assets whose impairment arising from country risk is already recognised.