

## 2 ACTIVITY REPORT



Minutes of the Bank's committees. Historical Archive of the Banco de España. 1929-1934.

## 2.1 INTERNAL ORGANISATION AND ADMINISTRATION

### 2.1.1 Human resources

The Banco de España employs a total of 3,043 staff, whose average age was 44.8 years, with a proportion of 49.3% of women to 50.7% of men.

As at 31 December 2017, the total number of Banco de España staff was 3,043. In line with the trends observed in recent years, the average age of employees continued to decrease, to 44.8 years by the end of the year, and there was a greater gender balance, with 49.3% of women and 50.7% of men. As Chart 1 shows, it should be noted that the proportion of total Bank staff that are women has increased by almost nine percentage points, from 40.5% in 2011 to 49.3% in 2017.

In 2017, the Bank welcomed professionals from other central banks, and at year-end, 161 Banco de España employees were working in international organisations.

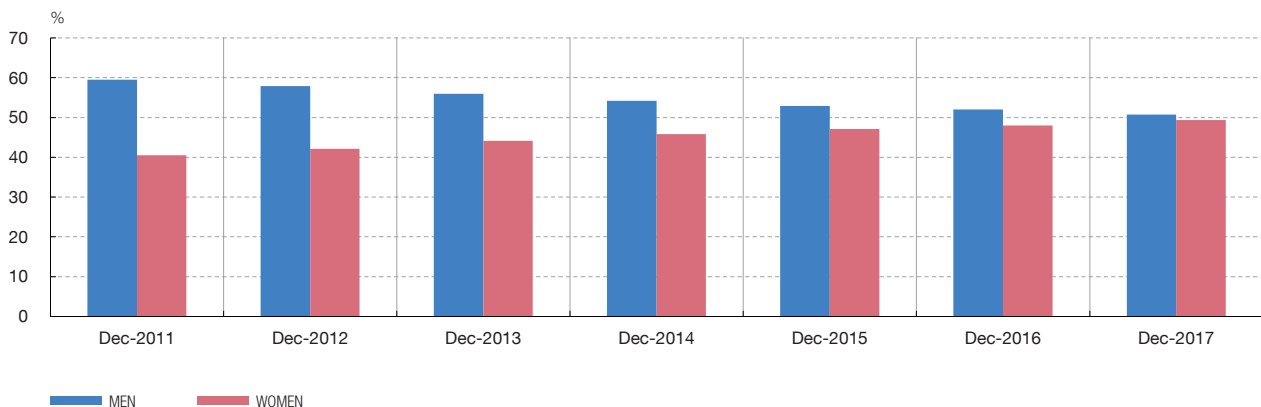
The average time devoted to training per employee amounted to 43 hours for the year as a whole, and the number of employees that participated in international courses increased.

More than 11,400 job applications were received 2017

Following a strategy aimed at attracting the best professionals and, in an effort to ensure that its employment opportunities reach the broadest possible audience, the Banco de España continues to strengthen the use of digital channels, particularly its website, and social media such as LinkedIn and employment portals. More than 11,400 job applications were received 2017. A total of 27 selection processes for permanent employees were carried out and 264 professionals were recruited, of which 162 were administrative staff and employees for various support services, and 102 were managerial staff, mainly specialists and professional staff.

STAFF COMPOSITION

CHART 1



SOURCE: Banco de España.

The transformation plan for the human resources function continued.

In addition to promoting the measures that began to be implemented in 2016 as part of the transformation plan for the human resources function, such as internal mobility, teleworking, the figure of the human resources manager and internal communications, the commitment to promote the internal mobility of employees to fill managerial positions continued in 2017, and a voluntary management training programme was launched. In addition, progress was made on improving and automating human resources processes. Work was undertaken on a human resource management platform which will integrate data and processes in a single application and provide new management tools for both employees and managers. One of the pillars of this integrated human resources management is the work carried out to create a simpler, more streamlined job architecture.

### **2.1.2 Reorganisation**

2017 saw the creation of the Directorate General Cash and Branches, which became responsible for the Cash and Issue and Banknote Production Control departments, which had formerly reported to the Directorate General Operations, Markets and Payment Systems.

The structure of the Directorate General Economics, Statistics and Research was also changed, to incorporate the Associate Directorate General International Affairs, which had until then reported to the Deputy Governor.

Finally, the Directorate General Financial Stability, Regulation and Resolution and the Directorate General Banking Supervision were restructured with a view to, on one hand, achieving greater coordination in the regulatory policy formulation process in the international sphere, centralising these functions in its new Regulation Department, and, on the other, to strengthen the cross-departmental support and coordination functions in the Directorate General Banking Supervision, creating a Planning and Analysis Department for this purpose. In addition, Supervision Departments I, II, III and IV were reassigned to the Associate Directorate General Banking Supervision.

Section 1.3.1 “Organisational chart and structure. Directorates General and General Secretariat” refer to further details on the organisational changes that have taken place in 2018.

### **2.1.3 Services**

The façades of the historical building were restored and cleaned, as were the stained-glass windows and ceilings.

In 2017, comprehensive restoration and cleaning work was carried out on the façades of the Banco de España building that look onto Paseo del Prado and Calle de Alcalá. In 2018, the project will continue with the restoration and cleaning of the façades of Calle Marqués de Cubas and Calle Los Madrazo. The stained-glass windows in the Echegaray rotunda and in the Reading Room of the Library in the old Banco de España building have also been restored, as have the stained-glass ceilings above these and the main staircase.

Work continued on refurbishing the Library’s reading room.

Work continued on the project to refurbish the Library’s reading room, the aim of which is to give the façades their original transparency by renovating the surrounding office spaces on the main floor. The work is expected to be completed in the first quarter of 2018. Another noteworthy refurbishment project was that carried out in the semi-basement in

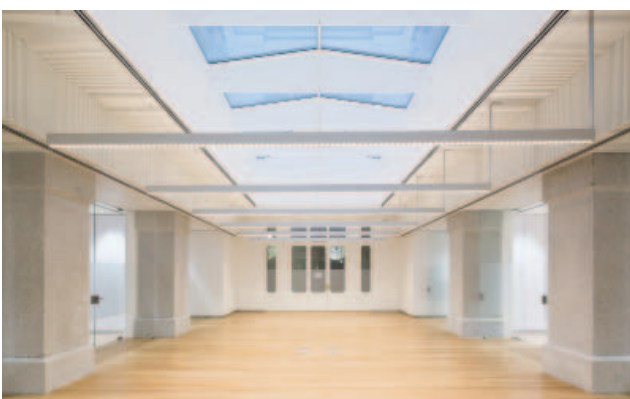


Façade of the Cibeles building after completion of restoration and cleaning work.

the Paseo del Prado wing of the old building, in which the original features of the patio were restored with the construction of a skylight.

A new version of the Bank Customer Portal was launched and the Bank continued to participate actively in IT developments for European projects.

In the area of IT systems, a new version of the *Portal del Cliente Bancario* (Bank Customer Portal) was launched and the Banco de España participated actively, for another year, in the IT development of projects for the Eurosystem in collaboration with other central banks, notably relating to payment infrastructures, securities, collateral management and treasury management of market operations (see Section 2.2.2). Also, jointly with the ECB,



Room in the Cibeles building after completion of refurbishment (left). Cashier's counter (current Library), before 1980 (centre). Restored stained-glass window in the Library (right).

the Banco de Italia and Banco de Portugal, further progress was made on the Anacredit (Analytical Credit Datasets) project.

#### 2.1.4 Branch offices

Inspection of the operational centres of the ancillary deposit system was completed.

In 2017, the inspection of the operational centres of the ancillary deposit system (SDA, by its Spanish abbreviation) was completed. This inspection had commenced in mid-2016, to verify compliance with the regulations affecting them. The SDA is a network of Banco de España banknote deposits located throughout the country, where credit institutions can withdraw and return banknotes, and which provide support to the branch offices in performing their functions relating to the distribution and processing of cash. In addition, the branches provide support to the different Bank departments, offering the general government and the public decentralised services relating to functions and tasks assigned to the Banco de España. These include the exchange of pesetas for euros, replacement of damaged banknotes and coins, current accounts, submission of claims, requesting reports from the Central Credit Register and public debt subscription.

At the end of 2017, there were 422 employees at the Banco de España's 15 branch offices. There is a director in charge of each branch, who is responsible for the infrastructure and administrative and support services. In general, two units report to this director: Cash-Operations, which carries out cash and bank operations, and Financial Control, which audits and accounts for all operations.



Branch office at Santa Cruz de Tenerife (left). Palma branch office (centre). Málaga branch office (right).

## 2.2 FUNCTIONS RELATING TO BANKING OPERATIONS

### 2.2.1 Implementation of monetary policy and asset management

The implementation of monetary policy was mostly channelled through the purchase programmes, which were extended until September 2018, with a reduced volume target.

The Banco de España is responsible for implementing monetary policy in Spain. It injects or withdraws liquidity when the counterparty resides in Spain and buys securities that are essentially backed by a Spanish issuer. In 2017, the implementation of monetary policy was mostly channelled through the purchase programmes, as shown in Chart 2. There were no new developments as regards the policy rates or in regular or extraordinary liquidity-providing operations. As regards the latter, in March the last of the four targeted quarterly liquidity-injection operations, with a maturity of four years, was carried out (TLTRO II). Spanish institutions obtained €41,7 billion in this operation which, after deduction of debt repayments, amounted to net funding of €26,3 billion.

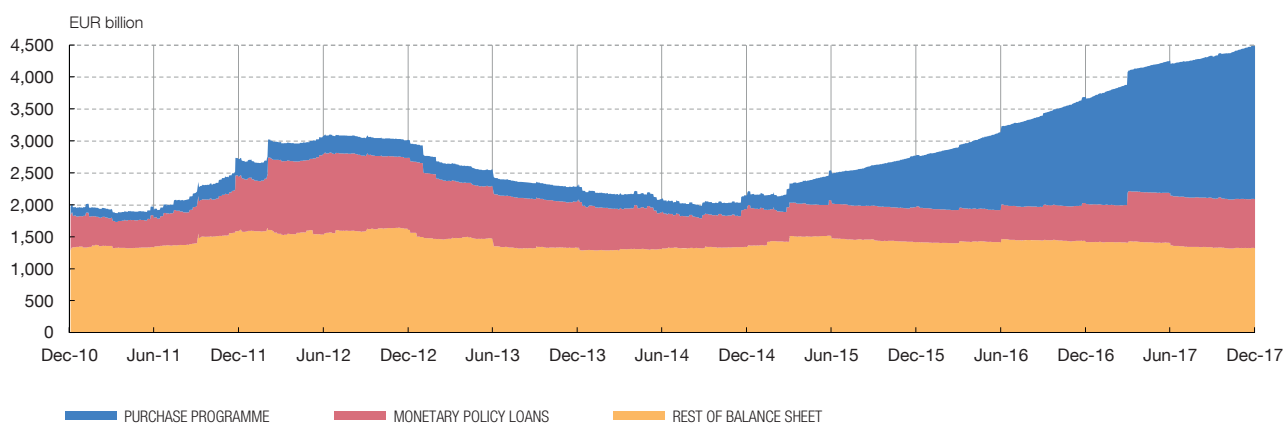
The target volume of the ECB's purchase programmes was reduced in April from €80 billion to €60 billion a month. In October, an additional reduction of €30 billion a month was announced, effective from January 2018. It was also announced that the purchase programmes would be extended for another nine months, until September 2018.

As regards the different elements of the programmes, shown in Chart 3 as a proportion of the total, it should be noted that two new measures started being applied in the public sector purchase programme (PSPP), aimed at expanding the number of eligible bonds: i) reduction of the minimum maturity required from two years to one year, and ii) the commencement of asset purchases at interest rates below that of the marginal deposit facility, from January in the case of government bonds and from October in the case of bonds issued by supranational entities.

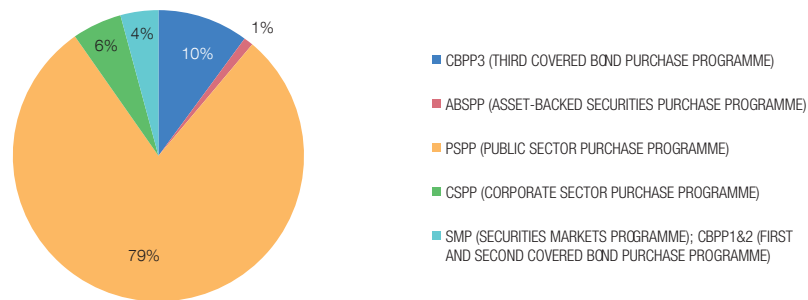
Also noteworthy was the successful implementation of the corporate sector purchase programme (CSPP), in both the secondary and primary markets. In the latter, the Banco de España participated in 21 new issues by 11 Spanish firms. This contrasts with the loss of dynamism in the covered-bond purchase programme (CBPP3), in which only two Spanish issuers had recourse to the primary market in 2017.

DEVELOPMENTS IN THE EUROSYSYEM'S BALANCE SHEET

CHART 2



SOURCE: Banco de España.



SOURCE: Banco de España.

As regards portfolio management, in 2017, the Bank continued with the process of diversifying the own portfolios denominated in foreign currencies that had begun in the previous year, both in terms of new currencies and eligible instruments and issuers. It also continued to undertake other tasks for third parties, such as the management of part of the ECB's foreign reserves and acting as a financial agency in relation to the portfolios of the Social Security Reserve Fund and the Deposit Guarantee Scheme.

### 2.2.2 Management of payments and securities settlement

The migration to TARGET2-Securities was completed.

In 2017, the Bank finalised the adjustments and tests for the migration to TARGET2-Securities, the European platform for securities settlement operated by the Eurosystem. The migration took place in September, as scheduled, successfully completing the long process led by the Banco de España and the CNMV, through the national TARGET2 user group.

In addition, on completion of the related research phases, the Eurosystem approved the development of three projects relating to market infrastructures: the instant payment system (TIPS project), the project to modernise and strengthen the TARGET2 and TARGET2-Securities technical platforms, and Eurosystem Collateral Management System (ECMS) for management of the collateral of the central banks of the Eurosystem. To develop these projects, the Governing Council of the ECB has appointed a group comprising the central banks of Germany, Spain, France and Italy.

### 2.2.3 Banknote and coin management

There was demand for 3,088 million banknotes and 1,280 million coins from credit institutions.

The Banco de España, which issues euro banknotes together with the ECB and other national central banks in the euro area, must guarantee the continuous supply of banknotes and safeguard their integrity when in circulation. Moreover, the Banco de España puts euro coins into, and withdraws them from, circulation on behalf of the Spanish state.

The use of cash continues to play a key role in the Spanish payment system. A study conducted recently by the ECB revealed that, in 2016, 87% of payments at point-of-sale were made using banknotes and coins.





The main banking hall in the Madrid head offices, on the occasion of the presentation of the new Europa series €50 euro banknote.

In 2017, the Banco de España supplied credit institutions with 3,088 million banknotes to meet customer demand, for an amount of slightly more than €93 billion, either over the counter or through ATMs. They also withdrew almost 1,280 million coins, nearly 64% of which were of the three lowest denominations.

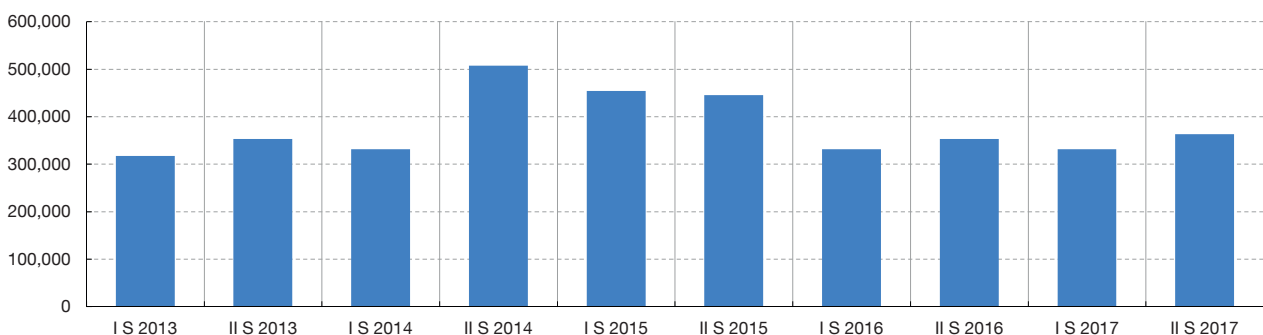
A total of 869 million banknotes were declared to be unfit to be returned to circulation.

As part of its task of safeguarding the integrity of banknotes in circulation, the Bank verified the authenticity and condition of 3,328 million banknotes in 2017. Of these, 869 million were declared to be unfit to be returned to circulation, and were consequently invalidated and destroyed.

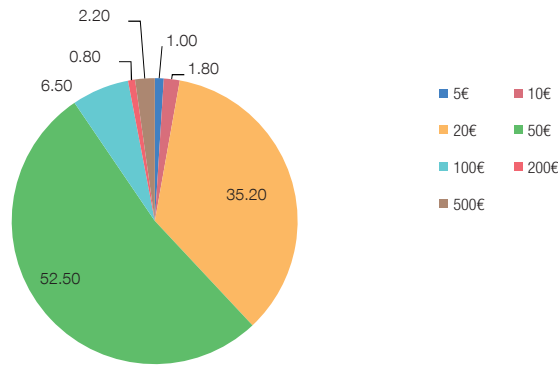
Charts 4 and 5 show the counterfeit banknotes withdrawn from circulation in the Eurosystem and the percentage of total counterfeits withdrawn represented by each denomination. In the second half of 2017, 363,000 counterfeit banknotes were withdrawn from circulation. Bearing in mind that there were around 21,000 million banknotes in

**DEVELOPMENTS IN COUNTERFEITS WITHDRAWN FROM CIRCULATION IN THE EUROSISTEM**  
Half-yearly data

CHART 4



SOURCE: European Central Bank.



SOURCE: European Central Bank.

circulation in the Eurosystem at the end of 2017, there probability of receiving a counterfeit banknote was very low. 88% of the counterfeit banknotes were €20 and €50 banknotes. High-denomination counterfeit banknotes accounted for a much lower percentage, due to the fact that such denominations are subjected to closer scrutiny when received. Moreover, the reduced overall proportion of low-denomination banknotes suggest that counterfeiting them is less profitable for counterfeiters.

The Banco de España fosters initiatives to promote a better understanding of the key elements that help to verify the authenticity of banknotes. For instance, as well as raising awareness about these aspects during Financial Education Day, the Banco de España organised seminars to present the characteristics of the new Europa series €50 banknote, aimed at professional cash handlers, on the occasion of its entry into circulation in April 2017.

## 2.3 SUPERVISION, FINANCIAL STABILITY AND PREVENTIVE RESOLUTION

### 2.3.1 Prudential supervision

Since the entry into force of the SSM, in November 2014, the largest euro area credit institutions (significant institutions) are directly supervised by the ECB and the remaining credit institutions (less significant institutions) are supervised by the national supervisors.

The 13 Spanish banking groups directly supervised by the ECB account for 94% of the Spanish banking system's assets.

At the end of 2017, the ECB directly supervised 119 significant groups in the euro area, of which 13 were Spanish. These 13 groups<sup>1</sup> are made up of 52 individual Spanish credit institutions and 24 individual credit institutions located in other euro area countries, and account for 94% of the Spanish banking system's assets. The remaining 6% is accounted for by 69 Spanish banking groups classified as less significant.

Additionally, there are 8 Spanish credit institutions which are subsidiaries of 7 significant foreign banking groups in the SSM.

At the end of 2017, the Banco de España provided 157 employees to the JSTs of significant Spanish banking groups.

The Banco de España contributes to the supervision of significant Spanish credit institutions, both in ongoing monitoring tasks, through the Joint Supervision Teams (JSTs) and in on-site inspections and model reviews at these institutions. At the end of 2017, the Banco de España provided 157 employees to the JSTs of significant Spanish banking groups. Also, in 2017, inspections were performed at 21 significant credit institutions (of which 18 were headed by the Banco de España) and 12 model reviews were carried out, all of them led by the Bank. The Banco de España contributed approximately 90% of the staff assigned to the on-site tasks relating to Spanish banking groups.

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<sup>1</sup> Currently 12 groups, following the integration of BMN in Bankia.



Detail of the stained-glass windows by the Mayer company.

Resources were also assigned to perform such tasks at other institutions that were not Spanish.

In 2017, a total of 239 supervisory decisions were adopted addressing significant Spanish institutions specifically, and a further 384 were of a more general nature or dealt with matters of SSM organisation and policies also affecting them. The decisions adopted notably included capital decisions resulting from the supervisory review and evaluation process (SREP), which establishes the level of capital required of each institution in 2018.

A total of 549 monitoring actions and 10 inspection visits were carried out with respect to less significant institutions, supervised by the Banco de España.

With respect to the less significant institutions supervised by the Banco de España, 19 banking groups were the subject of ongoing monitoring in 2017. Simplified monitoring was performed at the remaining 50 groups (based on a system of alerts). A total of 549 monitoring actions<sup>2</sup> were performed and 10 inspection visits were made. In addition, 70 monitoring actions were carried out at the Spanish branches of less significant groups in the SSM sphere, with head offices in other SSM countries.

At the end of 2017, the Banco de España adopted the capital decisions corresponding to less significant institutions. As in previous years, the SREP applied by the Banco de España to these institutions was similar to that applied to significant credit institutions.

The table below lists the number of credit institutions “with establishment” in Spain in the Spanish banking system in 2017. Institutions operating “without establishment” should also be taken into account. There are a total of 590 such institutions from other EU countries and four institutions from non-EU countries.

Credit institutions with establishment in Spain	2017
Banks	59
Saving banks	2
Credit cooperatives	63
ICO	1
Branches of EU institutions	78
Branches of non-EU institutions	4

The recovery plans of the less significant institutions were reviewed.

Within the recovery framework, in the first quarter of 2017, the Banco de España completed the reviews of the first recovery plans submitted by less significant credit institutions in 2016. These plans referred to December 2015. Following these reviews, letters were sent to institutions whose plans had revealed shortcomings. In September 2017, the updated recovery plans, referring to 31 December 2016, were received from institutions subject to full obligations. The review of these plans was completed in the first quarter of 2018. In addition, in 2017 the Banco de España updated the list of less significant institutions which may be subject to simplified obligations.

<sup>2</sup> Monitoring actions mainly include periodic monitoring both of a standard and simplified nature, reviews of external auditors' reports and internal capital adequacy assessment reports, analysis of recovery plans and the corresponding capital decisions.

A total of 316 monitoring actions and 6 inspections were performed at institutions supervised by the Banco de España which were not credit institutions.

The Banco de España also has exclusive supervisory powers, outside the SSM context, over institutions other than credit institutions that provide services or perform functions related to the financial sector. In 2017, a total of 316 monitoring actions and 6 inspections were performed at these institutions.

For information purposes, the table below lists the institutions “with establishment” in Spain, other than credit institutions, in the Bank’s registers in 2017, by type and business area. Institution other than credit institutions operating in Spain “without establishment” should also be taken into account. These comprise 156 electronic money institutions and 400 payment institutions.

Financial institutions with establishment in Spain, other than credit institutions	2017
Specialised lending institutions (a)	31
Mutual guarantee companies	19
Reguarantee companies	1
Appraisal companies	35
Currency exchange bureaux (b)	14
Payment institutions	39
Hybrid payments institutions	3
Branches of EU payment institutions	14
Agent network for EU payment institutions	3
Electronic money institutions	5
Branches of EU electronic money institutions	2
Agent network for EU electronic money institutions	1
Sareb (asset management company for assets arising from bank restructuring)	1

a Does not include specialised lending institutions that have proven their status as hybrids, in application of Law 5/2015 on the promotion of business financing (eight in 2017).

b Does not include establishments only authorised to purchase foreign currency with payment in euro.

Also, in cooperation with the Sepblac, in 2017, three inspections on the prevention of money laundering were carried out at significant Spanish institutions.

In the performance of its different supervisory tasks, the Banco de España sent 138 letters containing requirements and recommendations to less significant credit institutions.<sup>3</sup> A further 13 such letters were sent to other institutions supervised by Banco de España outside the SSM sphere.

A total of 550 suitability assessment procedures were conducted for senior officers at supervised institutions.

With respect to the assessment of the suitability of senior officers of credit institutions, the Banco de España processed a total of 550 files in 2017, of which 281 related to credit institutions, 85 to mutual guarantee companies, 75 to payment institutions, 62 to specialised lending institutions, 23 to appraisal companies, 19 to electronic money institutions and 5 to currency exchange bureaux.

<sup>3</sup> Of these, 55 relate to capital decisions, 54 to recovery plans, 19 to the result of standard annual monitoring and 10 to on-site inspections and monitoring of requirements.

### **2.3.2 Supervision of market conduct**

At total of 37 on-site inspections and 223 verification actions were carried out. In addition to bringing sanction proceedings, the Bank sent 234 letters of recommendations and observations and 122 requirement letters.

Since one of its objectives is to ensure bank customer protection, in 2017, the supervision of market conduct centred on mortgage loans and the advertising of banking products and services of supervised institutions, without losing sight of other equally important areas.

In the area of mortgage loans, compliance with the pre-contractual and contractual transparency requirements for mortgage loans and credit was verified, as was the correct application of regulations on mortgage debtors without funds. In view of the prominent role played by the advertising of banking products and services in attracting new customers and influencing their decisions, priority was also given in 2017 to the verification of advertising activities, to check for accuracy, clarity, conciseness and compliance with regulations. Reviews of advertising were conducted at all the supervised institutions.

In 2017, 37 on-site inspections and 223 verification actions were carried out. As a result of these activities, in addition to bringing the corresponding sanction proceedings, 234 letters of recommendations and observations and 122 requirement letters were sent.

### **2.3.3 Sanctioning activity**

Twelve sanction proceedings were initiated and a further ten were resolved. Six of the initiated proceedings and seven of those resolved were in relation to conduct, transparency and customer protection.

In 2017, the Banco de España initiated six sanction proceedings resulting from the exercise of its supervisory competences in relation to institutions' conduct, transparency and customer protection. These six proceedings were brought against banks. Also in this area, seven proceedings initiated in 2016 against four banks, one credit cooperative, one specialised lending institution and one currency-exchange bureaux and its managers and directors concluded with the imposing of sanctions.

Mention should be made of the sanctioning activity against unauthorised institutions for pursuing activities or using names reserved for credit institutions, and also that concerning payment institutions (primarily as regards own funds coverage, book-keeping and safeguarding funds).

As regards unauthorised institutions, three sets of proceedings were initiated, resulting in the activity of two of the institutions being temporarily suspended. Proceedings against the third institution concluded with the imposing of sanctions. In relation to payment institutions, two sets of proceedings were brought, with the activity of one of the institutions being temporarily suspended. A third set of proceedings, initiated in 2016, concluded with sanctions being imposed (including withdrawal of the institution's authorisation and the disqualification from holding office of several managers).

Lastly, also in 2017, sanction proceedings were initiated and resolved with sanctions being imposed for failure to comply with the regulations of the Banco de España's Central Credit Register.

### **2.3.4 Macroprudential policy**

In 2017, in the area of macroprudential policy and analysis, the Banco de España continued to monitor cyclical risks in the financial system using a risk map with

information drawn from a broad set of indicators. Both the risk map and a smaller set of indicators that form part of the methodology used to determine the percentage of the countercyclical capital buffer (CCB) for credit exposures in Spain presented information consistent with the percentage of CCB remaining at 0% throughout 2017.

As regards identifying and determining the capital buffers of global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs), the Bank performed the corresponding annual review. The only noteworthy change during the year was the fact that Banco Popular, SA, ceased to be identified as an O-SII, following its acquisition by Banco Santander, SA, in June 2017.

A new, forward-looking, analysis of the solvency and resilience of Spanish banks was conducted, using the tool known as "FLESB".

In addition, in 2017 the tool known as "FLESB" (Forward Looking Exercise on Spanish Banks) was used to conduct a new, forward-looking, analysis of the solvency and resilience of Spanish banks in different macroeconomic scenarios, with a two-fold objective. First, the exercise has served as an internal benchmark for comparison with the stress test exercise performed by the International Monetary Fund (IMF) as part of its programme to assess the situation of the Spanish financial system [*Financial Sector Assessment Programme* (FSAP)]. Second, the use of the FLESB as a macroprudential tool has meant that the result of the exercise could be included in the *Financial Stability Report* of the Banco de España, published in November 2017, as an added element of forward-looking analysis.

### 2.3.5 Preventive resolution

Recovery plans were prepared for a total of 38 institutions and the Bank continued to be actively involved in defining criteria.

In 2017, resolution plans were prepared for a total of 38 institutions (13 significant and 25 less significant), in accordance with the distribution of competences established under the Single Resolution Mechanism (SRM) Regulation, in close collaboration with the Single Resolution Board (SRB), the FROB and other national resolution and supervisory authorities in the euro area. In addition, in compliance with the SRB's calendar, the Banco de España participated in the resolution college of a significant Spanish institution. Lastly, it should be noted that in 2017, the SRB and the EU resolution authorities outside the euro area signed joint decisions relating to the resolution plans of the three significant Spanish institutions currently requiring resolution colleges.

To promote the effective implementation of Directive 2014/59/EU, establishing a framework for the restructuring and resolution of credit institutions, the Banco de España continued to participate actively in the development of preventive resolution criteria and strategies in the international sphere, notably as a member of working groups for the definition of criteria for implementation of the Single Resolution Mechanism. Also worth highlighting due to their importance are: i) the criteria for determining the minimum requirement for own funds and eligible liabilities to absorb losses (MREL); ii) the promotion and analysis of the best resolution strategies based on the different tools available (sale of assets or bridge bank); iii) the definition of the basic guidelines for the analysis of what constitutes public interests; iv) the development of general principles for less significant institutions, and v) the drawing up of guidelines on maintaining an institution as a going concern with access to market infrastructures.

### 2.3.6 Financial and risk reporting

Implementation of the new models for individual confidential returns was completed, in line with FINREP, and the models for the financial statements of the new accounting circular were developed.

In keeping with their financial reporting requirements, in 2017 credit institutions concluded the implementation of the new models for individual confidential returns, thus completing the process of adapting their financial reporting to the criteria for preparation, terminology and definitions of the statements known as “FINREP” in European Union legislation, and the models for the financial statements of the new accounting circular were developed (published at the end of the year as Circular 4/2017). In addition, the quality control of the Eurosystem’s statistics on money markets (known as *Money Market Reporting Statistics*, MMRS) was addressed in depth. These statistics consist of granular information submitted daily to the ECB by certain credit institutions through the Banco de España. Finally, in the framework of the consumer protection legislation regarding floor clauses, credit institutions began to report on claims received in this connection on a monthly basis, through the Banco de España, starting with data corresponding to September 2017. As regards reporting from other financial institutions, the Banco de España began receiving financial information from banking foundations, and changes were made to the financial reporting of credit risk by mutual guarantee companies.

Circular 1/2017 was published, incorporating the reporting requirements established in what is known as the “AnaCredit” Regulation.

As regards the Central Credit Register, the reporting requirements under Circular 1/2013 were completed in 2017, with the receipt of information on collateral. As the table below shows, implementation of this circular led to a significant increase in the amount of information available in the CCR compared with that available under Circular 1/1995. Thus, based on data referring to March 2016, when information corresponding to both circulars was available, the number of borrowers, transactions and total exposures declared in the CCR rose by approximately 34%, 50% and 24%, respectively, under the new circular. In 2017, the Bank also worked on drafting Circular 1/2017, with the aim of integrating, within a single reporting framework, the new requirements established by ECB Regulation 867/2016 on the collection of granular credit and credit risk data (AnaCredit Regulation). This optimises the processing of information and mitigates the impact of the new obligations on reporting institutions. Credit institutions started to submit new information in 2018, with a view to establishing a centralised database comprising harmonised data on credit risk in all euro area countries. The Banco de España continued participating very actively in the preparatory work for AnaCredit, which included the drafting and publication of explanatory documentation for reporting institutions.

#### DEVELOPMENTS REGARDING CBE 1/1995 AND CBE 1/2013. MAIN FIGURES REPORTED

	March 2016		December 2016	December 2017
	CBE 1/1995	CBE 1/2013	CBE 1/2013	
Reporting agents	267	267	266	262
Counterparties	15,288,206	20,499,014	20,861,080	20,779,411
Resident	15,259,410	20,282,757	20,641,097	20,411,093
Non-resident	28,796	216,257	219,983	368,318
No. of risks (CIR 1995) / instruments (CIR 2013)	26,518,210	39,693,649	42,294,916	44,912,329
Total exposure (EUR billion)	2.951	3.645	3.821	3.722



## 2.4 CLAIMS AND QUERIES RECEIVED FROM BANK CUSTOMERS

In contrast with the trend observed in recent years, the number of claims filed by users of bank services rose significantly, owing to claim relating to the distribution of the costs involved in arranging mortgage loans.

In 2017, the number of claims filed by users of bank services rose substantially, even exceeding the historical high recorded in 2013 (almost 35,000 claims, relating mostly to the so-called “floor clauses”). The continuing downward trend observed since 2013 was thus interrupted. As shown in Chart 6, in 2017 a total of 40,170 claims were filed, compared with 14,465 in 2016. This notable increase was mainly due to the 22,607 claims (56% of the total) filed in connection with claimants’ discrepancies regarding the distribution of the costs involved in arranging mortgage loans. The classification of claims filed, by item, reveals that 81.4% were mortgage-related, followed by accounts and deposits (7.9%) and card (3.6%).

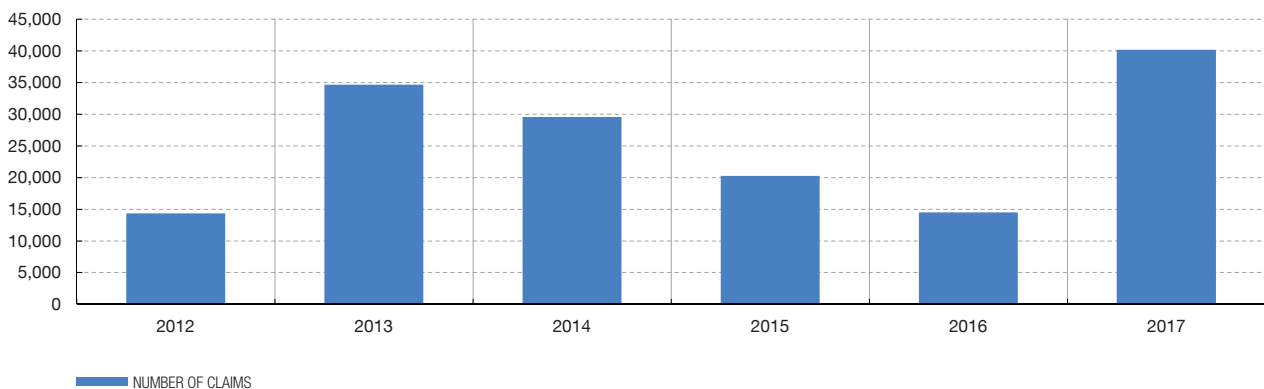
The number of telephone queries also increased in 2017 (39,167, compared with 31,660 in 2016), while those dealt with by electronic channels amounted to 1,889, 46 fewer than a year earlier (1,935).

Work to verify the internal rules applicable to customer services and customer ombudsman departments continued, with the validation of ten new sets of rules at ten institutions, and amendments to the contents of a further 30 sets of internal rules.

The Bank Customer Portal registered close to 4.1 million visits in 2017, as already mentioned in section 1.5.3. At the end of the year, the new, more attractive, design of the portal was launched, with new contents aimed at providing bank customers with more accessible information of interest.

**CLAIMS SUBMITTED IN THE LAST SIX YEARS**  
2017 data, provisional as at 31.12.2017

CHART 6

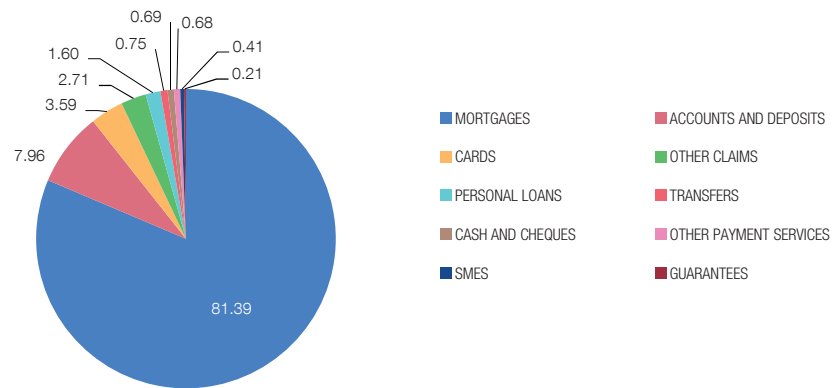


SOURCE: Banco de España.

**TYPES OF CLAIMS**  
Provisional data as at 31.12.2017

CHART 7

% of claims filed



SOURCE: Banco de España.

## 2.5 REGULATORY CHANGES

Five Banco de España circulars were published in 2017.

The following Banco de España circulars were approved in 2017:

- Banco de España Circular 1/2017 of 30 June 2017, amending Circular 1/2013 of 24 May 2013, on the Central Credit Register.
- Banco de España Circular 2/2017 of 28 July 2017, amending Circular 5/2015 of 30 September 2015, on the specific accounting aspects of Sareb.
- Banco de España Circular 3/2017 of 24 October 2017, amending Circular 2/2014 of 31 January 2014, addressed to credit institutions, on the exercise of various regulatory options contained in Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No. 648/2012.
- Banco de España Circular 4/2017 of 27 November 2017, addressed to credit institutions, on public and confidential financial reporting rules and financial statement models.
- Banco de España Circular 5/2017 of 22 December 2017, amending Circular 5/2012 of 27 June 2012, addressed to credit institutions and payment service providers, on the transparency of banking services and responsibility in the extension of loans.

In view of the fact that accounting is an area in which other European prudential supervisors are not competent, it is worth noting Circular 4/2017, which aims to adapt the accounting framework applicable to Spanish credit institutions to the changes in the European accounting framework arising from two new International Financial Reporting Standards (IFRS), namely IFRS 9 and IFRS 15, which modify, from 1 January 2018, the accounting criteria for financial instruments and revenues.

## 2.6 ECONOMIC ANALYSIS, RESEARCH AND STATISTICS

Economic analysis and research activities show a growing trend, as reflected by the publications they give rise to. The Bank published 51 working papers, 8 occasional papers and 39 articles in anonymously refereed academic and professional journals.

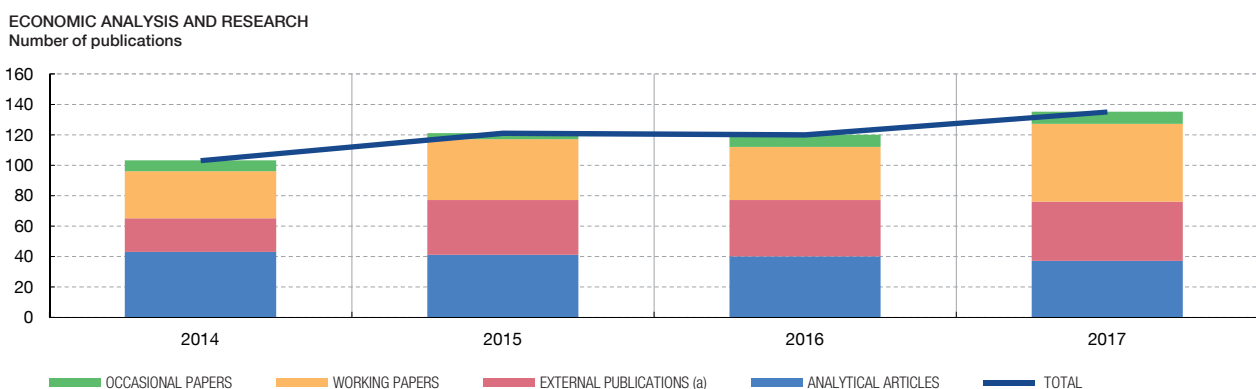
In 2017, analysis and research activities intensified in the national and international sphere, in the form of working papers and external articles in academic journals, reflecting, in both cases, a clearly rising trend compared with previous years, as shown in Chart 8. In 2017, the Banco de España published the highest ever number of working papers in the history of the publication.

Specifically, 2017 saw the publication of 51 working papers and 8 occasional papers. As regards external publications, a total of 39 articles were published in anonymously refereed academic and professional journals, and another 23 articles were accepted and are pending publication. A further 17 articles were published in other journals and books, and 6 are pending publication. Lastly, 37 Analytical Articles complete the list of publications in the area of economic analysis and research in 2017. As mentioned earlier, in section 1.4, these articles, traditionally associated with the publication of the *Economic Bulletin*, have since January 2017 been disseminated ahead of the publication of the related quarterly Bulletin. Also worth mentioning in the field of economic analysis and research is the participation of Banco de España's researchers in international initiatives, such as the First Banco de España Annual Research Conference, the joint research conducted annually with the Centre for Latin American Monetary Studies (CEMLA) and numerous expert seminars and conferences.

Research activities encompassed a wide range of areas. With respect to the Spanish and euro area economies, analyses were conducted on the external adjustment dynamics of the Spanish economy, income and consumption inequality, the characterisation of regional differences in Spain at the macroeconomic level, the need to deploy common macroeconomic stabilisation elements in euro area countries, the developments in the European labour markets, private-sector savings and investment decisions in the euro area and the characterisation of the medium-term cycles of the main euro area economies in relation to the medium-term cycle of the United States.

### BANCO DE ESPAÑA RESEARCH ACTIVITIES

CHART 8



SOURCE: Banco de España.

a Only includes articles published in anonymously refereed academic and professional journals.

In the area of monetary policy and financial issues, the impact of the various monetary policy measures adopted by the ECB in recent years on euro area public finances, prices and growth was analysed. Progress was made in analysing the formation of inflation expectations by investors (and their breakdown into expectations and risk premia), the effect of monetary policy and capital requirements on the credit supply in Spain, the effectiveness of current monetary policy measures (asset purchase programmes, forward guidance, etc.), the exit strategies for the current monetary policy measures and the effects of monetary policy on the “new normal”, measurement of the natural interest rate, its determinants and implications for monetary policy and, finally, the governance reform process in the euro area.

As regards conjunctural analysis and macroeconomic modelling, mention should be made of the following: the development of an area of regional conjunctural analysis, a medium-sized macroeconomic model of the structural Bayesian vector autoregressive type for the Spanish economy, very short-term forecasting tools (*Nowcasting*) for various GDP components, and a dynamic stochastic general equilibrium model for the Spanish economy as a forecasting and economic policy assessment tool. The Bank updates its macroeconomic projections for the Spanish economy four times a year, based on which it provides its view of the economic outlook over a two to three-year horizon. The June and December macroeconomic projections, compiled as part of those published by the Eurosystem for the euro area as a whole, are released separately. In March and September, the projections are published as part of the *Economic Bulletin*.

In the international sphere, the estimation of the BVAR models for the emerging countries of most significance for Spain was completed, and a model for forecasting migratory flows in the medium and long-term was developed, as were indicators of financial conditions for several economies. Also noteworthy was the research conducted on exchange rate pass-through or global imbalances. Lastly, considerable resources were devoted to analysing the economic policy of the US administration and Brexit (participating in the task force created for this purpose at the ECB), and the situation in Venezuela was closely monitored.

In the area of financial stability, research centred on macroprudential issues. Specifically, several general equilibrium models were used to analyse the costs and benefits of applying macroprudential policies, both in the short-term and, particularly, in the long term. These models have enabled the study of the optimal use of the different macroprudential instruments, ranging from countercyclical capital instruments to instruments designed specifically to address real estate market issues. Moreover, particular attention was paid to analysing banks’ credit standards and how they relate to the economic circumstances, also focusing on the relationship between the moment of granting loan applications and the behaviour of future loans, and work continued on the ongoing research on the impact of capital requirements on the credit supply.

The *Economic Bulletin* has been published quarterly since 2017 and contains the “Quarterly Report on the Spanish Economy” and links to the publications released during the related quarter as part of the series of Analytical Articles and Economic Notes.

The *Economic Bulletin* has been published four times a year with effect from 2017 and contains the “Quarterly Report on the Spanish Economy”, which analyses the most recent developments in our economy and its external context. The Bulletin not only includes the links for electronic access to the publications released during the quarter in the aforementioned series of Analytical Articles, but also those for the publications forming part of the Economic Notes series during that quarter. As discussed in section 1.4, the Economic Notes focus on specific issues, both of a methodological and statistical nature and relating to changes in the economy. Both series seek to bring the analyses of the Banco de España to the attention of a broad audience, ranging from

experts in economic analysis to the general public. In 2017, a total of 12 Economic Notes were published.

More information was included in the *Statistical Bulletin* and as regards the Central Balance Sheet Data Office.

In the area of statistics, following the entry into force of the new FINREP requirements, credit institutions had to adapt their regular financial reporting to the Banco de España. The reporting on secondary securities markets also had to be adapted, owing to the entry into force of the new TARGET2-Securities platform for securities settlement. In addition, more information was included in the *Statistical Bulletin*. The chapter relating to non-monetary financial institutions (including investment funds, special-purpose vehicles and holdings) was redesigned, and a new chapter on households and non-profit institutions serving households was added.

The publication on the quarterly data of the Balance of Payments, the international investment position (IIP) and the external debt was brought forward a few days. The information provided on the IIP in the *Statistical Bulletin* was expanded to include details of different transaction flows to explain their variations, distinguishing between price, exchange rate and other volume-related changes. The publication of a leaflet titled *En breve* (“In Brief”), on the statistics of the external sector, was launched. It provides a graphical overview of the changes in and structure of the Balance of Payments, the IIP, the external debt, the international reserves and Spain’s contribution to the coordinated direct investment and IMF portfolio investment surveys.

The Central Balance Sheet Data Office began to disseminate aggregated information on non-financial Spanish corporate groups (listed and unlisted). This was coupled with a better understanding of individual Spanish firms, both as regards their intragroup transactions and the overall aggregate.

Field work started on the 2017 wave of the Spanish Survey of Household Finances, and the Financial Competence Survey was completed.

Work continued on two surveys on the Spanish population in 2017. The process of imputation of all the variables of the Spanish Survey of Household Finances (2014 wave) was completed and the corresponding microeconomic data was made available to researchers. In addition, field work began on the 2017 wave of this survey. The field work for the Financial Competence Survey (intended to measure the level of financial knowledge of the adult Spanish population) was completed, as was the task of checking data. The main results are expected to be published in the spring of 2018.

## 2.7 ACTIVITIES OF THE BANCO DE ESPAÑA AS A MEMBER OF THE EUROSISTEM AND OTHER INTERNATIONAL ORGANISATIONS

### 2.7.1 *The Eurosystem and other European Union institutions*

The Banco de España is actively involved in the Governing Council and General Council of the ECB, and in the Supervisory Board of the SSM and the Eurosystem's committees and working groups.

In 2017, the Banco de España participated intensively in the activities of the Eurosystem. The Governor attended the meetings of the ECB's Governing Council and General Council, in which decisions on monetary policy and the functioning of the Eurosystem are adopted. The Deputy Governor participated in the meetings of the Supervisory Board of the SSM, which discusses, plans and executes the supervisory tasks of the ECB, and proposes draft decisions for the approval of the Governing Council on matters of prudential supervision of credit institutions through the non-objection procedure.

The Banco de España was also actively involved in the work of the different ECB Committees (Monetary Policy, Market Operations, Financial Stability, Statistics, Banknote, Payment and Settlement Systems, Legal, Risk Management and International Relations) and in their working groups. The issues addressed by these committees and approved by the Governing Council notably included conventional and non-conventional monetary policy measures.

With respect to other EU institutions, the Banco de España participated in various working groups and committees. As in previous years, it was represented at the two informal ECOFIN meetings in April and September, and participated in the meetings of the Economic and Financial Committee (EFC) and the Economic Policy Committee (EPC), which again addressed, inter alia, future initiatives that will complete the Economic and Monetary Union, the Banking Union or the Capital Markets Union. In this connection, mention should be made of the proposals to give new impetus to the creation of a European Deposit Insurance Scheme and a backstop for the Single Resolution Fund, the risk mitigation measures put forward in the Commission's legislative proposals (the so-called "risk package"), the various institutional initiatives to address the problem of non-performing loans or the reform of the European financial supervision authorities.

### 2.7.2 *The European Banking Authority (EBA)*

The work on consumer protection, technological innovation and PSD2 gained ground in 2017.

In 2017, the European Banking Authority (EBA) continued contributing to the so-called "Single Rulebook", through the approval of various regulatory products, while working to strengthen the convergence of supervisory practices in all European Union countries. In this respect, mention should be made of the increasing importance of the work on consumer protection, technological innovation and the second directive on payment services (PSD2).

Also noteworthy was the work carried out on the methodology to be used in the 2018 stress testing exercise at European credit institutions, to assess their solvency under an adverse economic scenario. This methodology will be similar to that used in 2016, but taking into account the new IFRS 9 accounting framework.

In 2017, special emphasis was also placed on: i) reviewing the guidelines for the SREP, the main change introduced being the supervisory expectation regarding capital requirements (P2G); ii) drafting guidelines on PD estimation, LGD estimation and treatment of defaulted assets; iii) drafting guidelines on the assessment of ICT (information and communication technologies) risks in the context of the supervisory review and evaluation process; iv) drafting regulatory technical standards on independent valuers which set forth the criteria for the valuation of the assets and liabilities of an institution or entity under a resolution scenario, and v) developing regulatory technical standards on strong authentication and common and secure communication standards for payment service providers.

### **2.7.3 European Systemic Risk Board (ESRB)**

The Banco de España continued to take an active part in the different committees and working groups of the European Systemic Risk Board (ESRB), at EU level, and of the Financial Stability Committee (FSC) of the ECB, at euro area level.

With regard to the issues addressed in the recommendations of the ESRB, that relating to closing real estate gaps (ESRB 2016/14), adopted in 2016, has led to the Banco de España collecting detailed information on the domestic real estate market and developing an analytical assessment framework. In addition, in application of ESRB/2015/1 on recognising and setting countercyclical buffer rates for exposures to third countries, the Banco de España updated its list of material third countries (non-EU jurisdictions with which the Spanish banking system has a significant volume of credit exposures), and undertook the analytical monitoring of the credit situation in those countries.

### **2.7.4 The Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (BCBS)**

The Financial Stability Board is working on assessing the effects of the reforms, monitoring their implementation and identifying potential risks for financial stability.

The Banco de España is a member of the Financial Stability Board (FSB), whose Steering Committee includes the Governor. After having finalised the main aspects of the regulatory reforms in response to the international financial crisis, the FSB's main focus is currently the analysis of the effects of the reforms, monitoring and ensuring their consistent implementation, and identifying and assessing the potential risks for financial stability.

The Basel Committee on Banking Supervision endorsed the package of outstanding Basel III reforms aimed at reducing the excessive variability of APRs.

The Banco de España also forms part of the Basel Committee on Banking Supervision (BCBS). On 7 December 2017, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS) endorsed the outstanding Basel III reforms. This package completes the reforms of the post-crisis regulatory framework which aim to reduce the excessive variability in risk-weighted assets (RWAs) and improve the comparability and transparency of banks' capital ratios. The GHOS also reaffirmed its expectation of full, timely and consistent implementation of all the proposed changes. In parallel, the BCBS published a discussion paper on the regulatory treatment of sovereign exposures, in which it stated that no changes would be made in the short term.





Pillar 2 Working Group of the BCBS, Madrid (top left). Advisory Scientific Committee of the European Systemic Risk Board (bottom left). Plenary session of the Financial Stability Board (right).

The Banco de España was very actively involved in the analysis and development of these regulatory reforms, participating in the discussions and the technical work, including analyses of the impact, design and calibration of the different measures proposed.