

**BASEL II IMPLEMENTATION PLAN FOR ADVANCED APPROACH BANKING GROUPS<sup>1</sup>**

The information required by the Supervisor is the plan for implementing the new Capital Framework in the banking group. This information must be brief and must give a general view of 1) the group's current situation in regard to implementation of the three pillars of the new Capital Framework, and 2) the work envisaged to meet the minimum requirements for being eligible to use the approaches chosen for the treatment of the different risks.

The information that must be included in the Implementation Plan is detailed below. However, any additional information that the institution considers relevant for evaluating the group's state of readiness for the Basel II implementation process, may also be added.

**General matters**

- 1 A detailed description of the banking group, specifying the activity of each individual institution and including a summary table with the relative weight (in terms of current exposure) of each financial institution in the banking group.
- 2 Approval of the Implementation Plan by the most senior governing body, specifying the date.
- 3 Organisational structure, describing the responsibilities and functions of the different areas involved in management and control of risks, as well as the committees established.
- 4 Units responsible for the development and internal validation of the internal models.
- 5 Human and material resources plan for carrying out the project, with special attention to the IT and internal audit resources.

**Pillar I****A. Credit Risk**

- 1 Approach that each institution in the banking group initially intends to use for the treatment of credit risk in each asset class and sub-class (segment).
- 2 For those segments to which the approach applied in the future will differ from that initially envisaged, specify the estimated roll-out timetable and the work plans.
- 3 Percentage of all the group's assets included in the selected IRB approach.
- 4 Internal assessment of the degree of compliance, as at the date of submission of the Implementation Plan, with the minimum requirements for being eligible to use the selected IRB approach. A list of the most difficult aspects of achieving compliance.

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<sup>1</sup> For the subsidiaries in Spain of foreign groups, the information required is limited to activities in Spain.

- 5 List of the models to be used in each segment, indicating: the percentage of the total segment exposures rated by each system, and, if applicable, the date on which all exposures in the segment will be rated by those systems.

The following information must also be reported for each model:

- 5.1 The implementation date of the rating system.
- 5.2 The use of the rating system in the institution (approval, setting limits, etc.).
- 5.3 The following aspects of databases must be reported for each estimated parameter (PD, LGD and EAD):
  - Historical length of internal data.
  - The use of external data.
- 6 Internal assessment of the technological environment and the applications that enable effective use of internal models. An internal evaluation of the IT systems and procedures used to ensure the integrity and consistency of databases.
- 7 Definition of the approach used for assessing the effect of credit risk mitigation techniques.
- 8 Approaches used for treatment of securitisation positions.

#### B. Operational Risk

- 1 Definition of the approach to be used to calculate capital requirements for operational risk.
- 2 If the approach that will be used in the future will foreseeably differ from that initially adopted, specify the envisaged roll-out timetable and the work plans.
- 3 Internal assessment of the degree of compliance with the minimum quantitative and qualitative requirements for being eligible to use the selected approach. List of the most difficult aspects of achieving compliance.

#### C. Market Risk

- 1 Description of the group's trading activities and of the instruments included in the trading book.
- 2 List of the group financial institutions, units or centres which are able to assume price risk on the trading book, commodities, exchange rate and gold positions, specifying the systems used to measure the risk in each of them.
- 3 A list of portfolios for which the institution plans to request authorisation to use internal models, and the estimated application dates.

**Pillar II**

- 1 Plans developed to assess the risks not included in Pillar I.
- 2 Procedures established to assess total capital adequacy based on risk profile.
- 3 Description of the process of internal capital allocation.
- 4 List of large positions and risk concentrations.
- 5 Description of the stress tests used.

**Pillar III**

- 1 List of the information currently being disclosed and plans for complying with Pillar III requirements.