

STRESS TEST 2011

SPANISH BANKING SYSTEM RESULTS

BANCODE ESPAÑA

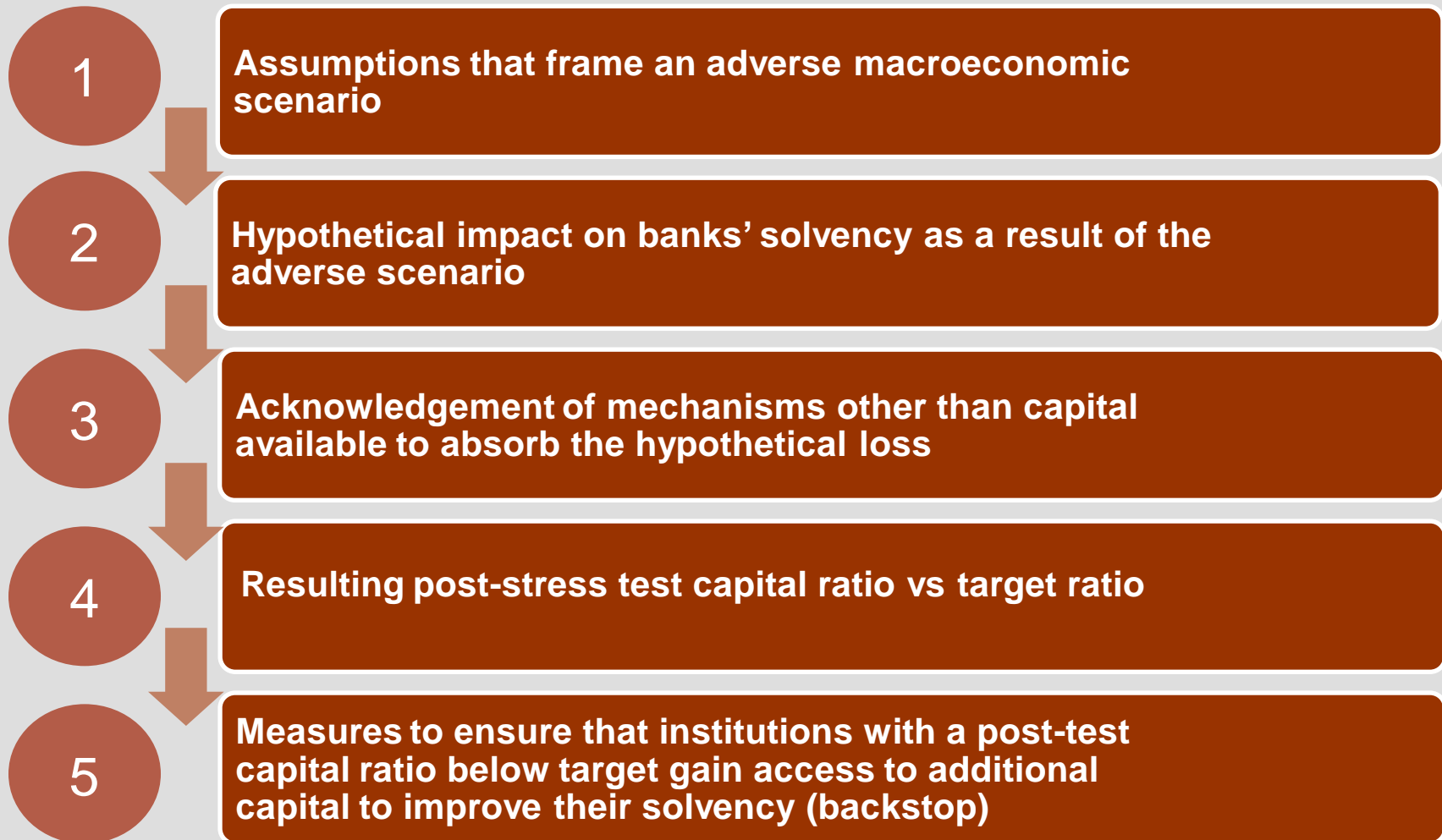
Madrid

15 July 2011

STRESS TEST INITIAL CONSIDERATIONS

1. **BdE acknowledges EBA's effort in conducting this year's stress test**
2. **Spanish stress test results are as expected:**
 - **None of the Spanish commercial banks and *cajas* need to increase their capital as a result of the test**
 - **A few institutions have managed to meet the stress test requirements thanks to the capitalisation they have undertaken further to RDL 2/2011**
3. **Stress tests are a supervisory tool; they complement the ongoing restructuring of the Spanish banking system**

ABOUT THE EBA STRESS TEST



STRESS TESTING IN THE CONTEXT OF BANKING SYSTEM RESTRUCTURING

Stress testing **complements the strategy** to restructure the Spanish banking system.

Results are as was expected in light of the ongoing measures.

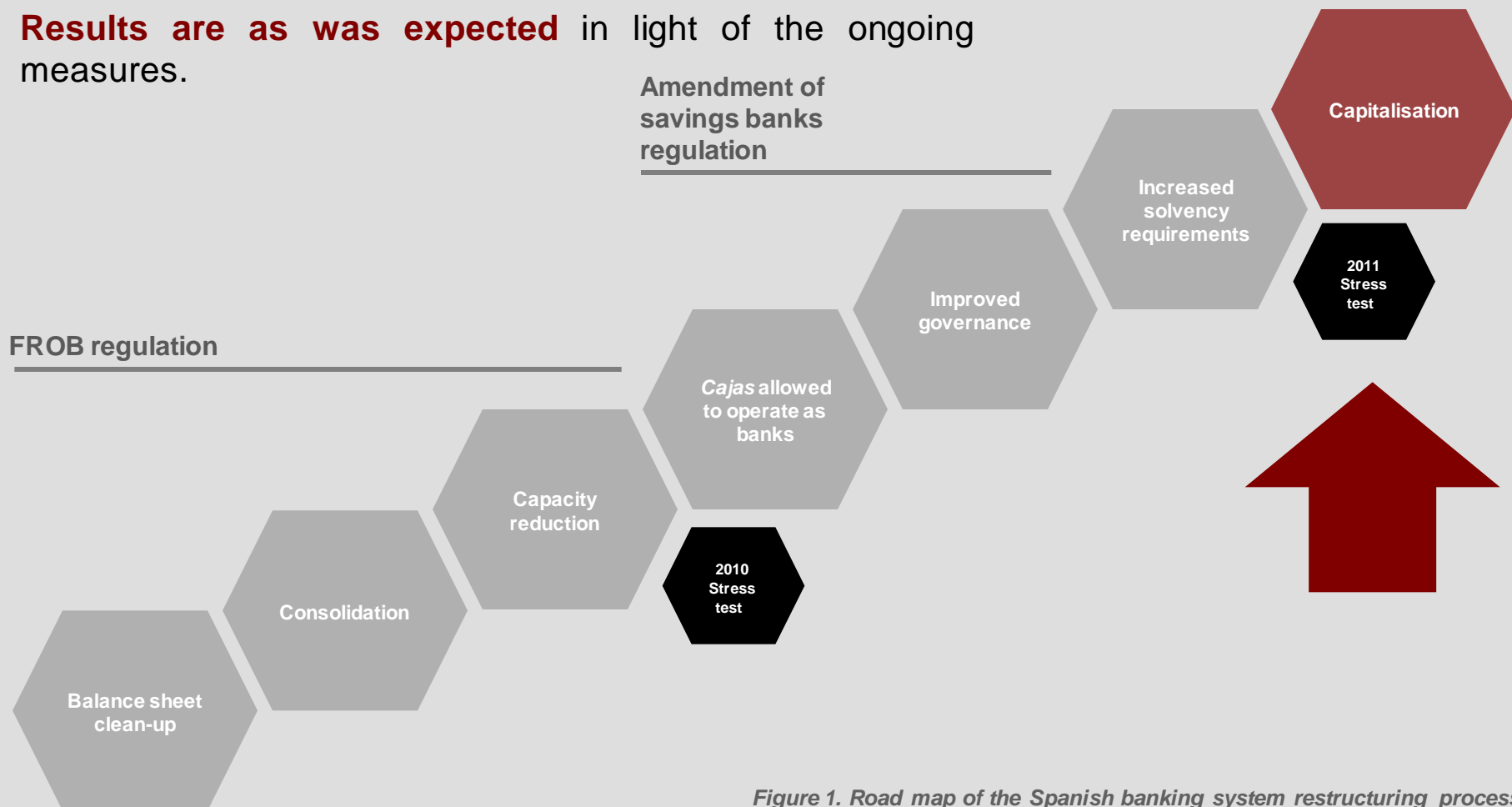


Figure 1. Road map of the Spanish banking system restructuring process

TRANSPARENCY: STRESS TEST SCOPE FOR SPANISH INSTITUTIONS

EBA target:

50% of local banking system

Testing Spain's 4 largest institutions would suffice to meet EBA's target scope

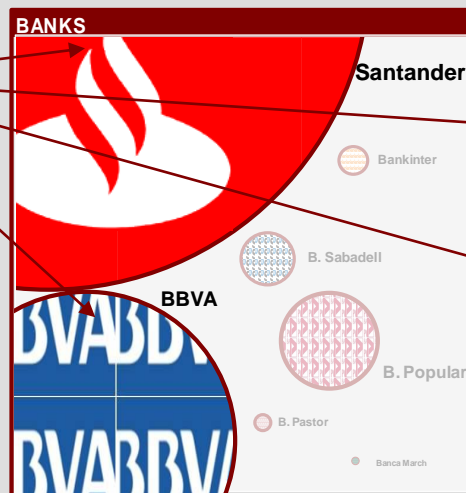
However...

TRANSPARENCY

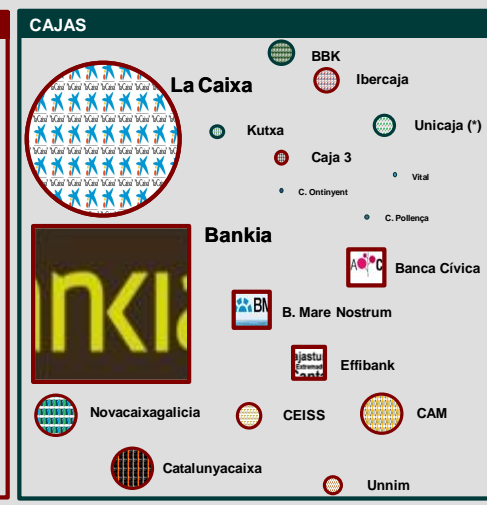
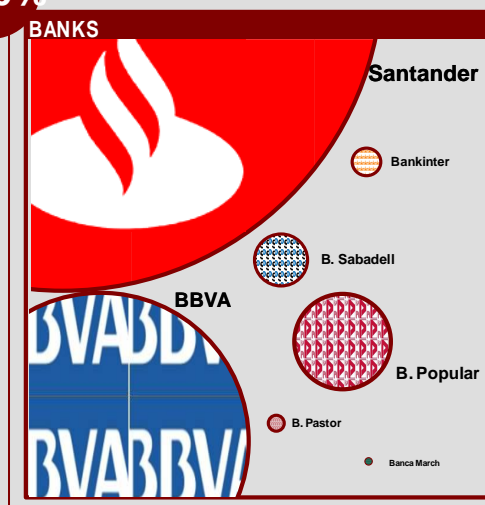
Spanish transparency commitment demands that

100% of listed banks +
100% of *cajas*
undergo stress test

50%



100%



STRESS TEST ASSUMPTIONS

TWO SCENARIOS

BASELINE SCENARIO



- Defined by the European Commission.
- Country-specific assumptions.
- Not an actual forecast of business results for credit institutions.

ADVERSE SCENARIO







- Defined by the European Central Bank.
- Country-specific assumptions.
- Stressed hypotheses:
 - Adverse scenario much worse than baseline and that of last year's CEBS test.
 - Extremely unlikely.

STRESS TEST ASSUMPTIONS

KEY VARIABLES



Very restrictive assumptions in terms of key macroeconomic variables in the adverse scenario across the EU, even more so for Spain.

	EU	Spain
 <p>Aggregate GDP Aggregate reduction over the two year period</p>	- 0,4 pp	- 2,2 pp
 <p>Real estate price Aggregate reduction dec 2010 – dec 2012</p>	Housing: - 13,5% Commercial: - 27,8% (inc. property)	Housing: - 21,9% Commercial: - 46,7% (inc. property)
 <p>Sovereign shock Increase in long term rates on public debt</p>	+ 66 pb	+ 165 pb
 <p>Stock exchange collapse Instant shock</p>	- 14%	- 21%

STRESS TEST ASSUMPTIONS

SOLVENCY TARGET



For the 2011 stress testing exercise EBA has set the **minimum solvency ratio after the test at 5% of core tier 1 capital (CT1)**.

- Solvency threshold: determines whether institutions “pass” or “fail” the test.
- Significantly higher than existing EU and Basel III capital requirements - 2% and 4.5%, respectively.
- More stringent than last year’s CEBS target (6% of *Tier 1*).

**CORE TIER 1
CAPITAL (CT1)**

5%

STRESS TEST RESULTS FOR SPANISH INSTITUTIONS



Objective

- Assess the impact on solvency in a hypothetical adverse, stressed scenario.
- Determine additional capital required by banking institutions to ensure they meet the target capital ratio after the stress test.

RDL 2/2011 explicitly states that institutions may require additional capital injections if they do not pass the stress test.

Result

No additional capital injections required by any Spanish bank or *caja* as a result of the stress test

- Banking institutions which did not need to increase their capital as per the revised capital threshold established by RDL 2/2011 do not require additional capital increases as a result of the stress test.
- Institutions which have been increasing their capital to meet the capital requirements arising from RDL 2/2011 do not need additional capital injections as a result of the stress test either.

STRESS TEST RESULTS

RESULTS BY INSTITUTION



Solvency ratios post-stress test exceed EBA's 5% target at every Spanish credit institution: **no listed banks or cajas in Spain need additional capital injections as a result of the stress test.**

SOLVENCY RATIOS – ADVERSE SCENARIO

Institution	mkt share	Dec 10 ratio	ratio adverse	Institution	mkt share	ratio Dec 10	ratio adverse
Santander	17.4	7.1	8.9	Ibercaja	1.7	9.7	7.3
BBVA	13.6	8.0	10.2	Unicaja	1.4	12.5	12.3
BFA-Bankia	13.0	6.9	6.5	Effibank	1.4	8.3	8.3
Caixa	11.1	6.8	9.2	Pastor	1.2	7.6	5.6
Popular	4.8	7.1	7.4	BBK	1.2	10.2	11.3
Sabadell	3.7	6.2	8.0	Unnim	1.1	6.3	6.2
Catalunyacaixa	3.1	6.4	6.2	Kutxa	0.8	13.2	10.5
Novacaixagalicia	2.9	5.2	6.5	Caja3	0.8	8.6	6.6
Banca Cívica	2.9	8.0	9.4	March	0.5	22.2	27.8
CAM	2.9	3.8	5.1	Vital	0.3	12.5	9.2
Grupo BMN	2.8	8.3	9.3	Ontinyent	0.0	8.9	7.2
Bankinter	2.2	6.2	6.8	Pollensa	0.0	11.2	8.0
Espiga	1.8	8.2	8.4				
Mkt share = market share Dec 10 ratio = baseline core Tier 1 capital ratio Ratio adverse = core Tier 1 capital ratio after stress test (adverse scenario)				TOTAL BANKING SYSTEM	92.8	7.4	8.6

STRESS TEST RESULTS BY INSTITUTION



SOLVENCY RATIOS – ADVERSE SCENARIO WITH EXISTING LOSS ABSORPTION ELEMENTS

Institution	mkt share	Dec 10 ratio	ratio adverse	- convert & other	- gener. provis.	Institution	mkt share	ratio Dec 10	ratio adverse	- convert & other	- gener. provis.
Santander	17.4	7.1	8.9	8.9	8.4	Ibercaja	1.7	9.7	7.3	7.3	6.7
BBVA	13.6	8.0	10.2	9.6	9.2	Unicaja	1.4	12.5	12.3	12.2	9.4
BFA-Bankia	13.0	6.9	6.5	6.5	5.4	Effibank	1.4	8.3	8.3	8.3	6.8
Caixa	11.1	6.8	9.2	7.0	6.4	Pastor	1.2	7.6	5.6	4.2	3.3
Popular	4.8	7.1	7.4	6.0	5.3	BBK	1.2	10.2	11.3	11.1	8.8
Sabadell	3.7	6.2	8.0	6.3	5.7	Unnim	1.1	6.3	6.2	6.2	4.5
Catalunyacaixa	3.1	6.4	6.2	5.9	4.8	Kutxa	0.8	13.2	10.5	10.5	10.1
Novacaixagalicia	2.9	5.2	6.5	6.5	5.3	Caja3	0.8	8.6	6.6	6.6	4.0
Banca Cívica	2.9	8.0	9.4	9.4	5.6	March	0.5	22.2	27.8	24.3	23.5
CAM	2.9	3.8	5.1	5.1	3.0	Vital	0.3	12.5	9.2	9.2	8.7
Grupo BMN	2.8	8.3	9.3	9.3	6.1	Ontinyent	0.0	8.9	7.2	7.2	5.6
Bankinter	2.2	6.2	6.8	5.5	5.3	Pollensa	0.0	11.2	8.0	8.0	6.2
Espiga	1.8	8.2	8.4	8.4	7.3						

TOTAL BANKING SYSTEM	92.8	7.4	8.6	8.1	7.3
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Mkt share = market share

Dec 10 ratio = baseline core Tier 1 capital ratio

Dec 12 ratio = core Tier 1 capital ratio after stress test (adverse scenario)

Gener. Provis. = general provisions

Convert. & other = convertible bonds + (surplus/divestment)

STRESS TEST RESULTS BY INSTITUTION



PRE- & POST-TEST CAPITAL AND LOSS ABSORPTION ELEMENTS

Institution	Mkt share	Dec 10 CT1	Adverse sc.				Dec 12 CT1	Institution	Mkt share	Dec 10 CT1	Adverse sc.				Dec 12 CT1
			RDL 2/2011 /priv	Generic provision	Covert. & other						RDL 2/2011 /priv	Generic Provision	Covert. & other		
Santander	17.4	41,998	0	3.304	0	57,668	Ibercaja	1.7	2,299	0	159	0	1,764		
BBVA	13.6	24,939	0	1,344	2,000	32,995	Unicaja	1.4	2,501	0	571	9	2,467		
BFA-Bankia	13.0	13,864	3,000	2,497	0	14,150	Effibank	1.4	2,656	519	512	0	2,727		
Caixa	11.1	11,109	750	999	3,624	15,170	Pastor	1.2	1,395	0	168	252	1,026		
Popular	4.8	6,699	136	597	1,359	7,040	BBK	1.2	2,982	0	682	57	3,309		
Sabadell	3.7	3,507	411	344	948	4,531	Unnim	1.1	1,065	568	289	0	1,066		
Catalunyacaixa	3.1	3,104	1,718	525	151	3,089	Kutxa	0.8	1,935	0	67	0	1,546		
Novacaixagal	2.9	2,849	2,622	621	0	3,557	Caja3	0.8	1,164	0	362	0	914		
Banca Cívica	2.9	3,688	847	1,743	26	4,401	March	0.5	2,117	0	81	331	2,648		
CAM	2.9	1,843	2,800	1,001	0	2,469	Vital	0.3	772	0	36	0	579		
Grupo BMN	2.8	3,304	637	1,292	0	3,771	Ontinyent	0.0	57	0	11	0	48		
Bankinter	2.2	1,920	0	76	406	2,186	Pollensa	0.0	20	0	3	0	15		
Espiga	1.8	2,076	463	288	0	2,135									
								TOTAL BANKING SYSTEM	92.8	139,863	14,471	17,572	9,163	171,270	

Mkt share = market share

Dec 10 CT1 = baseline core Tier 1 capital

Dec 12 CT1 = core Tier 1 capital after stress test (adverse scenario)

RDI 2/2011/priv = capital injections derived from RDL 2/2011 + private capital issues

Covert. & other = convertible bonds + (surplus/divestment)

SUPERVISION CONTINUES



As a **supervisory tool**, stress testing is used to:

- Conduct solvency assessments of banking institutions under extreme, unlikely conditions over a short period of time.
- Increase transparency by disclosing their risk exposure and their ability to absorb loss.

However, stress tests:

- Are **not the only instrument for solvency assessment**.
- Are **not the sole focus of supervisory activity** – other very important factors the supervisor must pay attention to are:
 - Liquidity and ability to secure funding in the capital markets.
 - Internal controls and risk management.
 - Profitability.
 - Efficiency.
 - Business model & plan.

MAIN OUTCOMES

1. **Stress test reinforces our commitment to transparency:**
 - High coverage of participating institutions
 - Wealth of information available to analysts
2. **No additional capital injections required for Spanish institutions as a result of the stress test**
3. **Supervisory activity continues beyond stress test**



THANK YOU