

29/07/2010

FAQs following the publication of the Spanish banking sector stress test results

General questions on the exercise

1 Have the stress tests taken into account amendments to the capital regulations that may arise from the new Basel III proposals?

The stress tests, which were coordinated by CEBS and whose scenarios and methodology were developed by CEBS in cooperation with the ECB, do not envisage changes in the capital regulations that may arise from the Basel II revision process, except those included in CRD II and CRD III, as set out in paragraphs 26 to 28 of the CEBS note "Aggregate outcome of the 2010 EU-wide stress test exercise coordinated by CEBS in cooperation with the ECB". As indicated in that explanatory note, the changes being considered by the Basel Committee have yet to be specified and, in any event, they will be implemented some time after the period of analysis considered in the stress tests.

2 Why can't the benchmark scenario be considered a two-years-ahead forecast (2010-2011)?

The scenarios used in the stress tests, due to their construction, cannot be considered a projection or estimate of future economic developments or of institutions' results and capital.

This is evident for the stressed adverse scenario, which is constructed as an extreme situation with a very low probability of occurring.

For the stressed benchmark scenario, the following must be taken into account in the case of the stress tests performed by the Banco de España: although changes in the macroeconomic variables may be considered to be more of a central scenario, stressed assumptions have been included in the calculation of hypothetical impairment losses on credit institutions' assets and in the hypothetical changes in their net operating income.

For these reasons, the stressed benchmark scenario is not an estimate of how the Spanish banking sector will fare in 2010 and 2011, but an assessment of its resilience under circumstances that are not extreme, like those assumed in the adverse scenario, but difficult all the same.

3 Were off-balance sheet items included in the basis for calculating gross impairment losses?

Yes. In the exposure used as a basis for calculating losses, off-balance sheet items with credit risk were included.

4 Were exposures outside Spain considered for internationally active banks?

Yes, exposures outside Spain were taken into consideration, following for this purpose the methodology developed by the CEBS in cooperation with the ECB. The stress-testing exercise was undertaken on a consolidated basis, which is the relevant scope for the purposes of regulating capital.

Clarification of the items included in the templates presenting the results

5 What exposures are included in the line "property developers and foreclosures"?

This line essentially comprises exposures assigned to property development and construction activities and foreclosed assets, including those purchased and acquired in compensation for debt.

6 Which items are grouped under the caption "dividend, fair value of mergers and other"?

The essential items are precisely those highlighted in the caption, although under "other" different items such as net capital issues (effectively committed before July 2010), unused general provisions, deductions for equity purchases and exchange rate differences are grouped together.

Under the "total savings banks" caption, practically 50% of the related amount is concentrated in one institution (CCM), essentially owing to the aid it received from the asset protection scheme (EPA by its Spanish abbreviation). The remaining 42% of this caption, for savings banks as a whole, is attributable to the effects arising from the application of fair value to the institutions that have participated in integration processes, which give rise to both gains and losses.

In the case of the two large internationally active banks, the hypothetical dividends that would be distributed are the main item. As regards other listed banks, this caption is scarcely significant.

7 In the information presented by the Banco de España, the aggregate figure for net operating income and capital gains is given. What are these capital gains and how relevant are they in the final figure?

Essentially, these are latent capital gains in assets which may be sold within the term envisaged in the exercise and which have been verified by Banco de España bank-by-bank supervision. A similar degree of prudence as in the rest of the exercise has been applied to them.

For institutions overall, net operating income accounts for 98% of the caption "net operating income and capital gains". For savings banks this percentage is 89%.

8 Why are there differences between the CEBS template caption "pre-impairment income" and the Banco de España template "net operating income and capital gains"?

The difference between the caption "net operating income and capital gains" in the Banco de España template and the caption "pre-impairment income" in the CEBS template is that the Banco de España template includes not only net operating income but also capital gains. As indicated in the answer to the previous question, capital gains account for a very small proportion of the caption "net operating income and capital gains".

Questions on the hypotheses employed and the calculation methods of the potential impacts

9 What is the assumption used to calculate net operating income in the period 2010–2011?

Among the resources available to institutions to absorb hypothetical impairment losses, their income-generating capacity in the reference period (2010-2011) should be considered. This is reflected in net operating income, which in the results presented both in the CEBS templates and in the more detailed Banco de España templates is given in cumulative terms, i.e. for the whole period.

If the hypothetical average net operating income for 2010 and 2011 in the stressed adverse scenario is compared with the net operating income obtained by institutions in 2009, it can be seen that for the Spanish institutions as a whole included in the stress tests the reduction would be 18%. If internationally active banks (whose consolidated net operating income would fall by 4.3%) were excluded from the total number of Spanish institutions, the fall in net operating income would, on average, be 38%, and 40% if only savings banks were considered.

10 Why is there scarcely any change in risk-weighted assets (RWA) in Spanish institutions in comparison with international institutions?

This is a direct consequence of the constant portfolio hypothesis used in the CEBS stress-testing exercise.

Thus, in the case of institutions that use the standard method of calculation of RWA, if portfolios remain constant it is reasonable that there will be scarcely any change in RWA.

For institutions that use the IRB method to calculate capital requirements, the Banco de España's regulatory parameters, unlike those of other countries, represent long-term average estimates which are, therefore, relatively stable.