

2011 EBA STRESS TEST: PRESENTATION OF THE RESULTS FOR THE SPANISH INSTITUTIONS



§ As was the case in July last year, the European wide stress test results were presented yesterday. Relevant information for the Spanish banking institutions can be found in the BE web site

§ **DISCLAIMER:** all the results, institution by institution can be found there. In this presentation, due to legal confidentiality obligations, results or the situation of particular institutions will not be commented

§ **The OBJECTIVE of this presentation is:**

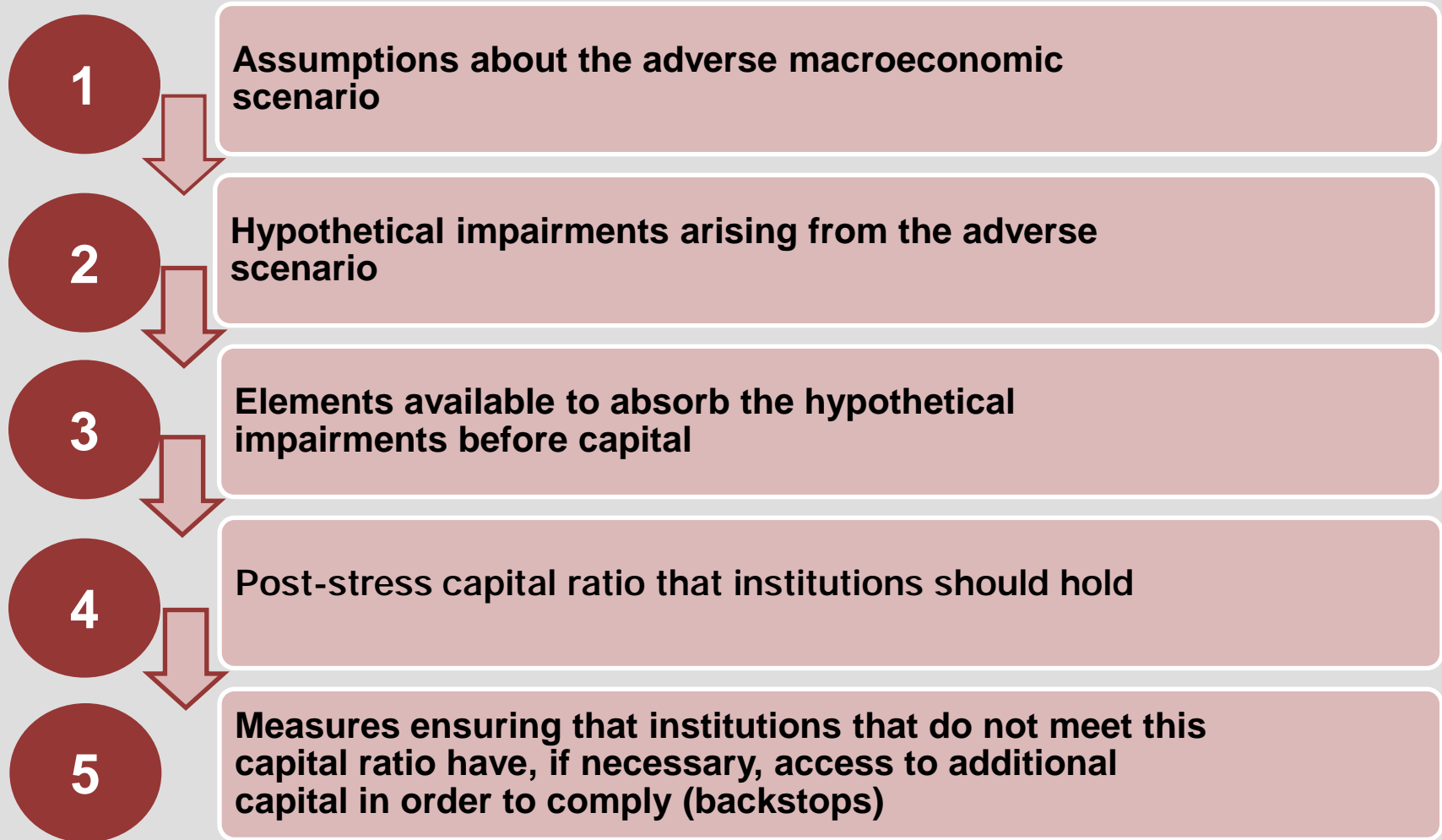
§ Presenting the overall results for the Spanish banking sector

§ Facilitating the reading and understanding of EBA and BE templates

§ Provide an assessment of the results of the stress test for the Spanish banking sector

PREVIOUS CONSIDERATIONS

Steps in a stress test exercise





§ **TRANSPARENCY COMMITMENT: BE maintains its transparency commitment**

§ Scope of the exercise: all savings banks and all listed banks, while the commitment at the EBA level is, as was the case last year, that the participating institutions in each country should represent at least 50% of the banking sector

§ More granular information, offering, additional to EBA templates, our own template

ASSESSMENT

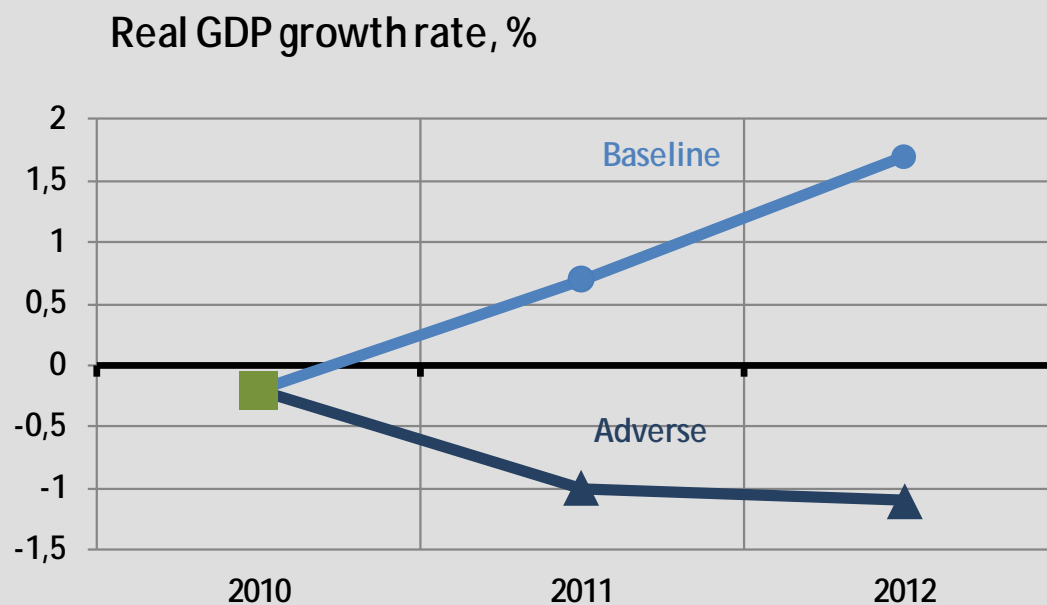
Assumptions about the adverse macroeconomic scenario



§ In the adverse scenario the decline in real GDP in 2011-12 is -2.1 percentage points (pp)

§ This means a reduction in real GDP from 2009 to 2012 of 6 pp

§ This also means declines of 4.6 pp relative to the baseline scenario



ASSESSMENT

Assumptions about the adverse macroeconomic scenario

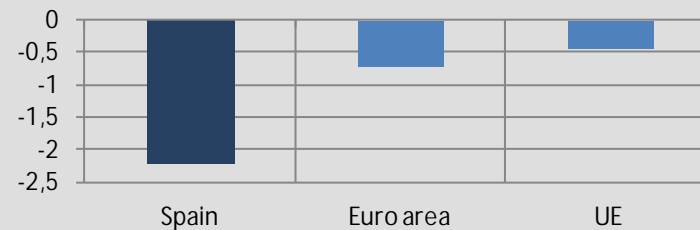
§ These assumptions are more severe than those applied for the euro area

§ Real GDP reduction in Spain in the period 2011-12 is -2.1% vs. a decline of -0.7% for the euro area

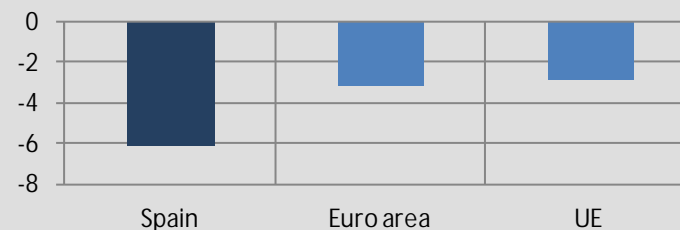
§ From year 2009 to 2012 the real GDP decline is 6 pp in Spain vs. a decline of 3.1 in the euro area

§ GDP decline in the adverse scenario relative to the baseline is 4.6 pp in Spain vs. 4 pp in the euro area

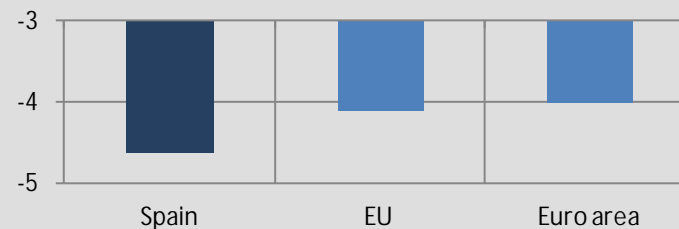
Real GDP growth in the adverse scenario 2011-12, %



Real GDP growth from 2009-12, adverse scenario



Real GDP growth. Percentage points deviation from the Baseline





§ The adverse macroeconomic scenario is translated into a sharp increase in stressed PDs in comparison with 2010 observed PDs

Observed and stressed PD in the adverse scenario.
Savings Banks, total credit portfolio. PD 2010 = 100





§ Trading book

§ A reduction in the market value of bonds derived from the wider sovereign spreads considered in the macroeconomic scenario

§ Banking book

§ Expected loss approach. That is: $PD * LGD$, where the expected loss must be covered with provisions

§ Impact on margins

§ The increase in sovereign spreads feeds through directly to higher wholesale funding costs for the banking sector

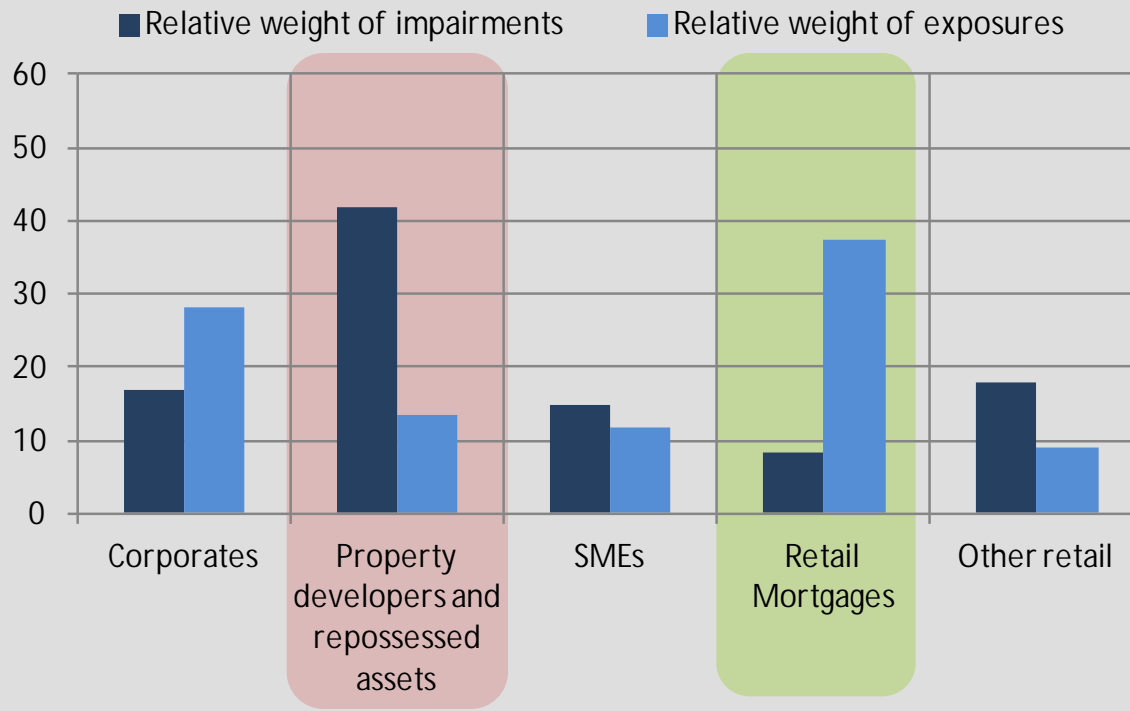
§ The sovereign spread passes through in full to the funding costs for banks on wholesale markets, which logically affects banks more in countries in which the sovereign spread increases to a greater extent, Spain being a case in point

§ The pass-through of the increase in the sovereign spread to loan operations has been partly allowed



§ Major hypothetical impairments arise from exposures to property developers and repossessed assets

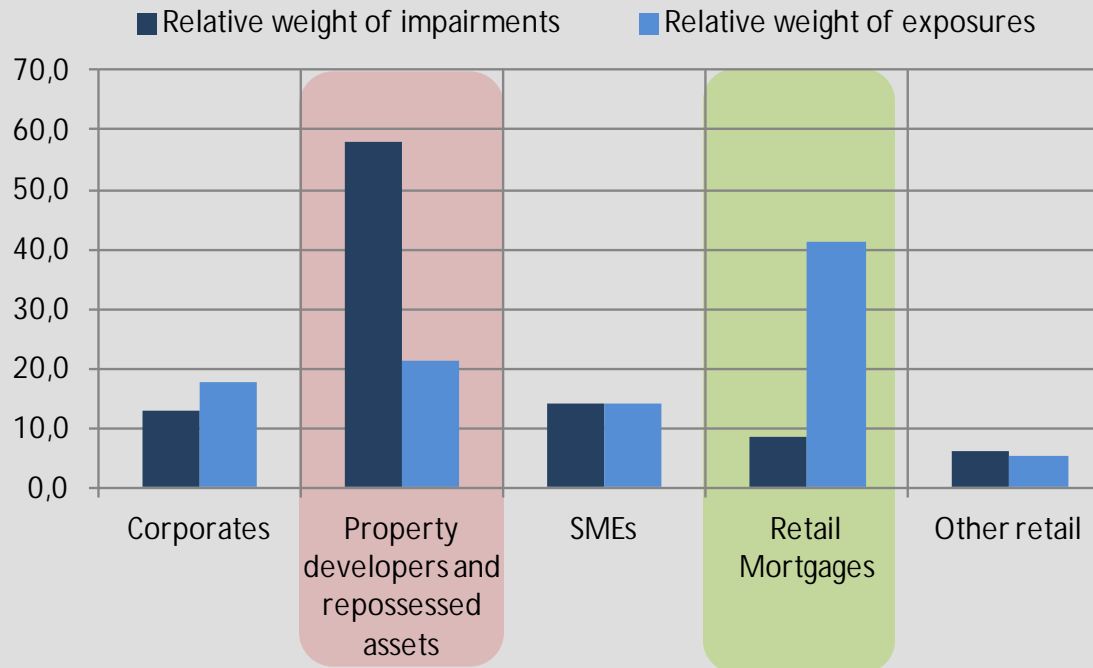
Total system. Adverse scenario, %





§ Hypothetical impairments arising from property developers portfolio are even more relevant for the savings banks

Savings Banks. Adverse scenario, %



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Real estate sector: residential retail mortgages



§ Residential retail mortgages are not an issue

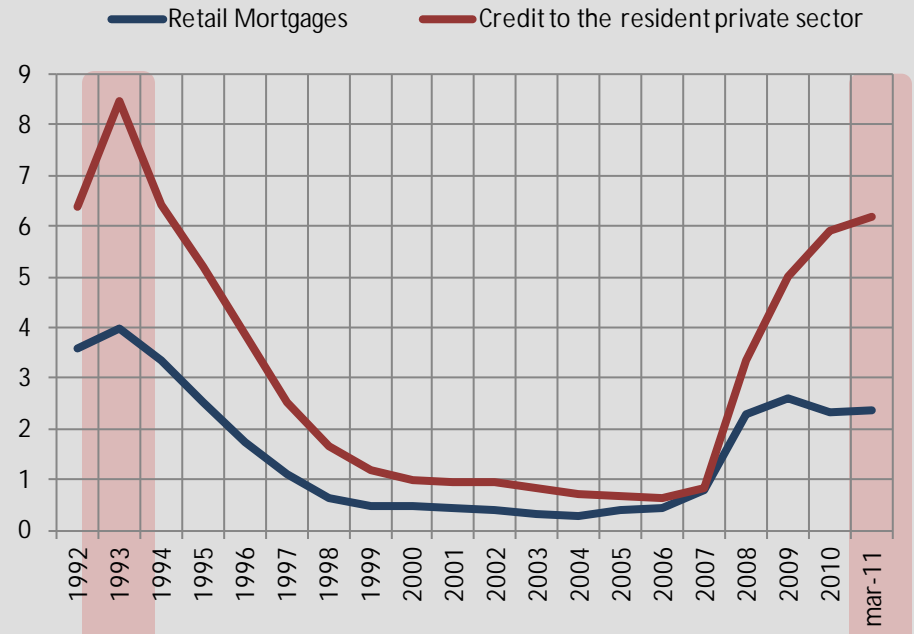
§ No originate to distribute

§ Buy-to-let business is practically non-existent

§ No HELOCS

§ Mortgages are recourse

Doubtful loans ratio. Spanish deposit institutions, %



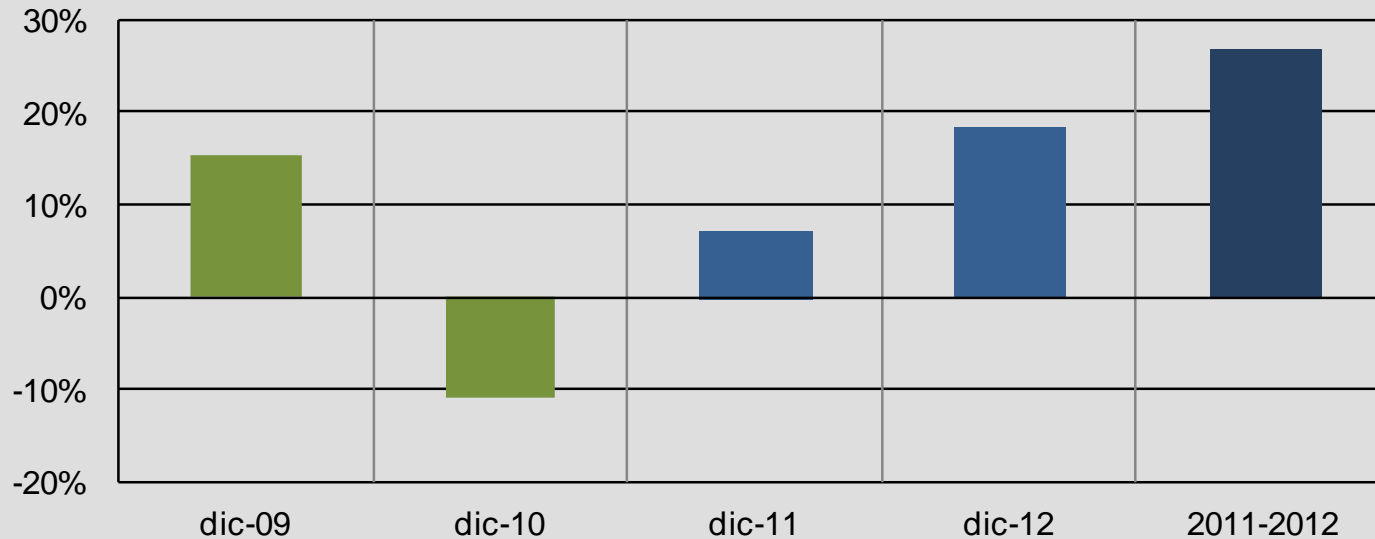
Unemployment	24%
Mortgage interest rate	13.9%

Unemployment	21.3%
Mortgage interest rate	3.2%



§ These assumptions in terms of the evolution of the doubtful loans ratio means a sharp increase in the period 2011-12

Residential Mortgages. Rate of change of the NPL ratio compatible with the adverse scenario assumptions



§ The loss rate in the adverse scenario is 20.3%

§ This means a loss rate x2 times – x14 times the loss rates of the rest of the credit portfolios

Total system, adverse scenario. Hypothetical impairments as % of each portfolio



Example, illustration purposes only

Accumulated PD	LGD at the end of the period		
	40	60	80
25	10,0	15,0	20,0
35	14,0	21,0	28,0
50	20,0	30,0	40,0



§ The adverse scenario makes harsh assumptions regarding housing prices

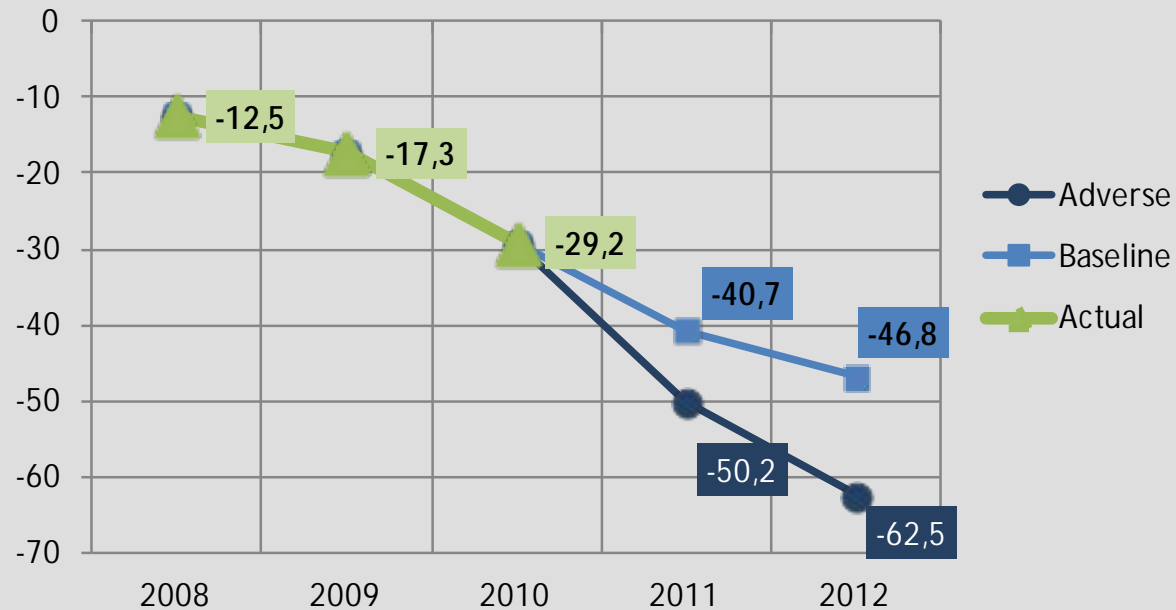
Real housing prices adjustment since 2007, %





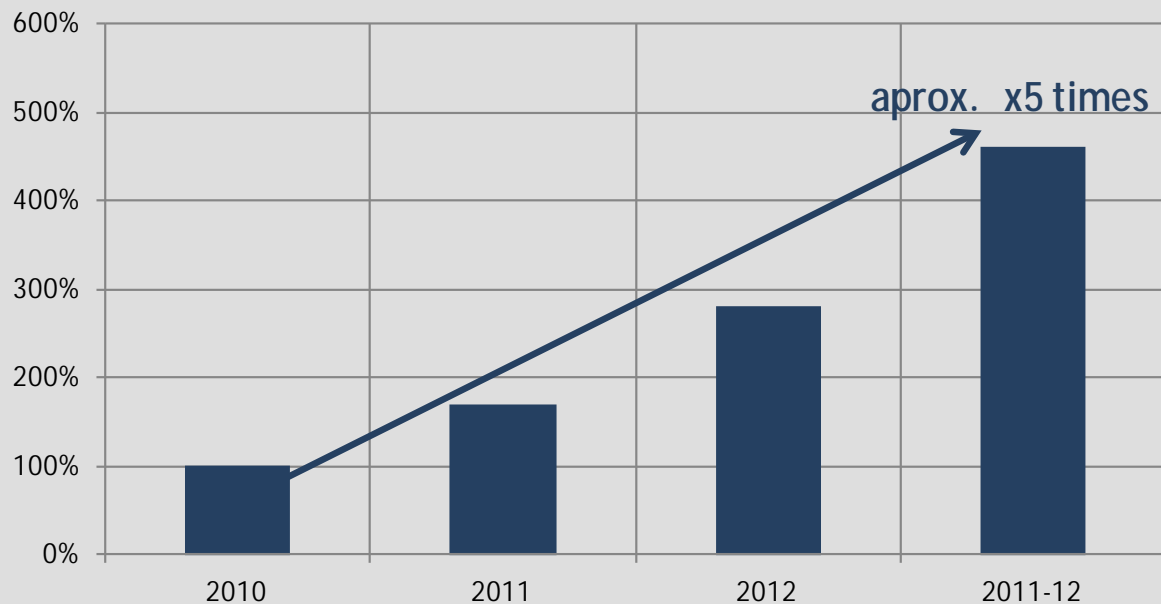
§ ... as well as for land prices

Real land prices adjustment since 2007, %



§ The parameters applied in the adverse scenario are compatible with a sharp increase in the EL for the period 2011-12

Expected Losses, %, property developers and repossessed assets, Savings banks (EL 2010 = 100)



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Available resources to absorb hypothetical impairments



§ Specific provisions

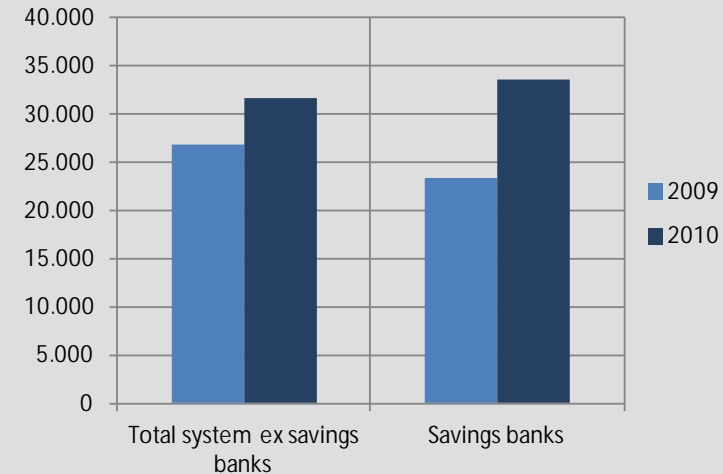
§ Obviously, no assumptions here. Nevertheless it is relevant to note their sharp increase, reflecting the degree of cleaning-up of the institutions balance sheets

§ General provisions

§ Despite homogenization issues related to EBA exercise, these provisions are a resource available for Spanish institutions, at it was set up at Dec.2010

§ With different intensity among institutions, and although lower than in last year, general provisions absorb a 10.4% of hypothetical impairments (14.6% for savings banks)

Stock of specific provisions (€m)

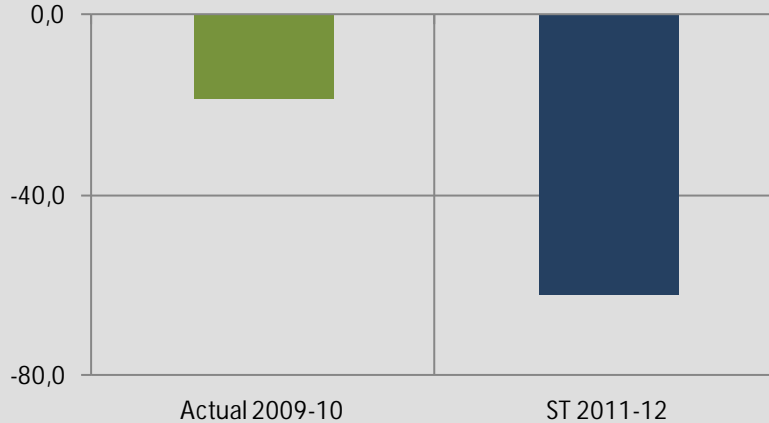




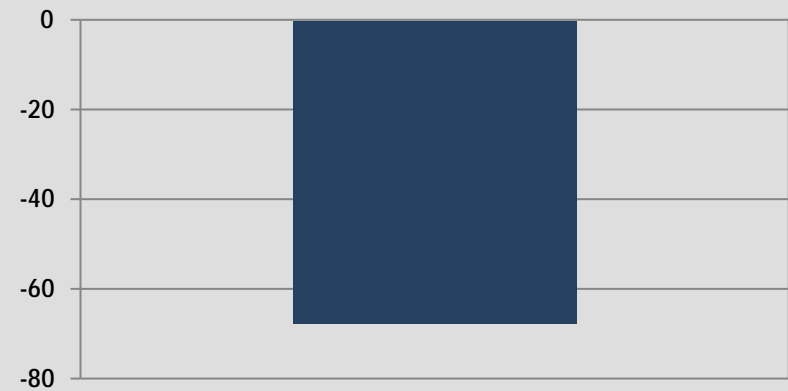
§ Net Operating Income (NOI)

§ Sharp decline, also in historical terms

Rate of change of 2 years accumulated NOI, %
Savings banks



Savings banks. NOI / TA adverse scenario
assumptions over 20 years average NOI, %





§ CT1 = 5%

§ It is difficult to compare the exercise with other theoretical exercises due to methodological reasons

§ But there is at least one key element that is directly comparable and that makes a big difference between different ST results: the required capital ratio after the ST

