

SPANISH BANKING SECTOR IN THE SSM CONTEXT

Fernando Restoy

Deputy Governor, Banco de España

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1. The current situation

1.1 The picture emerging from the comprehensive assessment in the euro zone

1.2 A note on Spain

2. Main challenges ahead

2.1 Profitability

2.2 Regulation



1.1 The picture emerging from the comprehensive assessment in the euro zone

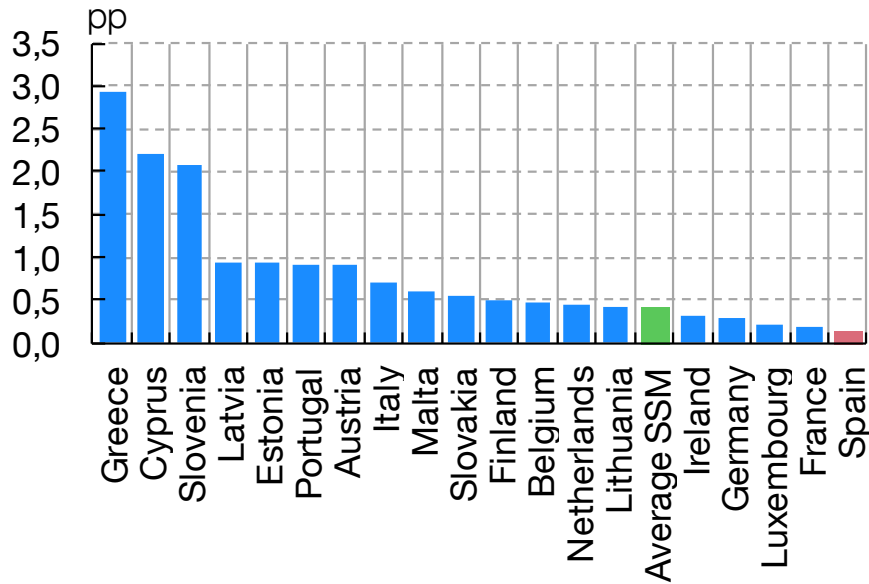
- Moderate impact of the **AQR** on CET 1 ratio (42 bp for SSM banks on average) but with high heterogeneity among countries.
- On the day of publication of the results, **only 13 banks with net capital shortfall.**
 - Currently, most of them have already addressed capital needs
- **Spanish banks:**
 - The lowest impact of the AQR (14 bp)
 - No capital shortfall at the time of publication of the results.

1. THE CURRENT SITUATION



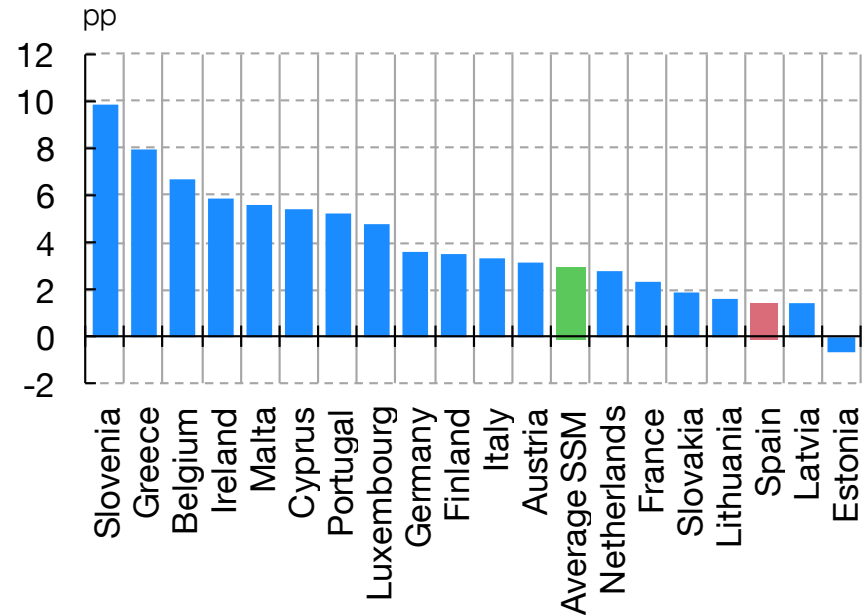
CA results

NET IMPACT ON CET1 RATIO OF THE AQR (a)



Source: ECB and Banco de España
a. Net of tax effect.

NET IMPACT ON CET1 RATIO OF THE STRESS TEST IN THE ADVERSE SCENARIO, BY COUNTRY (a)



Source: ECB and Banco de España
a. Net of tax effect.

1. THE CURRENT SITUATION

1.2 A note on Spain

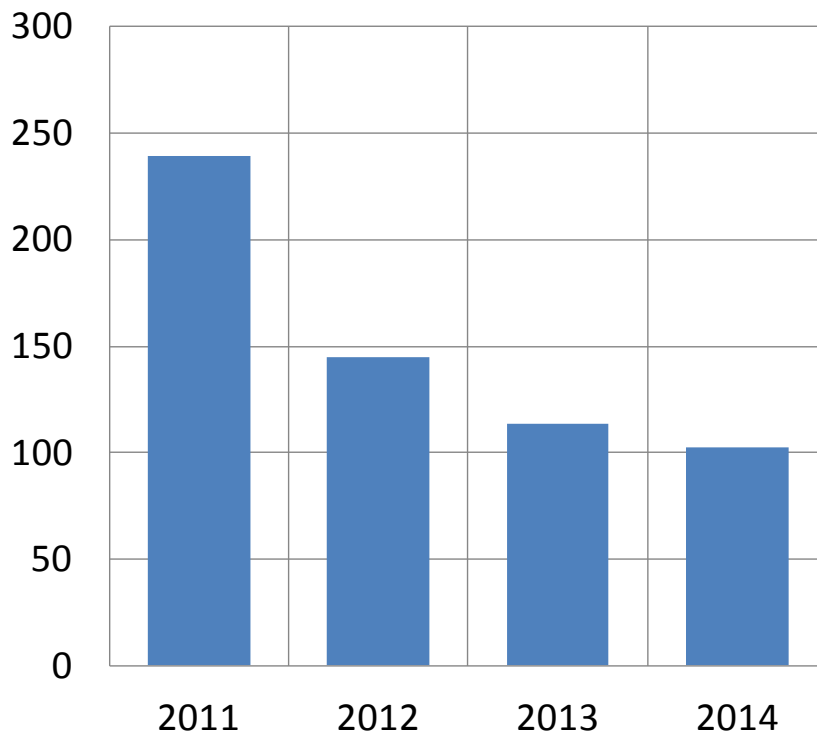
1. The cleaning up process
2. Reestructuring
3. Recapitalisation

1. THE CURRENT SITUATION



Clean-up

**BALANCE SHEET EXPOSURE TO
REAL ESTATE SECTOR
(Net of provisions) €bn.**



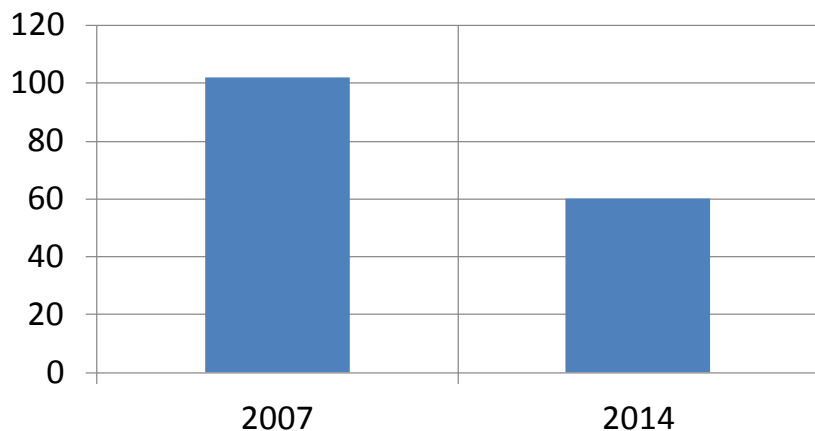
It includes loans to real estate and foreclosed assets.

1. THE CURRENT SITUATION

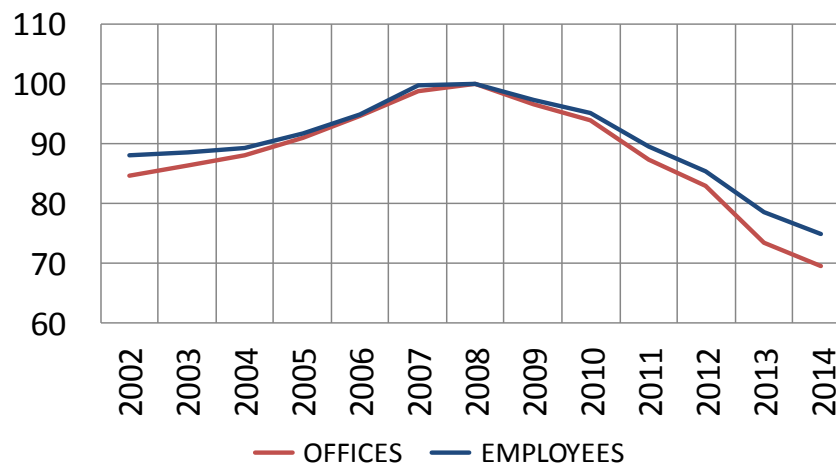


Reestructuring

**NUMBER OF CREDIT INSTITUTIONS
CONSOLIDATED GROUPS.**



EMPLOYEES AND OFFICES (Dec08 = 100)

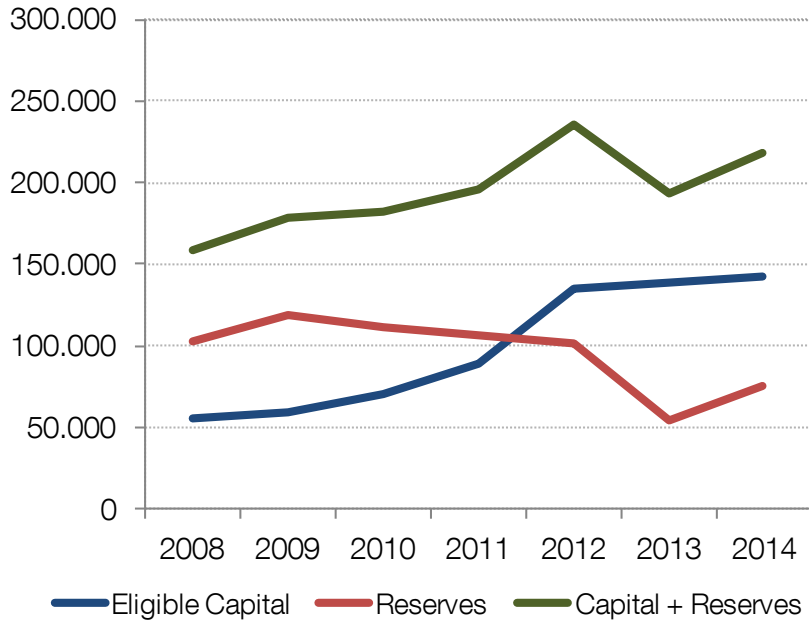


1. THE CURRENT SITUATION

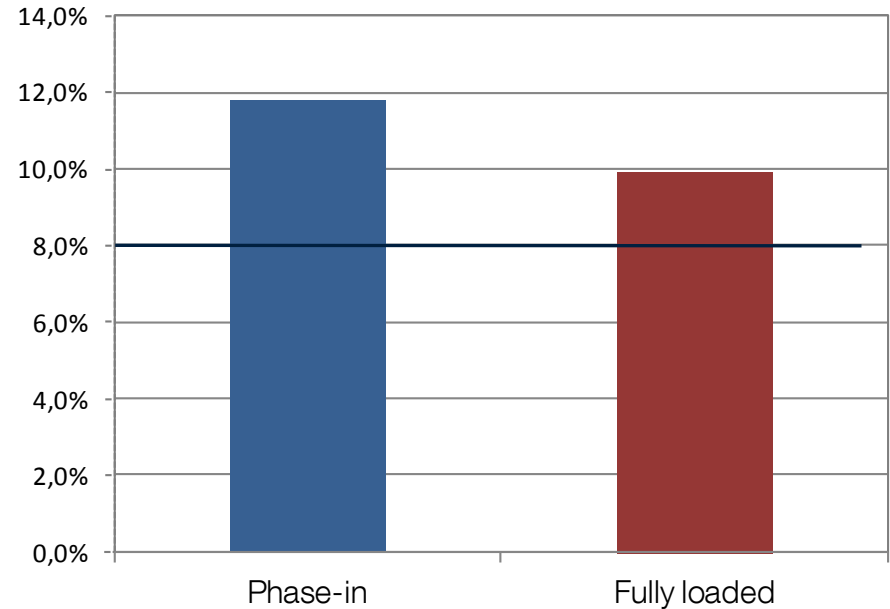


Recapitalisation

CAPITAL EVOLUTION.
SPANISH BANKING SECTOR Mill €



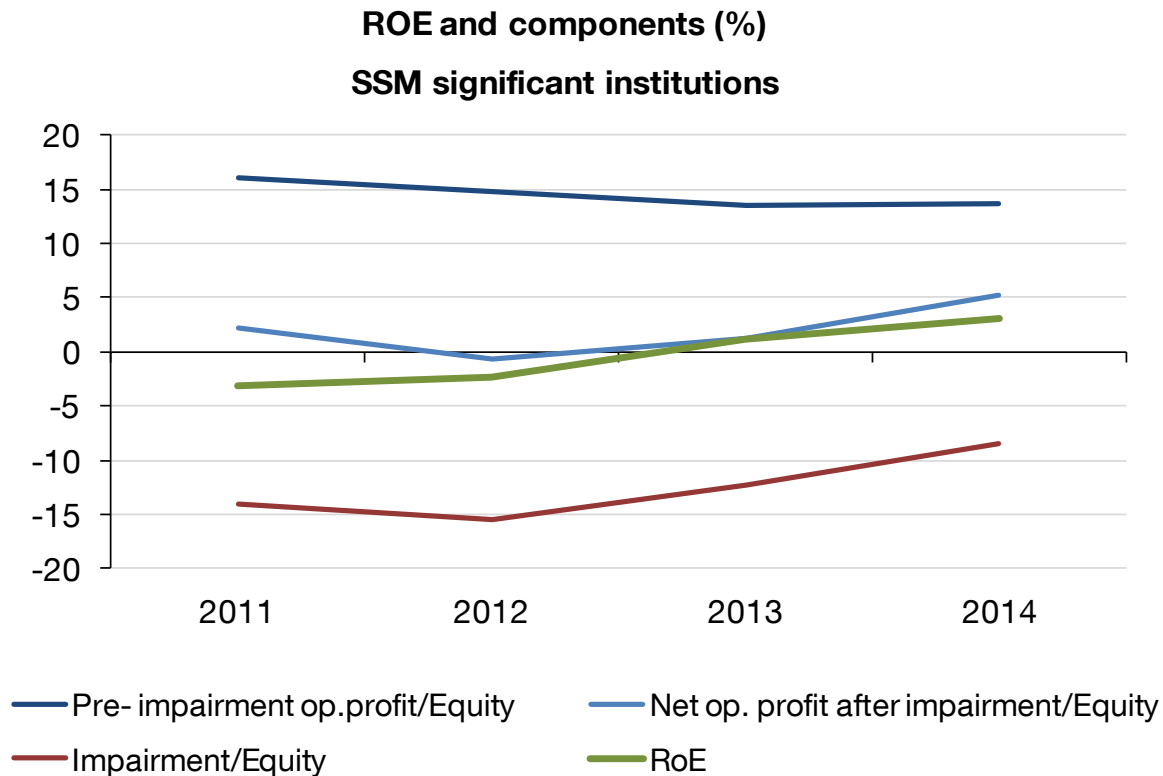
CET1 2014
SPANISH BANKING SECTOR



2. MAIN CHALLENGES AHEAD

2.1. Profitability

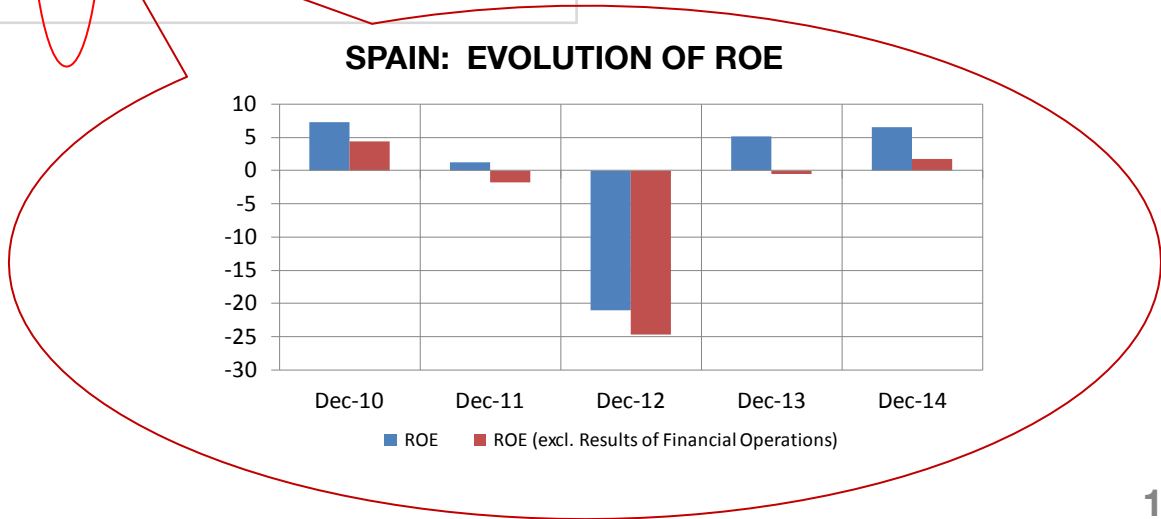
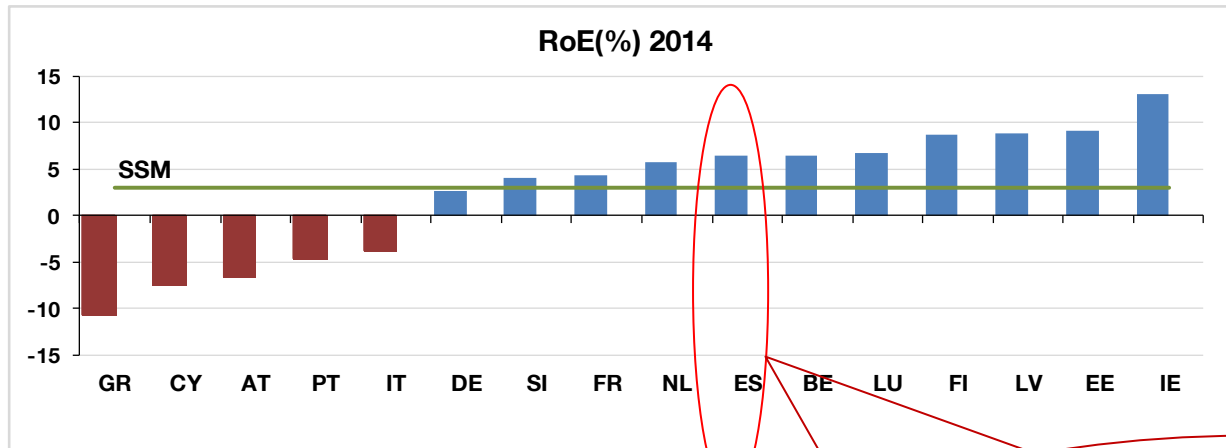
- Slowly improving thanks to lower impairments



2. MAIN CHALLENGES AHEAD

2.1. Profitability

- Significant variability across jurisdictions

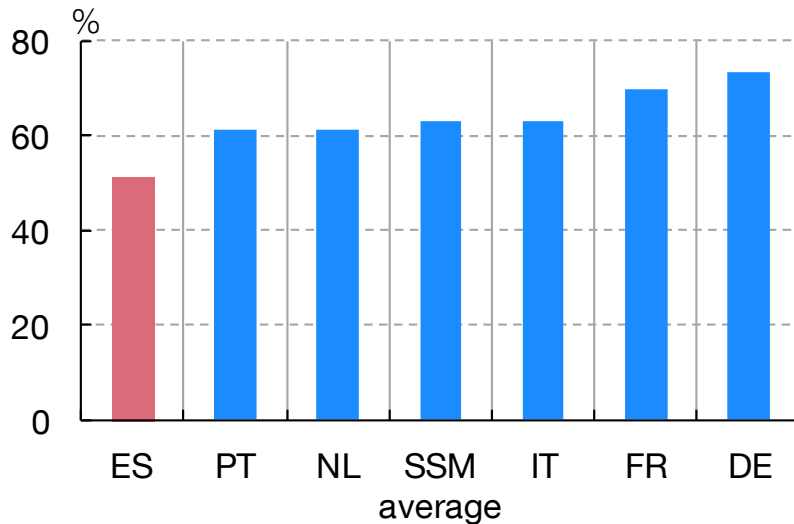


2. MAIN CHALLENGES AHEAD

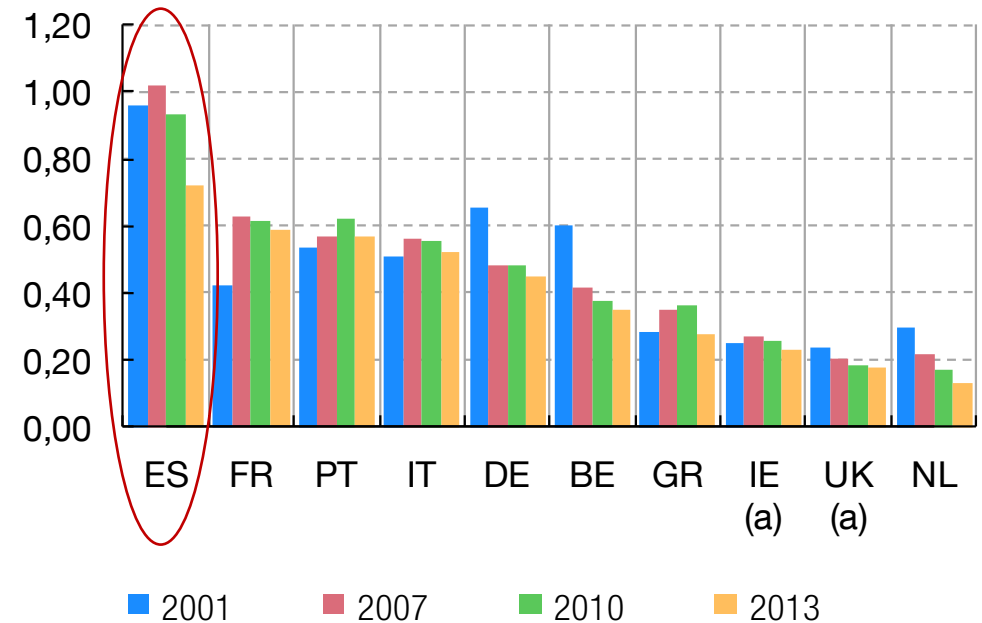
2.1. Profitability

- Need to review business models and strategies

COST TO INCOME. December 2014



NUMBER OF OFFICES PER ONE THOUSAND INHABITANTS



Source: Financial Stability Report May,2015, Banco de España
(a) Data refer to December 2012.

2. MAIN CHALLENGES AHEAD

2.2 Regulation: issues on the ongoing international debate

➤ **Simplicity and Comparability:**

- Seeking an appropriate balance between simplicity, comparability and risk sensitivity, particularly relevant in the calculation of RWA.

▪ *The appropriateness of the use of internal models needs to be defined.*

➤ **TLAC :**

- Having sufficient loss absorbing and recapitalization capacity to implement an orderly resolution that minimises impact on financial stability and taxpayers, and ensures continuity of critical functions.

▪ *Important to achieve neutrality between the different resolution models and consistency with MREL.*

➤ **Simple, Transparent and Comparable Securitisations:**

- Reducing for this type of securitisations some of the conservatism built into the capital framework.

▪ *Relevant to bear in mind the role of securitisations as a risk transfer tool*

2. MAIN CHALLENGES AHEAD



2.2. Regulation: foster harmonisation across the SSM

➤ **In particular, harmonise solvency measures:**

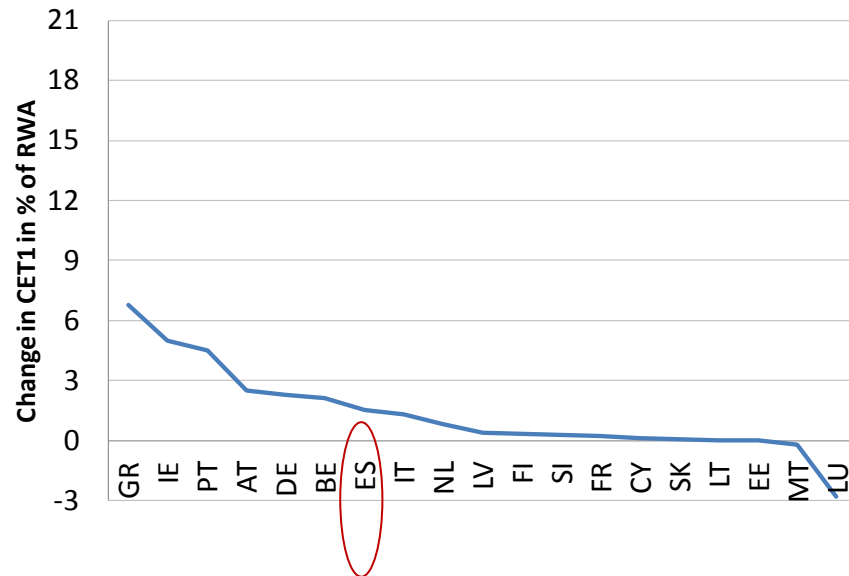
- Capital definitions (national discretions)
- Risk Weighted Assets
- Basis for capital measurement (accounting)

2. MAIN CHALLENGES AHEAD



National discretions

TRANSITIONAL ADJUSTMENTS BY COUNTRY OF PARTICIPATING BANKS As of 1 January 2014



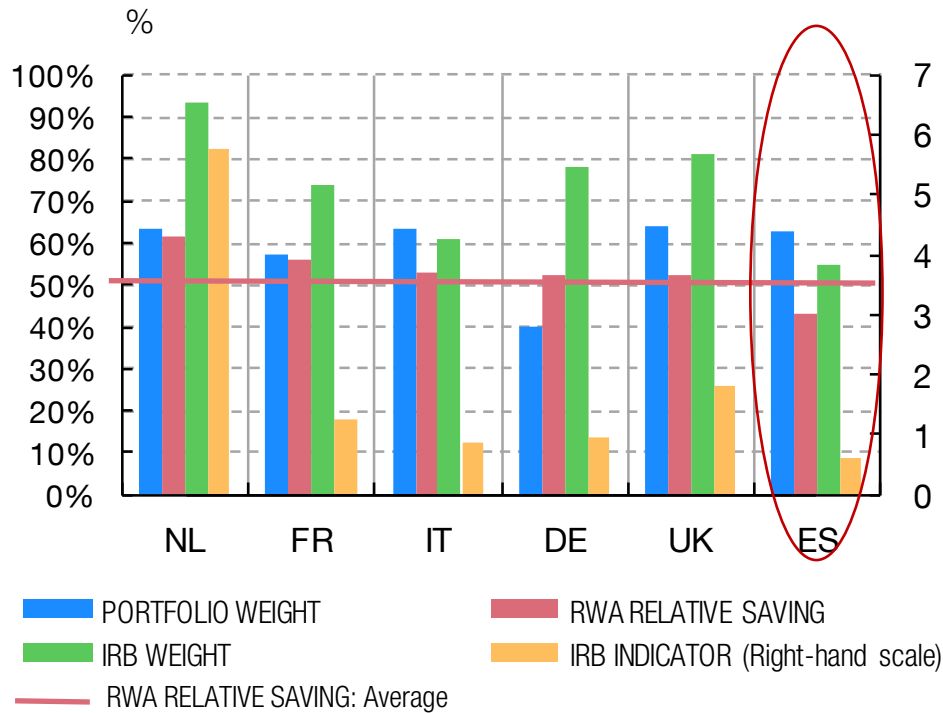
Source: Aggregate Report on the Comprehensive Assessment
ECB (October 2014)

2. MAIN CHALLENGES AHEAD



Risk weighted assets

IRB IMPACT ON RWA
Private Sector Portfolio



Source: Financial Stability Report
May, 2015, Banco de España

2. MAIN CHALLENGES AHEAD

Accounting

- To ensure that the accounts give a **fair view of the banks' financial situation** is key.
 - Solvency ratios are calculated on the basis of accounting information.
- There are **noticeable discrepancies** between the accounting criteria used in the different jurisdictions (AQR results), although IFRS principles must be applied in most of them.
- The **harmonisation** of these criteria would be **highly desirable** (classification of exposures and provisioning policy).
- Specially considering the entry into force in 2018 of the new standard (**IFRS 9**): **expected loss** vs. incurred loss.



THANK YOU FOR YOUR ATTENTION