



PRESS RELEASE

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Methodology of the appraisers of the Spanish financial system

Along with other initiatives taken, the Spanish Government has set in train a transparency exercise. This involves two independent private analyses to value the credit portfolios in Spain of the 14 largest banking groups (after taking into account the integration processes currently under way), which represent around 90% of the financial system. The analyses will address, on one hand, the system's resilience to a forceful additional deterioration in the economy (Stage 1) and, on the other, banks' internal systems for classifying, provisioning for and measuring their portfolio risks (Stage 2). Both analyses are interrelated and are being conducted under the coordination of the Banco de España.

The two stages of the independent exercise to evaluate the Spanish banking system are on schedule in terms of objectives, phases and deadlines. For Stage 1, the consultants Oliver Wyman and Roland Berger were hired and tasked with identifying the capital requirements of the system in the event of two scenarios: a baseline scenario, reflecting the situation which, as of today, appears most likely; and a stressed scenario, where a significantly worse economic situation and decline in real estate prices are assumed, the aim being to calibrate the system's resilience in the face of hypothetical and extremely adverse developments.

The benchmark scenarios are in line with those used by the IMF in the stress test conducted under the Financial Section Assessment Programme (FSAP). The decision to use them was adopted jointly by the Ministry of Economic Affairs and Competitiveness and the Banco de España, following consultation with the members of the Steering Committee, which included representatives from the ECB, the French and Dutch National Central Banks and the IMF.

The first exercise will involve measuring the effect of a hypothetical deterioration in the economic situation on banks' overall credit portfolios, i.e. not only the real estate portfolio, but also that of loans to households and firms. It will be based on information from the financial statements and confidential returns sent by banks to the Banco de España, along with other available data on the banks' credit portfolios, their segmentation and their quality. The working methodology will draw on the consultants' own models, estimates and hypotheses. In sum, the resilience of Spanish banks to further severe impairment of their portfolios, in a highly adverse economic scenario, will be identified.

The findings shall be delivered by the consultancy firms no later than 21 June. These exercises will provide parameters for the scale of the system's aggregate needs to withstand the stressed scenario, and identify the banking groups most vulnerable to such a scenario.

Two independent estimates will thus be obtained, as the consultants will conduct their work in isolation from one another, using their own methodologies and models. Accordingly, the result of the exercise will take the form of a reference range.

The work (of a longer duration) for Stage 2 of the valuation exercise has also begun. This will be undertaken by the four biggest audit firms in Spain, namely Deloitte, PwC, Ernst & Young and KPMG, and will be distributed across the 14 banking groups in question. No firm may review banks that it has audited in recent years. The exercise involves an itemised and detailed analysis of the banks' credit portfolios. Among other aspects, the classification of and provisioning levels for their credit portfolios will be valued. The findings of this work are to be available on 31 July. The Banco de España will analyse the information resulting from the work and will verify and impose on the banks, where necessary, any extra capital and/or provisioning requirements.

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