REPORT ON BANKING SUPERVISION IN SPAIN

2006

BANCO DE ESPAÑA
Eurosistema

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ABBREVIATIONS

ACs	Appraisal companies
AIAF	Association of Securities Dealers
AIG	Accord Implementation Group; reports to the BCBS
AMA	Advanced Measurement Approach (for measuring operational risk)
APR	Annual percentage rate
ASBA	Asociación de Supervisores Bancarios de las Américas
ATA	Average total assets
ATM	Automated teller machine
BAC	Banking Advisory Committee (EU)
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
BSC	Banking Supervision Committee of the ESCB
CBE	Circular of the Banco de España
CCR	Central Credit Register of the Banco de España
CEBs	Currency exchange bureaux
CEBS	Committee of European Banking Supervisors
CECA	Spanish confederation of savings banks
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CERSA	Spanish state-owned reinsurance company
CESR	Committee of European Securities Regulators
CGs	Consolidated groups of CIs, DIs, etc.
CII	Collective investment institution (also CIU)
CIs	Credit institutions (DIs, SCIs, and the ICO)
CNAE	Clasificación Nacional de Actividades Económicas (Spanish National Classification of Economic Activities)
CNMV	National Securities Market Commission
COREP	CEBS COmmon REPorting Working Group
CRD	Capital Requirements Directive
DGF	Deposit Guarantee Fund
DGTPF	Directorate General of the Treasury and Financial Policy
DIs	Deposit institutions
EC	European Commission
ECB	European Central Bank
ECOFIN	EU Council of Ministers of Economy and Finance
EEA	European Economic Area
EIF	European Investment Fund
EFAs	Earning financial assets
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
FESCO	Forum of European Securities Commissions
FVC	Financial vehicle corporation (also SSPE)
GdC	Groupe de Contact
GDP	Gross domestic product
GTIAD	Working Group on the Interpretation and Application of the Banking Directives
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBFLs	Interest-bearing financial liabilities
ICBS	International Conference of Banking Supervisors
IFAC	International Federation of Accountants
IMF	International Monetary Fund
IFRS	International Financial Reporting Standards
ILG	International Liaison Group (formerly CPLG)
IOSCO	International Organisation of Securities Commissions
IRB	Internal Ratings-Based method
IWCFC	Interim Working Committee on Financial Conglomerates
LABE	Law on the Autonomy of the Banco de España (Law 13/1994)
LDI	Law of the discipline and intervention of credit institutions (Law 26/1988)
LGD	Loss given default
LMV	Law on the securities market (Law 24/1988)
MG	Non-consolidable mixed group
MGCs	Mutual guarantee companies
MO	Ministerial Order
OECD	Organisation for Economic Co-operation and Development

OJ	Official Journal of the EU
OTC	Over-the-counter (trading on unregulated markets)
PBT	Profit before tax
POS	Point of sale
RD	Royal Decree
RDL	Royal Decree Law
RGs	Regional (autonomous) governments
ROA	Return on assets (profit after tax as percentage of ATA)
ROE	Return on equity (profit after tax as percentage of own funds)
SCIs	Specialised credit institutions
SEPA	Single Euro Payments Area
SEPBLAC	Commission for the Prevention of Money Laundering and Monetary Offences
SMEs	Small and medium-sized enterprises
SNCE	Sistema Nacional de Compensación Electrónica (Spanish National Electronic Clearing System)
SSPE	Securitisation special purpose entity (also FVC)

* * *

€ m	Millions of euro
€ bn	Billions of euro
Q1, Q4	Calendar quarters
P	Placed after a date [Jan (P)], indicates that all the related figures are provisional. Placed after a figure, indicates that this and only this figure is provisional
bp	Basis points
pp	Percentage points
...	Not available
—	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth

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1. Introduction

The Second Additional Provision of Law 44/2002 of 22 November 2002 on Financial System Reform Measures established, in accordance with its name, certain measures to improve the efficiency, effectiveness and quality of supervision procedures.

These measures include most notably the obligation of supervisory agencies, including the Banco de España, to prepare annually "a report on their supervisory function". This report shall include "a report by the respective internal control bodies on how closely the decisions taken by their governing bodies conform to the procedural rules applicable in each case".

The 2007 Internal Audit Plan of the Banco de España, approved by the Governor on 27 December 2006 and notified to the Executive Commission on 26 January 2007, includes the drafting of the report envisaged in Law 44/2002 of 22 November 2002 on Financial System Reform Measures, so that it may be included in the Banco de España's annual report on its supervisory function.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the Second Additional Provision of Law 44/2002. As mentioned above, this Second Additional Provision defines the scope of the report by reference to three basic elements:

1. The supervisory function of the Banco de España.
2. The decisions taken by the governing bodies in exercise of the supervisory function.
3. Conformity of the foregoing decisions to the "procedural rules applicable in each case".

The period addressed by the report is the same as that covered by the Report on Banking Supervision in which it has to be included, i.e. 2006 in this case.

The subject matter of the report is the decisions taken by the Banco de España's governing bodies within the spheres of competence of the Directorates General of Banking Supervision and of Banking Regulation.

Regarding applicable legislation, account was taken of the supervisory powers contained in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and in the Internal Rules of the Banco de España.

Also, the Executive Commission established, via a Resolution of 14 February 2003, the procedural rules for proposals on matters within the competence of the Directorate General of Banking Supervision. The procedural rules for proposals on matters within the competence of the Directorate General of Banking Regulation were regulated by a Resolution of 10 April 2003, changed by a Resolution of 5 November 2004. The Executive Commission, under a Resolution of 30 June 2006, established new procedural rules which, from that date, regulate the proposals on matters within the competence of the Directorate General of Banking Regulation.

The examination was performed by stratified sampling in nine strata or types of decision taken by the Directorate General of Banking Supervision and in eleven strata or types of decision taken by the Directorate General of Banking Regulation. Different sampling fractions (100%, 10%, 5% or 1%) were applied to these strata depending on the materiality, numerical volume and internal homogeneity of each stratum.

The work was performed in accordance with the Internal Audit Manual, which includes the International Standards for the Professional Practice of Internal Auditing, approved by the Institute of Internal Auditors, including those relating to the Code of Ethics.

3. Opinion

In our opinion, the decisions taken by the governing bodies of the Banco de España in 2006 in the exercise of its supervisory function were taken by bodies with sufficient own or delegated powers in accordance with the Banco de España's Internal Rules and with the provisions laid down by its Executive Commission, and are in conformity, in all material respects, with the existing procedural rules applicable in each case.

Madrid, 7 May 2007

Director of the Internal Audit Department,

Juan González Gallegos

THE GOVERNOR OF THE BANCO DE ESPAÑA

THE DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

1 STRUCTURE AND EVOLUTION OF THE INSTITUTIONS UNDER THE BANCO DE ESPAÑA'S SUPERVISION IN 2006

1 Structure and evolution of the institutions under the Banco de España's supervision in 2006

1.1 Structure and composition of the banking system

Spanish credit institutions (CIs) continued to expand their operating capacity in the domestic market in 2006. In particular, they supplemented the opening of branches with the strengthening of their electronic and telephone banking services, and extended their relationships with businesses through point-of-sale (POS) terminals. In fact, not only did they increase the size of their operational networks, but they also generally stepped up the pace of that growth. The presence of foreign banks in Spain increased, particularly through the establishment and expansion of branches of foreign CIs. There was a greater convergence between the market shares of domestic commercial banks and savings banks measured in total balance sheet terms.

1.1.1 TYPES OF CREDIT INSTITUTION

The upward trend of recent years in the opening of branches by European Union (EU) banks was reaffirmed in 2006. Accordingly, last year, as in 2005, the number of registered CIs in Spain rose, and it now stands at 355. The net increase of five CIs was the result of a net gain of four commercial banks and one SCI, since savings banks and credit co-operatives did not change in number or composition (see Table 1.A.1).

Last year the composition of two consolidated groups changed as a result of a merger. A Spanish commercial bank (Banco de Sabadell), the parent of the consolidated Sabadell group, absorbed a foreign subsidiary (Banco Urquijo). The group also inherited certain investments as a result of this acquisition, among which was a part of Caceis Bank España. Some months later the Sabadell group purchased the remaining capital and thus became the owner of all the shares of this foreign subsidiary, which consequently became a Spanish bank (the only new registration in 2006). By contrast, Banco Urquijo was dissolved and removed from the Banco de España's register of CIs. These two foreign subsidiaries made up the consolidated group with a foreign parent that disappeared in 2006 (the Urquijo group). The third subsidiary deregistered was a non-EU subsidiary (JP Morgan Bank SA) inactive since the end of 2005.

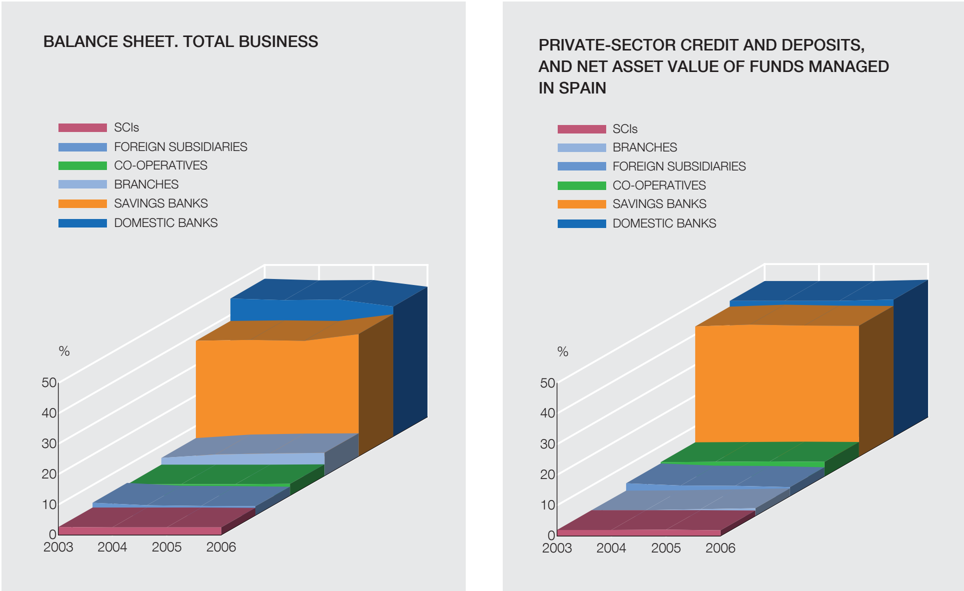
The number of branches increased in net terms by six. The only deregistration due to closure took place following full transfer of assets and liabilities to one of the seven new branches registered, all from the EU, which indicates that EU CIs continued their strategy of extending their presence in Spain. Hence, all in all, the presence of foreign banks in Spain increased by three institutions in 2006 (six new branches less three subsidiaries).

In the specialised credit institution (SCI) category, there were three registrations (one independent SCI and two foreign-owned SCIs) and two deregistrations, one as a result of the dissolution of a SCI absorbed by a savings bank.

As regards the market share of the various types of CIs measured in total balance sheet terms, savings banks raised their market share by 2.2 pp to 40.2%. The share of commercial banks diminished by the same amount to 42.8%, basically at the expense of Spanish commercial banks, since the share of foreign banks as a whole remained practically unchanged: the slight increase in the share of branches was partially offset by the drop in the share of foreign subsidiaries, in a process that has been underway for the last few years (see Chart 1.1 and Table 1.A.4 bis). This reshuffling of commercial and savings banks' market shares measured in total balance sheet terms was not significantly affected by the securitisation of assets, as is explained in more detail in Sections 1.2.2 and 1.2.3 of this Report.

MARKET SHARE OF CIs REGISTERED IN SPAIN

CHART 1.1



SOURCE: Banco de España. Data available at 13 March 2007.

When market share is measured in terms of business with private-sector customers (loans, deposits and managed funds), minor variations are seen. The shares of savings banks and credit co-operatives remained practically unchanged. Commercial banks, particularly Spanish commercial banks, despite losing market share in total balance sheet terms, slightly raised (by 39 bp) their private-sector market share at the expense mainly of SCIs and foreign banks. Regarding foreign banks in Spain, the subsidiaries again lost ground also in business with private-sector customers, their share dropping by 38 bp, while the branches raised their share by 28 bp. These changes have some connection with the aforementioned restructurings in foreign banks in terms of the number of active subsidiaries and branches in Spain.

1.1.2 CIs' OPERATING RESOURCES

In 2006, for the sixth year running, the number of operational offices again rose for CIs as a whole, to a total of 43,785 offices, with a year-on-year increase of 4.1%. Consequently, the density of the office network grew to 11.8 offices per 10,000 inhabitants over 16 years of age, the highest density in the European banking industry (see Tables 1.1 and 1.A.2).

SCIs and foreign branches were the institutions with the highest growth rate of offices, at 6.5% and 6.2%. By contrast, foreign subsidiaries were the only ones to see an overall decline in their number of offices (–1.8%). Nevertheless, it should be noted that the increase in the number of offices of branches and the decrease in those of foreign subsidiaries was actually due to the change in the number of active institutions, since in terms of average operational offices per active institution, the figure for branches did not change while that for subsidiaries increased by five.

As is customary, savings banks, which have a lead in the number of operational offices, did not interrupt the ongoing expansion of their operational office networks. Their example was followed by Spanish commercial banks which, since the completion of their major internal restructuring processes in 2004, have stopped closing offices and have followed savings banks in their strategy of increasing their physical presence. However, in the past five years savings banks have, in absolute terms, opened more offices in the provinces of highest population density (such as Madrid and Barcelona), whereas commercial banks have shifted a part of their presence in these regions in order to establish themselves in areas with a lower bank office density.

OPERATING RATIOS OF CREDIT INSTITUTIONS (a) TABLE 1.1

Total business. Year-end data

	2003	2004	2005	2006
Serving employees per 10,000 inhab. > 16 years old	69.1	68.6	69.3	70.7
Operational branches per 10,000 inhab. > 16 years old	11.2	11.3	11.5	11.8
ATMs per 10,000 inhab. > 16 years old	14.7	14.9	15.2	15.5
Point-of-sale terminals per 10,000 inhab. > 16 years old	278.2	295.9	306.7	352.4
No. of credit and debit cards per inhab. > 16 years old	2.0	2.1	2.3	2.4

SOURCE: Banco de España and INE. Data available at 19 March 2007.

a. The population figure used as the denominator in the calculation of these ratios is the total Spanish resident population above 16 years old according to the Spanish Labour Force Survey (EPA), while the numerator takes total business including business both in Spain and abroad. Nonetheless, given the marginal nature of the contribution of the latter, there is no problem of any significant mismatch in the ratio.

Although there is a dense network of bank offices in Spain, these are smaller than in other EU countries, as measured in terms of employees. In 2006 the average office size remained unchanged at less than five employees per office. As in prior years, the lowest number of employees per office was in credit co-operatives and savings banks, which remained at the levels of recent years. Meanwhile, commercial banks continued on a converging path with savings banks as they diminished the number of employees per office.

Spain's ATM network is the densest in Europe and in 2006 approached 16 ATMs per 10,000 inhabitants over 16 years of age. Even so, last year the number of ATMs grew by practically 4%, largely due to the new ATMs of savings banks. In recent years the number of ATMs has been growing abreast with the number of offices, which seems to indicate that the institutions are not undertaking the expansion of ATMs outside their offices, i.e. they are using ATMs to complement, rather than replace, offices.

Point-of-sale (POS) terminals continued to expand rapidly in 2006, their numbers rising by 16.7% to exceed 1.3 million for CIs as a whole. Spanish commercial banks were those that made the biggest effort to pursue a closer relationship with businesses, with an increase of 22.4% in their POS terminals. Nevertheless, savings banks continued to have the most extensive network of POS terminals (618,057), although their advantage over commercial banks narrowed after the effort by commercial banks to widen their presence in this segment.

ATMs and POS terminals are linked to the use of debit and credit cards, so it is not surprising that, in consonance with the rise in the number of ATMs and POS terminals, the number of cards should also keep growing in 2006 (9%), when it topped 90 million cards, nearly 57% of which were credit cards. Commercial banks continued to hold the lead in the number of credit cards, with a share of 42% (38% in 2005), which breaks down into 32% for Spanish commercial banks, 8% for foreign subsidiaries and the other 2% for foreign branches. The share of the credit card market held by savings banks fell from 28% in 2005 to 25% in 2006. Debit card market shares were unchanged: savings banks remained in the lead with 59%, compared with the 32% share of commercial banks.

In recent years the number of agents has increased, and this process continued in 2006. In addition to expanding their staff by 5%, savings banks raised by 134% the number of banking agents empowered to arrange transactions. Foreign subsidiaries, while holding their number of employees unchanged, led the notable escalation in the number of agents in 2006, although most of this rise was due to a change in the contractual status of previously existing collaborators engaged mainly in the sale of securities market services.

As regards electronic and telephone banking, the number of deposit accounts[1] arranged through these channels increased by more than 23% to exceed 2.3 million. By category, at end-2006 branches were the leading users of this mechanism, with more than 1.6 million accounts arranged by means of so-called "remote banking". These were followed by Spanish commercial banks with nearly 650,000 accounts, and savings banks came third with approximately 120,000. It should be noted that savings banks, although in overall terms they are still far from reaching the number of transactions carried out by commercial banks through these processes, recorded the highest year-on-year growth rate in the use of these business channels (50%).

1.1.3 CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS

Consolidated groups (CGs) at end-2006 numbered 99 (four more than in 2005), of which only 31 were groups that, in addition to the parent or account submitter, included at least one other CI. The number of CGs whose parent is a CI increased by three in net terms. The category undergoing most changes was that of the groups whose parent is a credit co-operative, in which there were four additions and one deletion. The only change within the CGs containing at least two CIs was a newly registered CG whose parent is a savings bank. A CG with a foreign CI parent ceased to exist, as mentioned in Section 1.1.1[2]. As regards other CGs whose parent is not a CI, there were two registrations and one deregistration of CGs whose ultimate holders are foreign, and, as a result, this category grew to seven CGs (see Table 1.A.3).

Royal Decree 1332/2005 was published in late 2005 to implement the legislation on the supervision of financial conglomerates (FCs) (Law 5/2005) and complete the transposition of Community law (Directive 2002/87/EC) to the Spanish legal system. Royal Decree 1332/2005 establishes rules for the calculations needed to identify FCs and adopts the new system of supplementary supervision designed by Law 5/2005 through capital adequacy policies, the definition of FCs' eligible own funds and reporting requirements. The entities subject to this system are credit institutions, investment firms, insurance and reinsurance undertakings, CII management companies and pension fund managers forming part of a FC. The Royal Decree defines the relevant competent authorities in the supervision of a FC and the single co-ordinator as the competent authority responsible for exercising and co-ordinating supplementary supervision. Non-consolidable mixed groups (MGs), whenever they cannot be identified as FCs because they do not meet the sectoral diversification criteria, shall also be subject to specific reporting requirements.

Table 1.A.3 shows that under these new regulations the sum of FCs and MGs at end-2006 had increased by ten with respect to 2005, which was remarkable given the downward trend that had prevailed in the number of MGs in Spain. Of the 42 groups, only seven could be classified as FCs under the applicable sectoral diversification criteria, although four of them were exempt from the supplementary supervision requirements pursuant to a decision by the relevant competent authorities and the single co-ordinator[3]. Therefore, in all, the Banco de España was responsible for the supervision of six FCs and 34 MGs, and the Directorate General of Insurance supervised one FC and one MG.

1. Deposit accounts include current accounts, savings accounts and time or other deposits. **2.** This deregistration was not reflected in the category of CGs containing two or more CIs, since one of the two CIs forming the group was an investee. **3.** Regarding the three non-exempt FCs, the Banco de España was designated as co-ordinator of two of them and the Directorate General of Insurance as co-ordinator of the other one.

1.2 Activity and results of credit institutions

In line with the trend of recent years, both individual credit institutions (CIs) and consolidated groups (CGs) put in a positive performance in terms of activity and results, directly influenced by the sound performance of the Spanish economy which, with a GDP growth rate of 3.9% (four basis points more than in 2005), did not show signs of slowing. The industrial production index showed the highest growth of the last five years, construction being the most vigorous economic sector, although investment in this segment slowed slightly. This slowdown was influenced by the interest rate rise, much stronger than in 2005, as a result of which the interest rate on Eurosystem main refinancing operations ended 2006 at 3.50% and EURIBOR at 3.92% (2.25% and 2.78% in December 2005, respectively).

International economic activity in 2006 was notable for its considerable buoyancy and for the US dollar's progressive depreciation against the euro to levels similar to those of December 2004, which played a major role in the slowdown in the CG activity figures expressed in euro. In the US the economic slowdown continued, although its GDP continued to grow at a rate above 3%. The situation of economic boom also prevailed in the EU, with euro area growth of 2.8% (1.5% in the previous year), the same as in the UK. Meanwhile, the overall performance of the Latin American economies was favourable, with growth of 5.3% in 2006, inflation at historical lows and a significant recovery in domestic demand, all of which impelled the activity and results of CGs.

1.2.1 ACTIVITY OF INDIVIDUAL CREDIT INSTITUTIONS

The favourable economic conditions in Spain in 2006 brought a fresh rise in CI activity. However, the balance sheet total changed its trend, since the growth rate slowed to 16.6% in 2006, leaving it at practically €2.5 billion as at December of that year. This represented a turning point in the growth path initiated four years earlier (see Table 1.A.4). The slowdown was caused, from the standpoint of assets, by a significant fall in the debt securities caption and by a slight slowdown in mortgage credit to the resident private sector, the behaviour of which was closely linked to the interest rate rises in 2006.

The growth rates of both credit (also referred to as "lending" or, in the balance sheet, "loans and advances") to the resident private sector and deposits from the private sector (liabilities)[4] increased in 2006, although less so than in previous years (see Chart 1.2) and the weight of both items in the balance sheet increased. Specifically, CIs raised the weight of their credit to the resident private sector and adjusted downward both the weight of their fixed-income portfolio and that of interbank loans. On the financing side, there was a shift in relative weight from the "Deposits from central banks and from credit institutions" caption to "Deposits from other creditors" and to "Debt certificates including bonds", with high rates of issuance of covered bonds, frequently placed via securitisation. These changes were more marked in Spanish commercial banks, which lost market share slightly to savings banks. The growth of activity continued to be accompanied by progressive improvement in the credit quality of assets, and the doubtful assets ratio again decreased. This, along with higher general allowances and provisions, gave rise to further increases in the coverage ratio of CIs.

Mortgage credit was, yet another year, one of the most dynamic components of the balance sheet. Although its growth was down slightly (from 28.4% to 24.6%), the share of mortgage credit in the CI balance sheet rose further to stand at 36%. The volume of mortgage credit under management increased to €911 billion, although this variable also decelerated (see Chart 1.3). As regards the structure of lending to the resident private sector (see Table 1.A.6), the only activity in the "goods" category whose share increased was construction, while under the "services" heading, property development underwent significant growth. The slowdown in

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4. Defined as total "Deposits from other creditors" excluding "Resident and non-resident general government".

RATES OF CHANGE OF GDP AND SOME CI BALANCE SHEET ITEMS (a) CHART 1.2

Total business

SOURCES: INE and Banco de España. Data available at 9 March 2007.

a. CIs existing at each date.

house purchase lending shifted the attention of CIs towards the financing of productive activities, which represented a change of trend with respect to the last few years and produced a decrease in the proportion of credit extended to households to finance housing. Also, while credit to the resident private sector gained weight in the balance sheet of CIs, debt securities underwent a notable decline (–18.1%) which reversed the previous year's rise and reduced their weight to less than 10% of the balance sheet total.

Moving on to financing, debt certificates including bonds, and especially the mortgage-backed securities accounting for 44% of this caption, were the most dynamic item and gained weight in CI liabilities, despite a slowdown of nearly 10 pp in their growth rate in 2006. At the end of that year, the outstanding balance of covered bonds (the only type of mortgage-backed security issued under this heading) amounted to €133 billion, up nearly 50% on 2005. It should be noted that the debt certificates caption does not include all the covered bonds issued, since the one-off covered bonds used as a basis for securitisations are recorded as "Fixed term and rate deposits" under the heading "Time deposits".

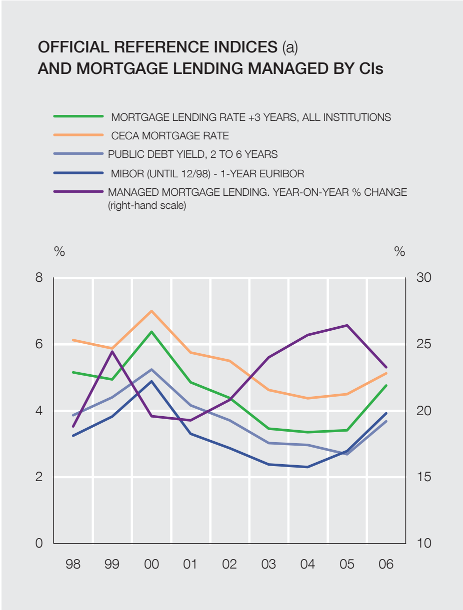
In view of the above, it was decided to add at the end of Table 1.A.4 a new heading "Total mortgage covered bonds issued", which represents the total volume of mortgage covered bonds issued by CIs and which includes both those considered to be marketable securities and those that are not because they were issued on a one-off basis for subsequent securitisation. Examination of this heading shows that in 2006 CIs had a volume of €228 billion of mortgage covered bonds issued, equal to 9.2% of their balance sheet total, of which 40% were securitised.

The most important liability-side item in absolute terms, namely deposits from other creditors, grew by 20% and, like marketable securities, underwent an increase in its weight within the balance sheet, in this case to 52.2% of the total. Notable in this item is the significant growth of time deposits since the new accounting rules (CBE 4/2004) came into force, which continued in 2006. This heading groups together different items, including the liability accounts[5] that institutions have

5. The captions *"Funds received under financial asset transfers"* and *"Other financial liabilities associated with transferred financial assets"*.

HOUSE MORTGAGE FINANCING

CHART 1.3



SOURCE: Banco de España. Data available at 9 March 2007.

a. For an exact definition of these indices, see annex VIII of Banco de España Circular 8/1990 of 7 September 1990.

to record when they securitise assets that they have been unable to remove fully or partially from the balance sheet because the risks and rewards are not considered to have been substantially transferred[6]. Also, the heading "Fixed term and rate deposits" includes the mortgage covered bonds issued that are not marketable securities, which currently comprise all securitised covered bonds. Consequently, the securitisation of assets and the securitisation of liabilities are having a similar effect on the balance sheet of CIs: an increase in the balance sheet total insofar as the assets have not been derecognised and new liabilities have been recognised for the amount of the external funds received (bonds issued and sold to third parties). The inclusion of these two captions in time deposits, in view of the recent behaviour of securitisations in general and of covered bonds in particular, explains why this item has more than doubled since 2003, accounting in 2006 for nearly one-quarter of the balance sheet total of CIs (€595 billion).

The increase in CI activity did not, however, take place evenly. Examination of the breakdown of activity by institutional group shows a slight redistribution in 2006 of the market shares of the various institutions. In credit to the private sector, the share of commercial banks remained nearly unchanged because the slight fall observed in the resident sector was offset by a major increase in non-residents and general government. On the financing side, the decreases in funds received from central banks and CIs and in debt certificates including bonds were most marked in commercial banks, so savings banks raised their share with respect to the former. Also, it should be noted that the securitisation of assets and liabilities did not play a major role in this slight reshuffling of relative weights between commercial and savings banks, since that securitisation was shared evenly between these two types of banks.

6. Under the current accounting rules very few securitisations meet the requirements for removing the transferred assets from the balance sheet, as is analysed in greater depth in Section 1.2.3 of this chapter. Owing to the scant volume of the new securitisations removed from the balance sheet, the amount of the sub-heading "Assets transferred — Of which: Securitised" has decreased progressively since 2004 (with a fall of 8.4% in 2006 — see Table 1.A.4) in line with the decline in the outstanding balance of the securitisations prior to that date, which had always been removed from the balance sheet under the previous accounting rules.

FOREIGN BUSINESS OF CONSOLIDATED GROUPS AND INDIVIDUAL INSTITUTIONS (a) (b) TABLE 1.2

End-of-year data (€ m)

	2003	2004	2005	2006
Consolidated foreign balance sheet (assets)	**229,587**	**473,482**	**601,429**	**638,390**
Financial assets	174,950	357,499	504,218	521,867
EU	*49,303*	*213,515*	*276,446*	*275,690*
Latin America	*105,884*	*118,948*	*171,800*	*180,385*
Other	*19,762*	*25,037*	*55,972*	*65,792*
Financial liabilities	196,980	337,224	462,696	480,048
EU	*39,249*	*169,166*	*271,535*	*250,490*
Latin America	*96,437*	*107,226*	*135,565*	*157,269*
Other	*61,293*	*60,832*	*55,597*	*72,290*
MEMORANDUM ITEM:				
Funds managed (net asset value)	57,494	72,615	124,515	133,472
EU	*9,175*	*10,913*	*16,968*	*20,044*
Latin America	*42,519*	*52,681*	*97,249*	*107,707*
Other	*5,800*	*9,021*	*10,298*	*5,721*

SOURCE: Banco de España. Data available at 9 March 2007.

a. Institutions existing at each date.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.

Regarding the credit quality of CIs' assets in 2006, once again credit growth was not accompanied by a worsening of credit quality because, although more moderately than in previous years, the total doubtful assets ratio fell further to 0.46% (see Table 1.A.5). However, doubtful assets secured by completed housing were up by around 30% in 2006 following the substantial rise in this portfolio. Allowances and provisions rose significantly, due mainly to the strong growth of general allowances and provisions in 2006, closely linked to the volume of activity of CIs. As a result, the decrease in doubtful assets and the progressive rise in general allowances and provisions took the doubtful assets coverage ratio (via allowances and provisions) to 273%.

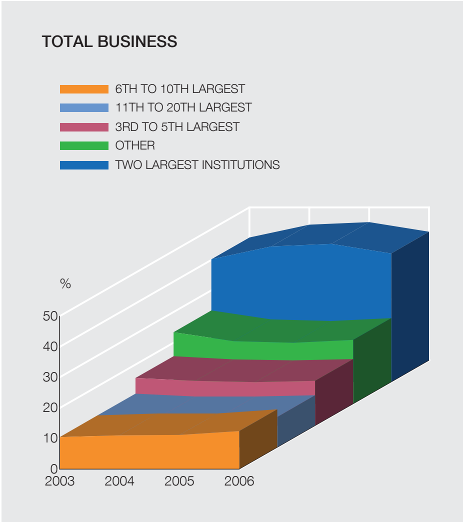
In line with the foregoing, the risk exposures reported to the Banco de España's Central Credit Register (CCR) continued to rise, both in number and in amount, at a rate similar to that of the previous year and in consonance with the growth in credit to the resident private sector (see Table 1.A.7). Resident foreign individuals were the borrowers that showed the most dynamic behaviour, with growth of nearly 40% for the third year running, sustained by the notable rise in the immigrant population in Spain. Also, in mid-2005 a mechanism for regular information exchange between the CCRs of various EU countries was put in place. This mechanism, in which the Banco de España participates, led to a significant rise in the reports issued to and received from other CCRs in 2006 (see Table 1.A.7).

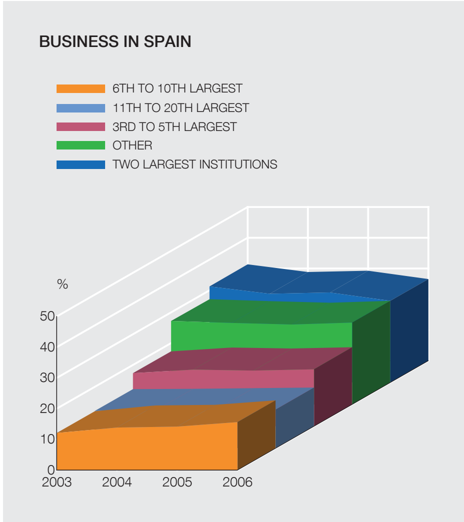
1.2.2 ACTIVITY OF CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS

The activity of CGs grew by 14.8% in 2006 (see Table 1.A.8), taking the balance sheet total very close to €3 billion, although this figure represented a significant slowdown with respect to the growth of 23.3% in the previous year. With regard to the distribution of business activity between Spain and abroad, the weight of the latter fell by 1.8 pp, reversing the movement seen in 2005 and entailing a decline in nearly all asset and liability items. It is important to realise that the figures for activity abroad were affected in 2006 by the depreciation of the US

CONCENTRATION OF CONSOLIDATED GROUPS OF CIs CHART 1.4

BALANCE SHEET TOTAL (a)





SOURCE: Banco de España. Data available at 9 March 2007.

a. CIs existing at each date.

dollar and of certain Latin-American currencies[7], which meant that the consolidated balance sheets of some large CGs showed a notably lower growth rate than in the previous year.

From the standpoint of assets, in 2006 there was a significant fall in the fixed-income portfolio (included in the balance sheet under “debt securities”) and in investments at consolidated level (down by 16.5% and 3%, respectively). The reasons for the restructuring of the fixed-income portfolio, which took place mainly in business in Spain, were the same as those indicated for individual CIs. The sale of investments, mainly seen in business operations abroad, should be viewed within the framework of the divestment of positions by some CGs (also observed in CIs), particularly in group companies or associates belonging to the insurance, real estate and construction sectors. The sale of investments generated notable capital gains at both individual and consolidated levels. Also, the growth of credit to the private sector was notable. From the standpoint of financing, although the proportion of securities issued in business in Spain increased substantially, it is also true that there was a slowdown in the issuance of debt certificates including bonds.

With regard to the geographical distribution of the business activity abroad of CGs and individual CIs, 2006 saw the continuation of the expansion strategy of certain large CGs initiated in 2004. They made significant acquisitions, mainly in the US, and, as a result, financial assets and liabilities both had their highest growth rates in the geographical area labelled as “rest”, which includes the US (18% and 30%, respectively, see Table 1.2). However, these acquisitions were much smaller in size than those of previous years which, together with the unfavourable exchange rate movements, meant that the consolidated balance sheet of operations abroad only grew by 6%, compared with 27% in 2005.

A look at the concentration of CGs in terms of the balance sheet total shows that in 2006 the two largest groups lost 3.15 pp of market share to the other CGs, particularly the middle-sized

7. The depreciation of the US dollar against the euro, based on December data, was 11% in 2006, as compared with an appreciation of 12% in 2005.

institutions (CGs in the 6th to 10th positions). This effect was apparent both at the level of total business and at that of business in Spain, but was much more pronounced in the latter, to the point that the downward trend interrupted in 2005 was resumed (see Chart 1.4).

1.2.3 SECURITISATION ACTIVITY OF CIs

The securitisation activity of CIs again saw high growth rates in 2006. New issues of securitisation bonds increased by 36% to €94 billion, in 62 new transactions, taking the outstanding balance of asset-backed bonds issued by Spanish entities to €243 billion (see Tables 1.A.9 and 1.A.10). 99% of these issues were backed by the assets or liabilities of CIs. Regarding asset securitisations and their impact on the balance sheet of CIs, only 5% of the assets securitised from 1 January 2004 met the minimum accounting requirement of substantial transfer of risks and rewards and could thus be removed from the balance sheet. The spectacular growth of securitisation, which allowed Spain to retain its position as the second most active country in the EU behind the United Kingdom, continued to be based on the securitisation of two underlying instruments: mortgage loans (assets) and covered bonds (liabilities). The slowdown in mortgage credit to the resident private sector led also to a slowdown in mortgage securitisation. Contrasting with this, albeit with appreciably lower volumes, was the growth of FTPYMES (SSPEs that securitise loans to SMEs) and of the category "Other" (particularly loans to firms of all types), which were ranked in third and fourth place by volume of new issues (see Chart 1.5.A).

Mortgage loans to households were the main underlying instruments in the Spanish securitisation market and in 2006 were used to back 41% of the bonds issued[8]. However, year-on-year growth slowed considerably, falling from 57% to 31%, in line with the slowdown in mortgage loan extension. The amount of securitisations carried out through mortgage SSPEs decreased notably as a result of the growing securitisation of mortgage loans not meeting the requirements established in Royal Decree 685/1982 (such as the one specifying that the loan amount may not exceed 80% of the appraised value of the house) and that cannot therefore be securitised through asset SSPEs.

Mortgage covered bonds (bank liabilities issued by CIs and acquired by a third party that immediately sells them to an asset SSPE) were used to back 27.6% of new asset-backed bond issues and, with nearly €26 billion issued in 2006, reached a new historical high. An increasing number of CIs (57 institutions in 2006) use SSPEs as a mechanism for placing their covered bonds on the market. Hence, in aggregate terms, mortgage loans represent, either directly or indirectly through securitised covered bonds, the counterpart of nearly 80% of the new asset-backed bond issues (83% in terms of outstanding balances).

Thirdly, as is usual practice, securitisations of loans to SMEs were placed through so-called FTPYMES, which are SSPEs supported by a government guarantee of some of their series and therefore enable the CIs resorting to these structures to notably reduce their cost of debt. After a year of decline, in 2006 the issues nearly doubled despite the fact that the guarantees budgeted by the Spanish Treasury and the Catalonia regional government (the two governments that provide nearly all the guarantees for these programmes) decreased notably from €1.8 billion to €0.8 billion and from €1.5 billion to €1 billion, respectively[9].

The Spanish market is gradually diversifying the underlying instruments used in securitisations. A notable development in 2006 was the incorporation of a new liability, namely

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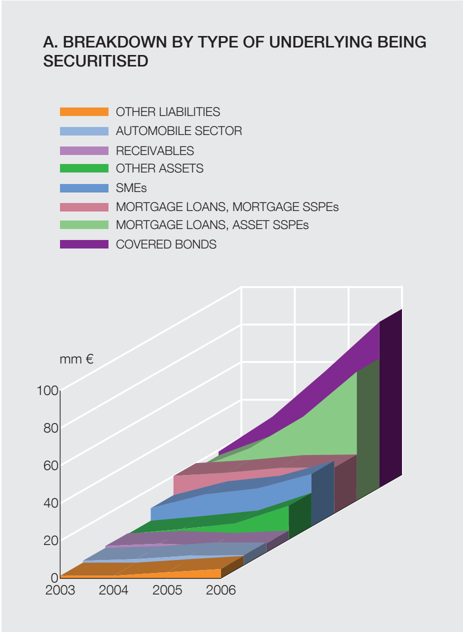
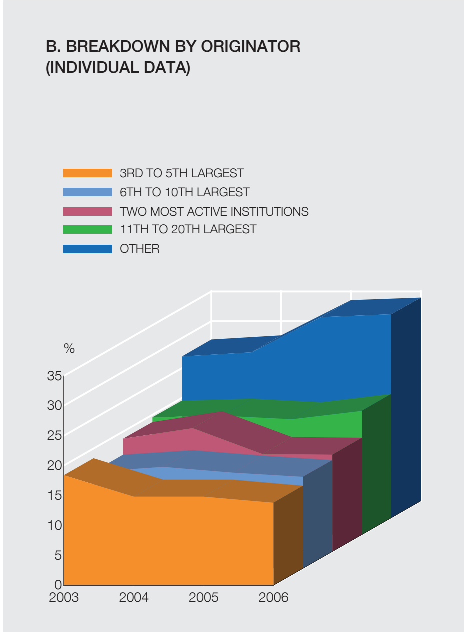
8. The growth was 52% if mortgage loans to legal entities (the category comprising loans to SMEs, developers and other firms) are also taken into account. **9.** The European Investment Fund also guarantees certain series of FTPYMES (SSPEs that securitise loans to SMEs), although the volume is not significant.

SECURITISATION ORIGINATED BY SPANISH SSPEs. OUTSTANDING AMOUNTS CHART 1.5





SOURCE: Banco de España. Data available at 22 February 2007.

subordinated debt issued by various savings banks, via a mechanism similar to that used in covered bond securitisations. Another novel development was the two programmes set up to securitise mortgage covered bonds through existing SSPEs. These structures offer considerable flexibility both in the issuance of new series and in the incorporation of new originators and are enabling large volumes of covered bonds to be placed on the market: one of them placed nearly €20 billion in the period from December 2005 to December 2006 and the other in early 2007 raised its maximum issuance volume to €30 billion.

Analysis of securitisations by nature of the originator shows that CIs continued to dominate this market and, as a general rule, raised the volume of their issuance (see Table 1.A.9 and bottom of Table 1.A.10), with commercial banks doing so very substantially (by 68%). However, savings banks continued to account for more than half (55.4%) of the outstanding balance of asset-backed bonds, originating 85% of mortgage covered bond securitisations. Within their marginal status, the securitisations originated by non-financial corporations grew notably due to a transaction in receivables of a construction firm, their weight increasing to 1% of the total issued by Spanish SSPEs. The breakdown of originator CIs (see Chart 1.5.B) shows that the progressive deconcentration of securitisations continued. There were slight increases in the share of the less active institutions (“11th to 20th largest” and “other”) and no change in that of the most active ones. This is in accordance with the more general use of securitisation as a means of obtaining liquidity and transferring risk.

By analysing the confidential individual balance sheet, it can be determined what percentage of securitisations originated by CIs was removed from the balance sheet due to substantial transfer of the risks and rewards associated with the securitised assets. Table 1.A.10 shows that until 2006 only 5.3% of the asset securitisations by CIs originated from 1 January 2004 (when the new accounting rules of Banco de España Circular CBE 4/2004 came into force) involved removal of the securitised assets from the balance sheet. Despite the substantial increase in 2006 in securitisations removed from the balance sheet (50%), these still represent a very low amount with respect to the total (€7.5 billion)[10]. Accordingly, and owing to the obligation to record a time deposit for the value of the bonds issued and transferred to third parties when the risks and rewards have not been substantially transferred, the securitisations gave rise to an increase, rather than a decrease, in the balance sheet, as mentioned in Section 1.2.1 above.

In 2007 the range of underlying instruments securitised is expected to continue to widen, although the volume will remain low until the implementation of the new solvency framework which, owing to its more risk-sensitive treatment of securitisation, will enable greater savings of own funds as the risk associated with the securitised assets increases. This, along with the slowdown in the real estate sector, makes it foreseeable that there will be a progressive decline in the weight of mortgage loans in the securitised portfolios, and an increase in the synthetic transactions (those using credit derivatives to transfer risk) expressly provided for in the future solvency regulations. In 2007 Q1 there were 17 new securitisations totalling nearly €40 billion, more than half of them mortgage-backed. Notable among them was a securitisation of inter-bank loans of €13.2 billion, the largest amount in a single issue to date.

1.2.4 RESULTS OF CREDIT INSTITUTIONS

Once again individual CIs and CGs benefited from the favourable economic environment in Spain and in the international markets and, despite the more competitive environment, their profit before tax grew significantly by 46% and 40%, respectively, more than twice the growth of activity (18% individual and 16% consolidated). As a result, except for consolidated net interest income, all margins expressed in terms of ATA rose in 2006, driven by the strong growth of gross income, moderate growth of operating expenses and significant gains on the sale of industrial holdings.

The more rapid growth of financial costs than financial income and the unchanged total spread of the institutions meant that, despite the higher interest rates, net interest income grew only moderately in terms of ATA. Credit institutions resorted to a greater extent to borrowed funds, a cost which also reflected the stronger competition in securing that funding. At individual level this effect was mitigated by the substantial dividend income, so finally net interest income grew by 18%. Fees and commissions decelerated as a direct result of the current competitive environment in the banking sector. However, credit institutions continued their efforts to moderate their operating expenses and, as a result, gross income grew notably and the efficiency ratio improved further at both individual and consolidated level. In any event, the favourable performance of the efficiency ratio was partly due to the significant increase in activity and therefore includes a major conjunctural component. Finally, as mentioned in Section 1.2.1 above, the sale of significant holdings in non-bank business lines (insurance, real estate and construction) yielded significant income at the levels of "Non-interest income" (specifically, "Available-for-sale financial assets") and of "Provisioning expenses, write-downs and other", since the investments were in group entities, jointly controlled entities and associates ("Other income"). This strongly improved both individual and consolidated profit before tax.

Hence 2006 was a turning point in all the margins expressed as a percentage of ATA, which had been on a downward trend since 2001. This was reflected in the marked upturn in return on equity (ROE), which was greatly boosted by the increase in earnings and by the moderate growth of average own funds.

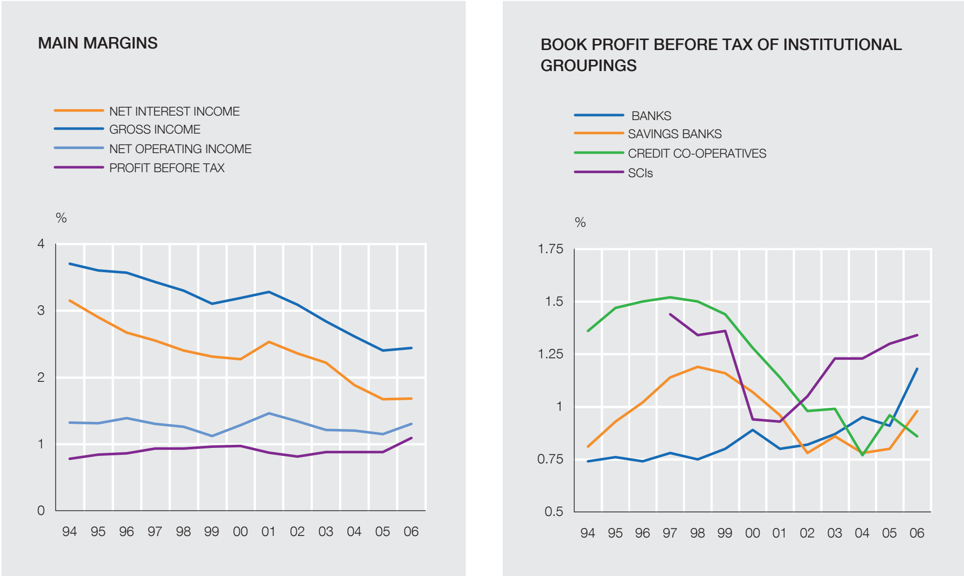
Results of individual credit institutions

Individual profit before tax grew by 46.5% in 2006, more than twice the usual rate of recent years, to stand at €24.8 billion. In terms of average total assets (ATA), all margins rose at indi-

10. In most of the transactions included here, which were predominantly originated by SCIs, the transfer of risks and rewards was to another CI in the group, so that, at consolidated level, the assets are not removed from the balance sheet. Also, the fact that they were carried out by SCIs explains the significant increase in the share of these institutions under the heading "Assets transferred – Of which: Securitised" in Table 1.A.4 bis.

PROFIT OF CIs CHART 1.6

Percentage of average total assets (a)



SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this chart refer to the institutions active at some time during each year.

vidual level, reversing the downward trend initiated in 2001 (see Chart 1.6). After holding unchanged for three years, profit before tax rose notably in terms of ATA to stand at 1.09% of ATA. The course of this item by type of CI shows a recovery in the profits of commercial banks, reversing the fall in 2005 and approaching the profit before tax of SCIs. Credit co-operatives were the only CIs to show a fall-off in profit as a percentage of ATA.

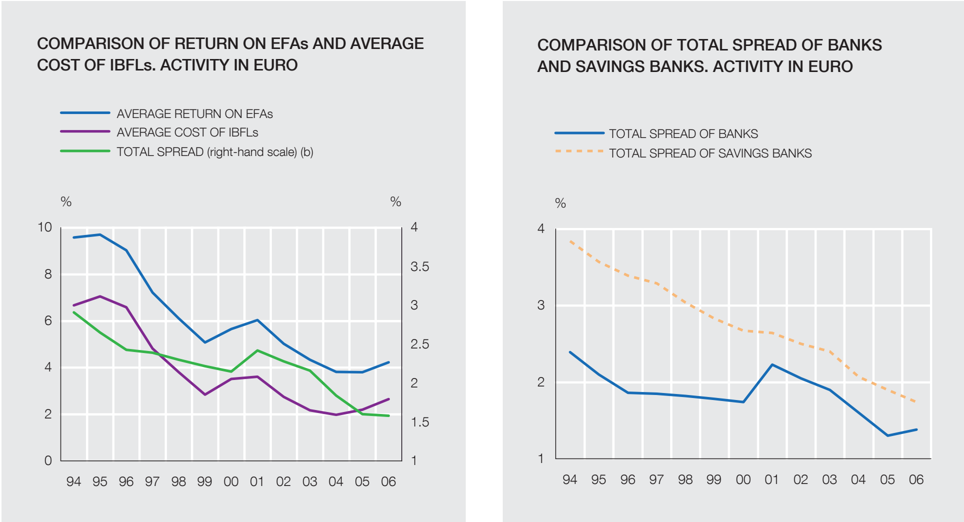
The surge in profit before tax came about, firstly, because the increase in gross income of 20.1% exceeded that of 18% in ATA, which in turn was due to the sharp growth in net interest income and in gains on financial assets and liabilities. Secondly, a very important factor was the control exerted yet another year by CIs over operating expenses, which increased by only 7.5% and thus enabled the efficiency ratio to improve substantially (from 54.4% to 48.7% in 2006). The strict cost control in place takes on even greater importance in the current situation of CI expansion in Spain[11] (see left-hand panel of Chart 1.9), although, as noted above, it may have a significant conjunctural component. Thirdly, there was a significant decrease in net write-downs in which the gains on the sale of investments amply offset the sharp rise in impairment losses derived from the general allowances and provisions associated with the increased activity.

Net interest income grew slightly faster than ATA because, on the one hand, CIs reduced the weight of financing with own funds, as evidenced by the deceleration in average own funds and the fall therein in terms of ATA and, on the other, they increased their borrowed funds. This, along with a total spread (average return on EFAs less average cost of IBFLs) that remained nearly unchanged at 1.58%[12], meant that the positive impact of the interest rate escalation on net interest income (due to the direct impact that assets financed with own funds have on returns), was moderate. It was the dividends received which were responsible for net interest income finally growing by 1 pp in terms of ATA, since if the rise in the return on equity instruments in 2006 is disregarded, net interest income grew by only 8.4%. In ad-

11. In 2006 CIs opened 1,998 new offices in Spain. **12.** By type of institution, there was a decrease in the spread of savings banks and an increase, although more moderate, in that of commercial banks.

RETURNS, COSTS AND TOTAL SPREAD CHART 1.7

Total CIs (a)



SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this chart refer to institutions active at some time during each year.
b. Total spread is defined as the average return on EFAs minus the average cost of IBFLs.

dition, the €9.3 billion of dividends received in 2006 were not shared evenly, since commercial banks recorded 70% of them and so their net interest income increased more significantly than that of other CIs (growth of 23.4% against –0.2 in 2005, see Table 1.A.12) and, moreover, they were the only CIs to report an increase in net interest income in terms of ATA[13].

"Non-interest income" increased notably in terms of ATA due to a moderate rise in fees and commissions and to a very substantial jump in gains on financial assets and liabilities. Fees and commissions grew more moderately than in 2005 due to the fall in the "Collection and payment service" caption, and their behaviour indicates that they are at the centre of the institutions' new competition strategy to extend their activity, including the attraction of deposits. Gains on financial assets and liabilities grew sharply in terms of ATA (from 0.14% to 0.20%, equal to €4.5 billion), due to the gains on the sale by various CIs of significant investments in the construction, insurance and real estate sectors.

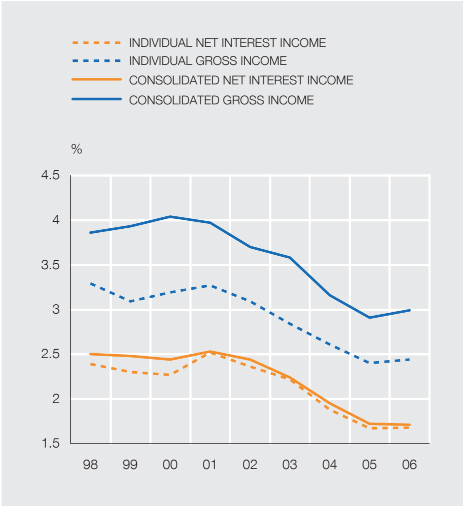
The sale of investments formed part of a strategy to reduce the concentration in these economic sectors and the proceeds were used to finance the expansion of the banking business by increasing the office network and acquiring foreign institutions. Part of these sales gave rise to significant income in the "Available-for-sale financial assets" item (€4 billion) and, despite notable losses of €1.6 billion on the sale of a significant portion of the CIs' fixed-income portfolio[14], the income from available-for-sale financial assets contributed €3.3 billion to gross income. The remainder, another €4 billion of gains on the sale of investments, was recorded under the "Other income" caption because the investments were in group entities, jointly controlled entities and associates. This extraordinary income offset the notable increase in

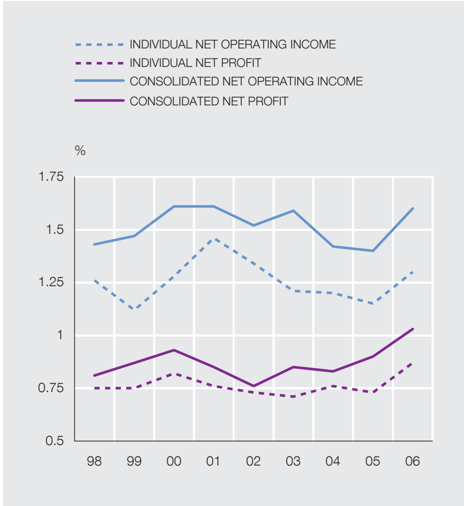
13. Dividend payments received may include the realisation of gains on the sale of investments in CI subsidiaries. **14.** The sale of a significant portion of the fixed-income portfolio by CIs in 2006 was mentioned in Section 1.2 above. The portion of the fixed-income securities included in the "Available-for-sale financial assets" item has to be recorded at fair value, but the changes in its value are not recognised in the income statement until it is removed from the balance sheet. Therefore, the €1.6 billion reflect the cumulative losses on securities resulting from the escalation of interest rates since the acquisition date. The same goes for the industrial holdings included under "Available-for-sale financial assets".

COMPARISON OF INDIVIDUAL AND CONSOLIDATED MARGINS CHART 1.8

TOTAL CIs (a)

Percentage of average total assets





SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this chart refer to the institutions active at some time during 2006.

impairment charges recorded by CIs and contributed to the substantial rise in profit before tax.

As a result of the earnings growth and of the slower growth of average own funds, the return on equity (ROE) grew by 31% to stand at 16.1% (see right-hand panel of Chart 1.9).

Results of consolidated groups of credit institutions

The profit before tax of CIs grew by 40.1% in 2005 to €37.1 billion (see Table 1.A.13). The behaviour of the consolidated income statement was similar to that at individual level. All margins in terms of ATA rose in 2006, except for the net interest margin, which decreased slightly due to the lower income from equity instruments received by commercial banks. CGs whose parents are commercial banks were the only ones to increase this margin in terms of ATA, in line with the developments at individual level.

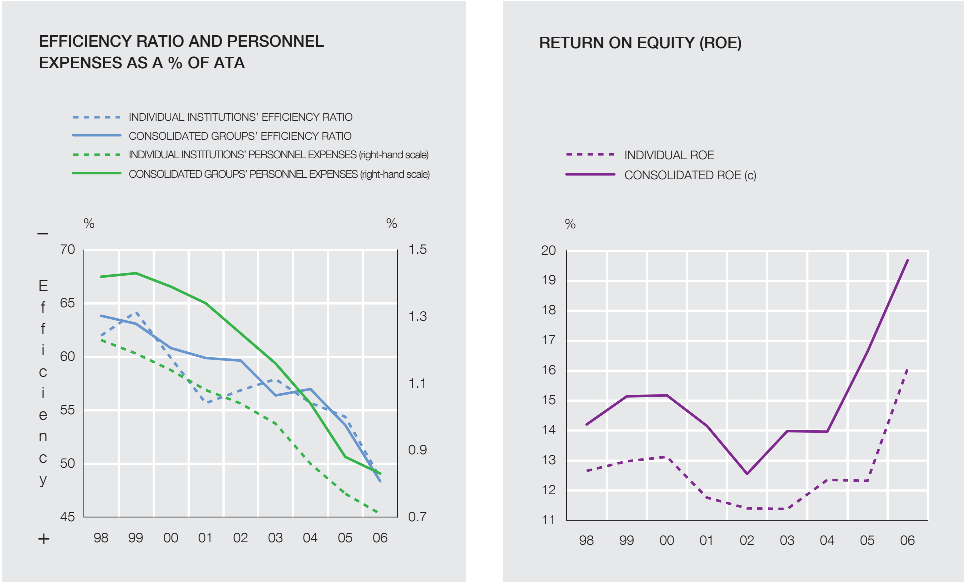
As in CIs, half of the growth in profit before tax was due to the sharp growth of nearly 20% in gross income. This margin was driven by significant gains on financial assets and liabilities (including €5.5 billion of gains on available-for-sale financial assets), since both fees and commissions and the share of profit of entities accounted for using the equity method decelerated in 2006. Hence the income from the sale of industrial holdings also played a leading role in CGs.

Additionally, CGs achieved significant savings in personnel and administrative expenses, since operating expenses grew by half as much as ATA. In particular, efficiency improved very significantly at consolidated level and the ratio fell to 48.3% (53.6% in 2005). In addition, the item “Other income”, which includes that obtained from the sale of investments in group entities, jointly controlled entities and associates, had a balance of €6.8 billion in 2006 (growth of 87% with respect to 2005), largely mitigated the increases in allowances/provisions and in impairment losses on loans and advances in the period.

As for individual CIs, the return on equity of CGs also rose steeply, standing at 19.7%. Again, it was the sharp growth in profits and the significant deceleration in CGs’ own funds that were behind this substantial rise.

COMPARISON OF CONSOLIDATED AND INDIVIDUAL EFFICIENCY RATIOS, PERSONNEL EXPENSES AND ROE — CHART 1.9

Total CIs (a) (b)



SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this chart refer to the institutions active at some time during 2006.
b. The efficiency ratio is defined as operating expenses over gross income.
c. Consolidated ROE calculated as net income attributed to the group divided by own funds of the group.

1.3 *Solvency of credit institutions*[15]

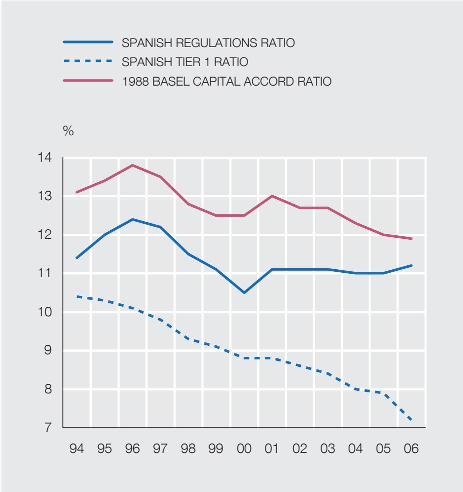
Pursuant to the provision on the entry into force of Banco de España Circular CBE 2/2006 of 30 June 2006, the consolidated groups and individual institutions not forming part of any group of credit institutions (CG) were permitted to voluntarily change their solvency data reported in the December 2005 return to take account of the new criteria set out in this Circular. These changes are responsible for the differences with respect to the information offered in the Report on Banking Supervision in Spain 2005. Since not all CGs opted to update their solvency returns, the impact of the new criteria established in CBE 2/2006 was spread over the years 2005[16] and 2006[17].

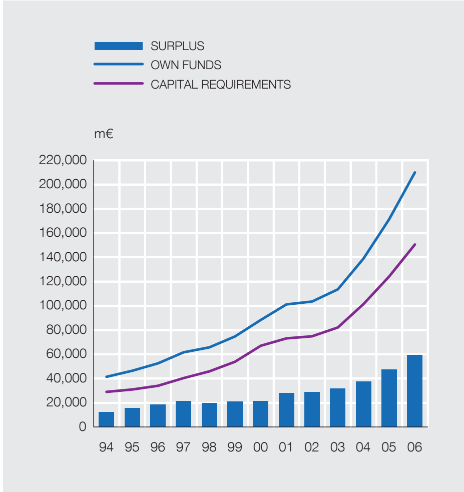
1.3.1 SOLVENCY OF CONSOLIDATED GROUPS

As noted above, the solvency ratio of CGs in 2006 was affected, among other factors, by the impact of the introduction of the new criteria established in CBE 2/2006, which permitted, in line with the Basel Capital Accord and the European solvency legislation, among other new developments, the introduction of two new elements as eligible tier 2 capital: (i) the general loan loss allowance/provision up to the limit of 1.25% of the risk exposures used as a basis for calculating it, weighted according to their classification in the various credit risk weighting buckets, and (ii) the gross amounts of gains (net of losses) on debt securities and on equity

15. For confidentiality reasons, this Report does not include separate information on the solvency of the two financial conglomerates subject to supplementary supervision requirements and in which the Banco de España exercises the function of co-ordinator. However, this information can be found in Table 1.A.18 aggregated with that for the 34 mixed groups and four financial conglomerates exempt from the supplementary supervision requirements, all of which are under the supervision of the Banco de España. **16.** 29 CGs, including certain large Spanish CGs, decided to update their reported capital as at December 2005; 182 CGs applied the criteria stipulated in CBE 2/2006 for the first time in their 2006 capital reporting. **17.** Additionally, the 2006 information is subject to possible subsequent changes as a result of the queries resolved by the Banco de España in March 2007 on new aspects of Spanish solvency regulations introduced by Royal Decree 1332/2005 of 11 November 2005 and, subsequently, by Banco de España CBE 2/2006, such as the requirements and elegibility limits applicable to new capital components and their effect on deductions from capital and on the risk exposures subject to concentration limits.

OWN FUNDS AND SOLVENCY OF CONSOLIDATED GROUP OF CIs (a) CHART 1.10





SOURCE: Banco de España. Data available at 26 March 2007.

a. The 2005 information includes any adjustments made by CGs pursuant to the provision on the entry into force of CBE 2/2006.

instruments classified as available-for-sale financial assets, after applying certain percentages to them. Also, the sharp rise in the profitability of CGs and the subsequent transfer of profits to reserves, analysed in Section 1.2 above, significantly influenced the course of own funds during the year. The behaviour of capital requirements reflected developments in the activity of CGs and their increased risk profile as a result of the growth of corporate credit and consumer finance, which are subject to a risk weighting of 100%.

For the third year running, own funds showed annual growth of more than 22% (see Chart 1.10 and Table 1.A.15). Capital requirements also exhibited high buoyancy (21.3%), although they continued the gentle slowdown seen since 2005. The solvency ratio thus increased by 0.2 pp to 11.2%, the highest value since 1998. The lesser tier 1 capital growth (11.1%) put the tier 1 solvency ratio at 7.2%, so it continued its downward trend since the entry into force of CBE 5/1993. The surplus capital increased by 26.1% in the year to €59.4 billion, reflecting the solvency margin with which CGs as a whole operate.

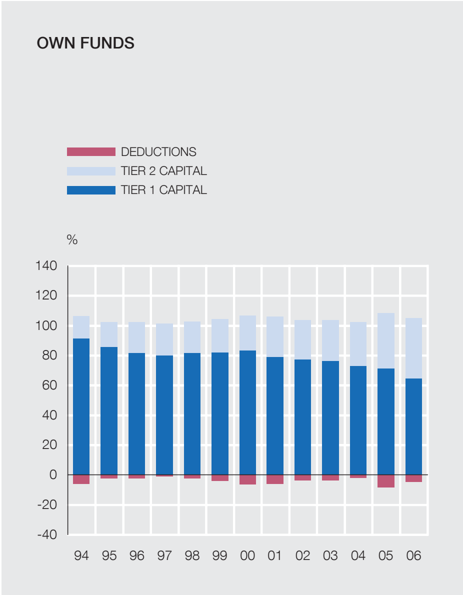
The distribution of CGs and of their assets according to the solvency ratio also showed a general improvement (see Table 1.A.16). The number and, in particular, the weight in total system assets, of the CGs whose solvency ratio was in the 9%-10% and 10%-11% brackets decreased ostensibly with respect to 2005, whereas the number of CGs with a solvency ratio between 11% and 12% increased. The percentage of system assets accounted for by the CGs in this latter bracket amounted to 28.3% in 2006 compared with 10.4% in 2005. The percentage of system assets accounted for by the CGs with a solvency ratio above 12% increased to 16.2%, the highest percentage since 2002. By contrast, the weight of CGs with a solvency ratio between 8% and 9%, which is the most sensitive bracket because it is next to the lower limit set in the solvency regulations, was only 2.1%. As in 2005, no CG had a capital shortfall.

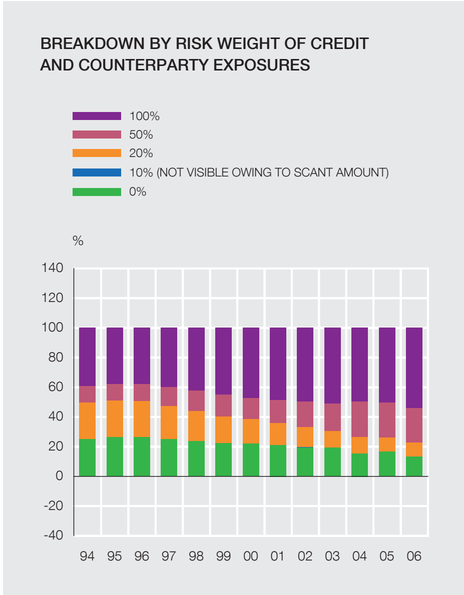
The growth of own funds (22.6%) was boosted as a result of the introduction in 2006, by 182 of the 211 reporting CGs, of new instruments eligible for inclusion in tier 2 capital[18]. Also

18. In 2006 these 182 CGs represented 41.9% of total CGs with regard to the eligible portion of the general loan loss allowance/provision and of the gains on debt securities and on equity instruments classified as available-for-sale financial assets.

PERCENTAGE BREAKDOWN OF OWN FUNDS AND OF CREDIT AND COUNTERPARTY EXPOSURE (a)

CHART 1.11





SOURCE: Banco de España. Data available at 26 March 2007.

a. The 2005 information includes any adjustments made by CGs pursuant to the provision on the entry into force of CBE 2/2006.

strongly affecting own funds was the decrease in the deductions from overall capital. Particularly notable was the fall (€-3.2 billion) in the deduction, introduced in 2005, of the investments in insurance companies exceeding 20% of their capital. This decrease reflects the divestments by CGs in the insurance line of business mentioned in Section 1.2 above. The more moderate growth of tier 1 capital gave rise to a nearly 7 pp decline in its weight in total own funds (see Chart 1.11).

Particularly buoyant within tier 1 capital was the profit for the year taken to reserves, which was impelled by the growth of CGs' earnings, and the reserves in consolidated firms, with growth rates of 35.8% and 68.5%, respectively. The weight of preference shares in tier 1 capital increased by more than one percentage point to 16.9%, still far from the limit of 30% set by the regulations on issuance of these instruments. The core solvency ratio, which unlike the tier 1 capital ratio does not include preference shares in the numerator, was 6.0%. The deductions from tier 1 capital increased significantly (€5.9 billion), basically due to the increase in deductions for intangible assets (€4.3 billion) and for financing granted to third parties to acquire instruments eligible as own funds of the CG (€1.2 billion).

As noted above, the growth of 33.4% in tier 2 capital in 2006 was strongly influenced by the new eligible items specified in CBE 2/2006. Other tier 2 capital, which is the category that includes the new eligible instruments, grew by 55.6% thanks to the general allowances and provisions and to the eligible gains on equity instruments. The eligible portion of the general loan loss allowance/provision showed growth of 108.2% to €19.3 billion. The eligible gains on equity instruments amounted to €11 billion as a result of the accumulation of surpluses during the recent years of positive capital market performance, whereas those on debt instruments were €735 million.

The 15.6% growth of eligible subordinated debt represented a pick-up with respect to 2005. Not only did the number of issues in the year increase, but their average amount practically doubled. Thus the 60 issues in 2006 totalled €12.7 billion, against €5.2 billion in the 48 issues of 2005 (see Table 2.14). However, the comparatively greater buoyancy of other tier 2 capital meant that the weight of subordinated debt in total tier 2 capital fell from 55.6% in 2005 to 48.2%, thereby continuing the trend towards improved quality of the composition of tier 2 capital.

The buoyancy of the activity of CGs meant that, as in the preceding two years, capital requirements continued to grow at rates above 20%, albeit tending to slow slightly. The increase in overall capital requirements was driven by the high growth of requirements for credit and counterparty risk (22.1%), which accounted for 94.9% of the total requirements of CGs. The growth of requirements for trading book risk calculated by standard methods was much more moderate than in the previous year and their weight was 3.7% of total requirements. The capital requirements calculated under internal models, largely for the trading book, increased significantly, although their contribution to total requirements continued to be low because only two CGs calculated a part of their requirements for trading book risk or for exchange rate risk by internal models.

The strong growth of capital requirements for credit and counterparty risk was due to the increase in adjusted exposures (12.5%) and to the higher risk profile of lending activity. The average risk weight of the exposures subject to credit and counterparty risk stood at 67.4%, after rising by 3.5 pp in the year as a result of the sharp increase in loans to firms and individuals subject to a risk weight of 100%. Of the amount of exposures subject to credit and counterparty risk, 5.4% were secured by personal guarantees, which represented an increase of somewhat more than 1 pp in the use of these guarantees as a credit risk mitigation technique compared with 2005. The use of financial collateral decreased, being used to secure only 1.5% of the total amount of exposures (see Table 1.A.17). As a result of these guarantees or financial collateral, the percentage of adjusted exposures assigned to the 100% risk weight bucket decreased by 3.2 pp, whereas the percentage of adjusted exposures classified in the 0% risk weight bucket increased by 4.1 pp, basically due to exposures guaranteed by the public sector.

After the conversion factors had been applied to the exposures and contingent commitments, the breakdown of the exposures by risk weight reflected a significant decrease in the percentage of exposures weighted at 0% compared with 2005, whereas the percentage of exposures weighted at 100% rose to 54.0% (see Chart 1.11). The percentage of exposures weighted at 20% continued on its downward trend as a result of the diminishing role of CGs as fund-providers in the interbank market. Also, the proportion of mortgage-backed loans and securities meeting the requirements to be weighted at 50% declined.

The number of large exposures subject to a limit in total CG activity fell in 2006. However, the total amount of large exposures grew by 57.6% to an amount equal to 60.9% of own funds. This percentage, however, was well short of the regulatory ceiling set at eight times own funds. The growth in the average amount of large exposures in the last two years largely reflects the impact of the gains classified as valuation adjustments to available-for-sale financial assets. For CGs as a whole, the weight of the most significant large exposure to a non-group customer amounted to 17.3% of own funds, still well off the limit of 25%. In the case of the most significant large exposure to a customer belonging to the group, there is even more leeway, because it represents barely 1.1% of own funds[19].

19. The ceiling on large exposures to a customer in the group is 20% of own funds.

1.3.2 SOLVENCY OF INDIVIDUAL INSTITUTIONS

The surplus capital of the Spanish banking subsidiaries forming part of a CG and of the institutions forming part of horizontally consolidated groups amounted to €12.1 billion in 2006, up €28.6% on 2005. Thus the coverage of net capital requirements by own funds was 236.3%, which meant that own funds were even higher than gross capital requirements, i.e. the requirements before they are reduced by the application of certain coefficients based on the percentage of the parent's ownership of its subsidiaries.

As in CGs, the growth of own funds was above 22% and, in any event, amply outstripped that of both net and gross capital requirements. The decrease of 0.4 pp in the percentage applicable to the capital requirements as a result of the increase in the parents' percentages of ownership of their subsidiaries led the growth rate of net capital requirements to stand at 15.2%, compared with 15.9% for gross requirements. The composition of the capital requirements in individual institutions was, as in previous years, dominated by credit and counterparty risk, which accounted for 98.2% of total requirements.

1.4 The structure and evolution of other institutions supervised by the Banco de España

1.4.1 APPRAISAL INSTITUTIONS

There were 59 operational appraisal institutions (AIs) at end-2006, of which three were appraisal services belonging to deposit institutions and 56 were appraisal companies[20]. The amount of the appraisals carried out continued to grow, although more slowly than in 2005, the growth rate being 15% compared with 30% in 2005.

The number of appraisals carried out by AIs in 2006 (1.8 million) was similar to that in 2005, which represented a change in the growing momentum seen in recent years. This development, along with the increase in the amount of appraisals, reflected a fresh rise in the average value of the assets appraised[21] (14% in 2006), except in the case of commercial real estate appraisals, the number and amount of which dropped by around 13% (see Table 1.A.19).

Appraisals continued to be a tool used mainly by financial institutions, since they are required for the extension of mortgage loans. Commercial and savings banks received the bulk of them, accounting for 25% and 50% of the total amount, respectively. The amount of the appraisals commissioned by commercial banks increased in 2006 (11%), whereas the number fell by 5%. This signified that the average amount of each appraisal increased.

In 2006 mortgages again accounted for 95% of the total number of appraisals performed. The appraisal of buildings and residential units represented 81% of this total and the major component was appraisals of dwellings forming part of a larger building (57% and €223 billion). The amount of the appraisals carried out for mortgages increased by nearly 18% in 2006 (29% in 2005) and represented approximately 87% of the total amount.

1.4.2 MUTUAL GUARANTEE AND REGUARANTEE COMPANIES

In 2006 there were 23 mutual guarantee companies (MGCs) and their activity continued to grow in that year, as shown by the increase of 32% in guarantees requested and granted. €2.2 billion of guarantees were arranged (see Table 1.A.20), which was 25% more than in the previous year. The outstanding guarantees of MGCs grew by 22% to €4,853 million. The outstanding exposures not reguaranteed continued their upward trend to more than 25% in 2006, while ceded exposures increased by slightly more than 18%. The risk exposures ceded were generally reguaranteed by Compañía Española de Reafianzamiento, S.A. (CERSA).

With regard to the distribution of outstanding exposures by economic sector, the tertiary sector absorbed approximately 60% of the guarantees, followed by manufacturing with 23%, and

20. Two appraisal companies were deregistered in 2006. **21.** The average value of the assets appraised is inferred from the quotient between the amount of the appraisals performed and the number of those appraisals (see Table 1.A.19).

the other exposures were spread between the primary sector and construction. As far as growth is concerned, the rate in the tertiary sector was similar to that of previous years (around 27%), while the primary sector and construction recorded growth of 24.5% and 22.5, respectively.

There was a significant increase in own funds (32%), due mainly to the contributions by patron members and to the formation of a new audiovisual company. The own funds of total MGCs stood at €262 million, which represented ample coverage of minimum capital requirements.

The doubtful assets ratios improved for total exposures and for non-reguaranteed exposures because doubtful assets and guarantees grew more slowly than MGC activity. The allowances/provisions for bad debts grew in line with MGC activity, rising from €36 million in 2005 to €42 million in 2006.

The average cost of guarantees did not change substantially, since the cost relative to total guarantees provided increased by 1 bp, while cost relative to on-balance-sheet exposures fell by 2 bp.

1.4.3 CURRENCY EXCHANGE AND TRANSFER BUREAUX

The only new development regarding these establishments in 2006 was the stabilisation of the number of registered proprietors, which had been declining since 2000 at erratic rates that peaked in 2005 (–9.3%). At the end of September there were 2,374 bureaux (see Table 1. A.21), 13 fewer than at the same date in 2005 (2,387). However, in the first nine months of 2006 for the first time the number of registrations exceeded the number of deregistrations (136 versus 99)[22].

The cumulative figures for business activity in the first nine months of 2006 show a similar picture to that of previous years, with a sharp increase (35.7%) in the volume of outward transfers (from €2,847 million to €3,864 million), a fall of 10% in purchases from customers (from €1,106 million to €992 million), a mild fall in the transfers received (from €160 million to €150 million) and a slight recovery in sales to customers (from €51 million to €55 million).

Regarding currency purchases from customers (€992 million), as usual the largest volume was that of the group of bureaux authorised solely to purchase foreign currency (91.7%). Sterling was the most common currency (€776 million), followed by the US dollar (€101 million) and the euro (€89 million). In the case of outward transfers, the euro (€2,244 million) and the US dollar (€1,603 million) together accounted for 99.5% of the total volume handled. The concentration was high, since 30% of bureaux handled 78% of the outward transfers.

On the information available,[23] the main countries of destination continued to be Colombia and Ecuador, which accounted for 20.5% and 17.7%, respectively, of outward transfers. They were followed by Bolivia (8.3%), Romania (6.6%) and Morocco (5.7%).

The balance sheet and income statement information relates only to the bureaux authorised to buy or sell (B/S group) and to buy, sell or transfer (B/S/T group). Between June 2005 and June 2006, capital grew by 10% (there were three registrations and five deregistrations in this peri-

22. In 2006 there were 155 registrations (three of them in the B/S/T group and one in the B/S group) and 153 deregistrations (one in the B/S/T group and one in the B/S group), making a total of 2,338 at the end of the year, two more than at end-2005. **23.** Currency exchange and transfer bureaux only have to report the five main countries of destination and those countries of destination to which the volume of transfers exceeds 5% of total outward transfers. In September 2006 information was available on the country of destination of 78.6% of the volume of outward transfers, showing that 58.8% were to the five countries named in this paragraph and the other 19.8% to the rest.

od) and reserves were up by 34.5%, and, as a result, the sum of the two stood at €91 million in June 2006, compared with €74 million a year earlier. Income from ordinary activities in the first half of 2006 grew by 25% with respect to the same period of 2005, and reached €102 million, basically as a result of the momentum of outward transfers. In that period the number of agents (which are not authorised to engage in purchase or sale transactions[24]) increased from 6,863 to 8,791.

24. Order of the Ministry of Economy 16/11/2000, Art. 10.4.

APPENDIX

NUMBER OF CIs REGISTERED IN SPAIN TABLE 1.A.1

Year-end data (number)

	2003	2004	2005	2006
CREDIT INSTITUTIONS (a)	**350**	**348**	**350**	**355**
Deposit institutions	**272**	**269**	**272**	**276**
Banks	***139***	***137***	***140***	***144***
Domestic	56	53	53	54
Foreign	83	84	87	90
Branches	*58*	*61*	*65*	*71*
Subsidiaries	*25*	*23*	*22*	*19*
Savings banks	***47***	***47***	***47***	***47***
Co-operatives	***86***	***85***	***85***	***85***
Specialised credit institutions	**78**	**79**	**78**	**79**
MEMORANDUM ITEMS:				
Mergers and acquisitions (b)	**6**	**6**	**3**	**2**
Between banks	5 (11)	5	1	1
Between credit co-operatives	1	1	–	–
Between SCIs	–	–	1	–
SCIs acquired by merged with deposit institutions	–	–	1	1

SOURCE: Banco de España. Data available at 31December 2006.

a. In this table, the number of registered CIs includes ICO, which is included in the domestic banks category. However, in the rest of the tables of this Report, ICO is excluded, unless stated otherwise.
b. In brackets is the number of institutions concerned if the mergers/acquisitions include operations in which more than two CIs are involved, i.e. if the number of CIs concerned is not equal to twice the number of operations.

SERVING EMPLOYEES, OPERATIONAL OFFICES, ATMs AND AGENTS OF ACTIVE CIs

TABLE 1.A.2

Year-end data

	NUMBER OF ACTIVE INSTITU-TIONS	SERVING EMPLOYEES (NUMBER)				THOUSANDS OF HOURS WORKED	NO. OPERATIONAL OFFICES		NO. ATM	NO. OF CARDS (000)	NO. POINT OF SALE TERMINALS	NO. AGENTS	EMPLOYEES PER OPERATIONAL OFFICE (5/7)
		TOTAL	OF WHICH: PART-TIME	AT CENTRAL SERVICES	AT OFFICES		TOTAL	OWNED OR UNDER FINANCIAL LEASE					
	1	2	3	4	5	6	7	8	9	10	11	12	13
TOTAL CIs													
2003	344	244,863	2,081	56,555	186,907	398,933	39,828	22,061	52,037	71,114	985,719	5,709	4.7
2004	344	247,175	2,275	57,035	188,679	399,459	40,682	22,498	53,624	76,402	1,066,426	4,836	4.6
2005	345	254,121	3,067	58,848	193,693	417,905	42,074	23,221	55,610	82,564	1,124,107	5,239	4.6
2006	350	263,387	3,926	61,118	200,474	431,720	43,785	23,859	57,804	90,090	1,312,194	11,163	4.6
Banks													
2003	136	111,794	671	27,292	83,478	188,419	14,116	6,252	18,901	24,823	399,262	5,215	5.9
2004	136	110,101	582	27,231	81,835	184,395	14,199	6,155	19,051	26,573	464,632	4,444	5.8
2005	138	111,298	678	27,453	82,830	188,832	14,577	6,330	19,602	29,122	500,671	4,824	5.7
2006	141	113,064	1,069	28,250	83,705	189,377	15,135	6,502	19,995	33,933	612,303	10,339	5.5
Domestic													
2003	55	94,727	489	18,980	74,794	159,352	12,478	5,637	17,196	21,363	383,670	4,632	6.0
2004	52	95,135	383	19,060	75,036	159,492	12,848	5,720	17,658	22,847	451,399	4,226	5.8
2005	52	95,585	291	19,013	75,595	160,187	13,267	5,920	18,382	24,358	492,294	4,430	5.7
2006	53	97,107	426	19,427	76,625	162,553	13,838	6,139	18,796	28,036	602,420	4,624	5.5
Foreign subsidiaries													
2003	24	13,484	78	5,323	8,090	23,103	1,524	604	1,688	3,296	15,592	542	5.3
2004	23	10,974	74	4,763	6,215	18,253	1,229	424	1,376	3,390	13,233	183	5.1
2005	21	11,150	73	4,570	6,541	20,451	1,181	401	1,203	4,022	8,377	356	5.5
2006	19	10,819	169	4,460	6,305	18,039	1,160	355	1,181	4,646	9,883	5,670	5.4
Foreign branches													
2003	57	3,583	104	2,989	594	5,964	114	11	17	164	0	41	5.2
2004	61	3,992	125	3,408	584	6,650	122	11	17	335	0	35	4.8
2005	65	4,563	314	3,870	694	8,194	129	9	17	742	0	38	5.4
2006	69	5,138	474	4,363	775	8,785	137	8	18	1,250	0	45	5.7
Savings banks													
2003	47	110,243	669	21,686	88,407	175,209	20,894	13,507	29,169	32,731	519,034	369	4.2
2004	47	113,408	846	22,120	91,097	177,550	21,529	14,031	30,355	34,210	533,374	260	4.2
2005	47	118,072	1,417	23,322	94,483	190,785	22,443	14,468	31,585	34,663	544,237	294	4.2
2006	47	124,139	1,958	24,341	99,459	200,268	23,456	14,839	33,187	36,274	618,057	689	4.2
Credit co-operatives													
2003	83	17,067	216	3,823	13,240	26,536	4,460	2,260	3,967	3,605	67,423	90	3.0
2004	83	17,650	256	3,953	13,697	27,845	4,563	2,270	4,218	3,609	68,420	81	3.0
2005	83	18,395	306	4,109	14,285	27,864	4,657	2,382	4,423	4,367	78,899	71	3.1
2006	83	19,382	414	4,414	14,966	31,245	4,771	2,476	4,622	4,477	81,484	68	3.1
SCIs													
2003	78	5,759	525	3,754	1,782	8,770	358	42	–	9,954	–	35	5.0
2004	78	6,016	591	3,731	2,050	9,668	391	42	–	12,010	–	51	5.2
2005	77	6,356	666	3,964	2,095	10,424	397	41	0	14,411	300	50	5.3
2006	79	6,802	485	4,113	2,344	10,831	423	42	0	15,406	350	67	5.5

SOURCE: Banco de España. Data available at 19 March 2007.

NUMBER AND COMPOSITION OF CONSOLIDATED GROUPS OF CIs

TABLE 1.A.3

Year-end data (number)

	CONSOLIDATED GROUPS EXISTING AT YEAR-END				BREAKDOWN OF INVESTEES 2006 (a)													
					FULLY CONSOLIDATED						PROPOR-TIONALLY CONSOLIDATED (a)		OTHER INVESTEES (b)					
					CREDIT INSTITUTIONS		INVESTMENT COMPANIES		OTHER				INSURANCE COMPANIES		OTHER FINANCIAL		NON-FINANCIAL	
	2003	2004	2005	2006	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD
Consolidated groups (c)	**99**	**98**	**95**	**99**	**99**	**105**	**18**	**23**	**798**	**442**	**163**	**19**	**30**	**27**	**6,002**	**3,979**	**2,144**	**280**
Parent credit institution	86	85	83	86	81	105	17	23	771	440	161	19	29	27	5,845	3,884	2,025	263
Spanish banks	*12*	*12*	*13*	*13*	*41*	*103*	*6*	*23*	*269*	*402*	*22*	*10*	*6*	*27*	*1,299*	*2,054*	*294*	*198*
Savings banks	*46*	*46*	*46*	*47*	*22*	*2*	*7*	*0*	*411*	*37*	*134*	*9*	*21*	*0*	*3879*	*1504*	*1,600*	*46*
Co-operatives	*14*	*14*	*13*	*16*	*0*	*0*	*1*	*0*	*43*	*0*	*3*	*0*	*1*	*0*	*589*	*292*	*99*	*0*
Foreign CIs	*14*	*13*	*11*	*10*	*18*	*0*	*3*	*0*	*48*	*1*	*2*	*0*	*1*	*0*	*78*	*34*	*32*	*19*
Other consolidated groups	13	13	12	13	18	0	1	0	27	2	2	0	1	0	157	95	119	17
Spanish parent	*6*	*6*	*6*	*6*	*8*	*0*	*0*	*0*	*21*	*2*	*0*	*0*	*1*	*0*	*146*	*80*	*60*	*0*
Foreign parent	*7*	*7*	*6*	*7*	*10*	*0*	*1*	*0*	*6*	*0*	*2*	*0*	*0*	*0*	*11*	*15*	*59*	*17*
Consolidated groups including two or more Spanish CIs (d)	**30**	**29**	**30**	**31**	**85**	**105**	**12**	**23**	**534**	**431**	**103**	**18**	**15**	**27**	**2,785**	**2,764**	**1,120**	**260**
Parent credit institution	25	25	26	27	76	105	12	23	530	431	103	18	15	27	2,740	2,708	1,102	249
Spanish banks	*6*	*6*	*6*	*6*	*41*	*103*	*6*	*23*	*227*	*401*	*17*	*10*	*5*	*27*	*986*	*1,887*	*236*	*198*
Savings banks	*14*	*14*	*15*	*16*	*22*	*2*	*5*	*0*	*274*	*29*	*85*	*8*	*9*	*0*	*1,708*	*797*	*840*	*37*
Foreign CIs	*5*	*5*	*5*	*5*	*13*	*0*	*1*	*0*	*29*	*1*	*1*	*0*	*1*	*0*	*46*	*24*	*26*	*14*
Other consolidated groups	5	4	4	4	9	0	0	0	4	0	0	0	0	0	45	56	18	11
Spanish parent	*1*	*1*	*1*	*1*	*3*	*0*	*0*	*0*	*3*	*0*	*0*	*0*	*0*	*0*	*43*	*47*	*5*	*0*
Foreign parent	*4*	*3*	*3*	*3*	*6*	*0*	*0*	*0*	*1*	*0*	*0*	*0*	*0*	*0*	*2*	*9*	*13*	*11*
Mixed groups and financial conglomerates	**38**	**36**	**32**	**42**														
Supervised by Banco de España	35	33	29	40														
Supervised by DGS including CIs	3	3	3	2														
MEMORANDUM ITEM:																		
Bank offices abroad	7,198	7,472	8,680	8,664														

SOURCE: Banco de España. Data available at 12 April 2007.

a. The number matches that of those reported and, therefore, it may be higher than that of the institutions owing to the fact that one and the same institution may be reported by more than one consolidated group.
b. Including jointly controlled entities and associates.
c. A consolidated group (CG) is considered as such provided it includes, in addition to the parent (or failing this the reporting institution), another or other fully or proportionally consolidated financial institutions. The CG classification is given by the nature and nationality of the parent (ultimate holder).
d. Consolidated groups that include two or more Spanish credit institutions, including the parent or the reporting institution.

BREAKDOWN OF ACTIVITY OF CIs (a) (b) TABLE 1.A.4

Total business. Year-end data (€m and %)

	2003	2004	2005	2006	MEMORANDUM ITEMS: 2006 STRUCTURE %	CHANGE IN PP	% ANNUAL Δ
BALANCE SHEET TOTAL	**1,463,406**	**1,747,033**	**2,126,089**	**2,478,553**	**100.0**	**0.0**	**16.6**
ASSETS:							
Cash and central banks	**21,905**	**21,032**	**24,368**	**29,408**	**1.2**	**0.0**	**20.7**
Loans and advances to credit institutions	**221,289**	**246,330**	**293,033**	**320,328**	**12.9**	**–0.9**	**9.3**
Of which: interbank	151,436	172,873	207,012	226,700	9.1	–0.6	9.5
Loans and advances to other debtors	**846,151**	**1,022,564**	**1,265,941**	**1,594,650**	**64.3**	**4.8**	**26.0**
Resident general government	36,363	40,096	41,337	41,862	1.7	–0.3	1.3
Resident private sector	776,176	944,530	1,173,834	1,475,462	59.5	4.3	25.7
Of which: commercial credit	*55,535*	*64,237*	*75,393*	*85,387*	*3.4*	*–0.1*	*13.3*
Of which: secured by a mortgage	*430,892*	*552,670*	*709,716*	*884,003*	*35.7*	*2.3*	*24.6*
Non-residents	33,612	37,938	50,769	77,326	3.1	0.7	52.3
Debt securities	**219,017**	**231,638**	**285,540**	**233,880**	**9.4**	**–4.0**	**–18.1**
Other equity instruments	**16,737**	**37,394**	**48,530**	**67,914**	**2.7**	**0.5**	**39.9**
Trading derivatives	**–**	**23,017**	**36,184**	**45,889**	**1.9**	**0.1**	**26.8**
Other financial assets	**7,801**	**11,727**	**17,092**	**26,516**	**1.1**	**0.3**	**55.1**
Hedging derivatives	**–**	**18,455**	**19,394**	**14,116**	**0.6**	**–0.3**	**–27.2**
Investments	**71,341**	**71,755**	**76,538**	**83,574**	**3.4**	**–0.2**	**9.2**
Insurance contracts linked to pensions	**3,552**	**9,912**	**9,854**	**10,252**	**0.4**	**0.0**	**4.0**
Fixed assets	**18,097**	**24,558**	**25,221**	**26,816**	**1.1**	**–0.1**	**6.3**
Tax assets	**10,563**	**17,006**	**17,123**	**16,536**	**0.7**	**–0.1**	**–3.4**
Other assets	**26,953**	**11,643**	**7,272**	**8,675**	**0.4**	**0.0**	**19.3**
LIABILITIES AND EQUITY:							
Deposits from central banks and from CIs	**348,033**	**393,027**	**498,811**	**503,710**	**20.3**	**–3.1**	**1.0**
Deposits from other creditors	**807,374**	**910,025**	**1,078,908**	**1,294,470**	**52.2**	**1.5**	**20.0**
Resident and non-resident general government	37,218	45,248	59,234	68,955	2.8	0.0	16.4
Resident private sector	651,458	768,203	929,806	1,137,269	45.9	2.2	22.3
Unadjusted overnight deposits	*317,793*	*348,629*	*400,601*	*452,400*	*18.3*	*–0.6*	*12.9*
Current accounts	*172,711*	*187,806*	*222,140*	*259,908*	*10.5*	*0.0*	*17.0*
Savings accounts	*145,082*	*157,734*	*173,753*	*186,439*	*7.5*	*–0.7*	*7.3*
Other deposits	*0*	*3,088*	*4,707*	*6,053*	*0.2*	*0.0*	*28.6*
Time deposits and redeemables at notice	*246,929*	*323,833*	*437,024*	*594,944*	*24.0*	*3.4*	*36.1*
Repos	*86,496*	*90,287*	*84,324*	*83,507*	*3.4*	*–0.6*	*–1.0*
Non-residents	118,698	96,574	89,867	88,246	3.6	–0.7	–1.8
Debt certificates including bonds	**87,124**	**151,311**	**221,811**	**304,461**	**12.3**	**1.9**	**37.3**
Of which: mortgage securities (c)	42,327	57,422	90,390	133,556	5.4	1.1	47.8
Trading derivatives	**583**	**27,337**	**37,335**	**48,679**	**2.0**	**0.2**	**30.4**
Subordinated liabilities	**48,741**	**58,049**	**61,977**	**70,565**	**2.8**	**–0.1**	**13.9**
Other financial liabilities	**17,131**	**23,022**	**27,890**	**33,326**	**1.3**	**0.0**	**19.5**
Provisions	**19,537**	**26,159**	**26,637**	**27,959**	**1.1**	**–0.1**	**5.0**
Of which: provisions for pensions and similar	13,397	20,571	20,510	21,794	0.9	–0.1	6.3
Equity	**84,623**	**117,520**	**129,384**	**147,696**	**6.0**	**–0.1**	**14.2**
Valuation adjustments	–	5,275	7,814	11,225	0.5	0.1	43.6
Own funds	84,623	112,245	121,569	136,471	5.5	–0.2	12.3
Of which: capital and reserves (including share premium)	*77,034*	*103,142*	*111,307*	*120,982*	*4.9*	*–0.4*	*8.7*
Other liabilities	**50,261**	**40,582**	**43,337**	**47,687**	**1.9**	**–0.1**	**10.0**
MEMORANDUM ITEMS:							
Unadjusted earning financial assets	1,409,971	1,656,354	2,017,636	2,355,460	95.0	0.1	16.7
Unadjusted securities portfolio	307,413	341,019	410,158	386,103	15.6	–3.7	–5.9
Equity portfolio	88,078	110,065	125,434	152,396	6.1	0.2	21.5
Investments in the group	*57,651*	*67,322*	*71,643*	*76,768*	*3.1*	*–0.3*	*7.2*
Other investments	*13,643*	*5,349*	*5,260*	*7,714*	*0.3*	*0.1*	*46.6*
Other equity securities	*16,737*	*37,394*	*48,530*	*67,914*	*2.7*	*0.5*	*39.9*
Contingent exposures and liabilities	194,799	193,764	266,120	392,835	15.8	3.3	47.6
Variable-rate credit	568,318	690,483	910,532	1,173,791	47.4	4.5	28.9
Asset transfers	54,483	77,209	100,806	142,545	5.8	1.0	41.4
Of which: securitised (d)	*53,396*	*43,764*	*36,642*	*33,573*	*1.4*	*–0.4*	*–8.4*
Total mortgage covered bonds issued (e)	62,057	90,599	156,902	227,603	9.2	1.8	45.1

SOURCE: Banco de España. Data available at 9 March 2007.

a. Institutions existing at each date.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.
c. This item almost entirely corresponds to mortgage covered bonds which are marketable securities. Accordingly, privately placed (and securitised) mortgage covered bonds are not included.
d. This figure relates solely to the outstanding volume of securitisations whose underlying assets have been derecognised from the CI's balance sheet and thus classified as «transferred». In order to see total asset securitisations originated by CIs, please refer to Chart 1.A.10 under the item «transfer of assets due to securitisation».
e. Figure taken form the confidential return «Supplementary information on the Balance Sheet» of CIs, under the new accounting rules in CBE 4/2004. It includes all mortgage covered bonds, whether marketable or not.

BREAKDOWN OF ACTIVITY BY INSTITUTIONAL GROUPS OF CIs (a)

TABLE 1.A.4. BIS

Total business. December 2006 (%)

	DEPOSIT INSTITUTIONS										
		BANKS									
				FOREIGN							
						BRANCHES					
	TOTAL	TOTAL	DOMESTIC	TOTAL	SUB-SIDIARIES	TOTAL	EU	NON-EU	SAVINGS BANKS	CO-OPERATIVES	SCIs
BALANCE SHEET TOTAL	**97.5**	**53.4**	**42.8**	**10.6**	**3.0**	**7.6**	**7.4**	**0.2**	**40.2**	**3.9**	**2.5**
ASSETS:											
Cash and central banks	**99.8**	**47.9**	**40.5**	**7.3**	**2.5**	**4.8**	**4.4**	**0.4**	**48.2**	**3.7**	**0.2**
Deposits from credit institutions	**99.3**	**70.0**	**53.4**	**16.6**	**4.1**	**12.5**	**12.2**	**0.3**	**26.4**	**2.9**	**0.7**
Of which: interbank	99.1	71.9	52.4	19.5	3.0	16.5	16.0	0.5	23.4	3.7	0.9
Loans and advances to other debtors	**96.3**	**45.8**	**38.7**	**7.1**	**3.3**	**3.9**	**3.6**	**0.2**	**45.7**	**4.8**	**3.7**
Resident general government	95.0	60.3	50.8	9.5	8.8	0.7	0.7	0.0	33.4	1.3	5.0
Resident private sector	96.3	43.9	37.1	6.9	3.1	3.8	3.6	0.2	47.2	5.2	3.7
Of which: commercial credit	*85.4*	*51.9*	*47.8*	*4.1*	*2.4*	*1.7*	*1.5*	*0.2*	*29.5*	*4.0*	*14.6*
Of which: mortgage-backed	*99.3*	*36.6*	*32.8*	*3.8*	*2.8*	*1.0*	*1.0*	*0.0*	*56.5*	*6.2*	*0.7*
Non-residents	96.9	73.4	62.4	11.0	3.5	7.5	6.6	0.9	23.1	0.5	3.1
Debt securities	**99.9**	**67.2**	**36.3**	**30.8**	**2.0**	**28.9**	**28.9**	**0.0**	**31.2**	**1.6**	**0.1**
Other equity instruments	**100.0**	**55.8**	**41.3**	**14.4**	**0.6**	**13.8**	**13.8**	**0.0**	**42.2**	**2.0**	**0.0**
Trading derivatives	**100.0**	**86.2**	**79.8**	**6.4**	**1.1**	**5.2**	**5.1**	**0.1**	**13.5**	**0.3**	**0.0**
Other financial assets	**100.0**	**79.0**	**68.5**	**10.5**	**3.8**	**6.7**	**6.6**	**0.0**	**19.1**	**1.9**	**0.0**
Hedging derivatives	**99.6**	**35.2**	**30.3**	**4.8**	**0.8**	**4.0**	**4.0**	**0.0**	**63.9**	**0.5**	**0.4**
Investments	**100.0**	**76.5**	**73.3**	**3.2**	**0.8**	**2.4**	**2.4**	**0.0**	**23.1**	**0.3**	**0.0**
Insurance contracts linked to pensions	**99.9**	**71.6**	**70.3**	**1.2**	**1.2**	**0.0**	**0.0**	**0.0**	**28.4**	**0.0**	**0.1**
Fixed assets	**96.9**	**27.7**	**25.6**	**2.1**	**1.4**	**0.7**	**0.7**	**0.0**	**62.0**	**7.2**	**3.1**
Tax assets	**97.6**	**58.6**	**53.6**	**4.9**	**3.1**	**1.8**	**1.6**	**0.2**	**37.2**	**1.9**	**2.4**
Other assets	**95.0**	**65.1**	**49.6**	**15.4**	**2.9**	**12.5**	**12.3**	**0.2**	**26.8**	**3.2**	**5.0**
LIABILITIES AND EQUITY:											
Deposits from central banks and from credit institutions	**90.7**	**73.0**	**35.9**	**37.1**	**6.3**	**30.8**	**30.2**	**0.7**	**16.9**	**0.8**	**9.3**
Deposits from other creditors	**99.5**	**43.6**	**39.3**	**4.3**	**2.5**	**1.8**	**1.8**	**0.0**	**49.8**	**6.1**	**0.5**
Resident and non-resident general government	100.0	46.1	45.2	0.9	0.9	0.1	0.0	0.0	49.9	4.0	0.0
Resident private sector	99.9	41.2	37.0	4.2	2.5	1.8	1.7	0.0	52.0	6.7	0.1
Unadjusted overnight deposits	*100.0*	*41.9*	*36.5*	*5.4*	*2.7*	*2.7*	*2.6*	*0.1*	*51.2*	*6.9*	*0.0*
Current accounts	*100.0*	*49.2*	*40.8*	*8.4*	*4.0*	*4.3*	*4.2*	*0.1*	*46.0*	*4.8*	*0.0*
Savings accounts	*100.0*	*31.7*	*30.5*	*1.2*	*0.7*	*0.5*	*0.5*	*0.0*	*58.2*	*10.1*	*0.0*
Other deposits	*99.7*	*40.7*	*34.0*	*6.6*	*5.1*	*1.6*	*1.6*	*0.0*	*56.7*	*2.3*	*0.3*
Time deposits and redeemables at notice	*99.9*	*37.8*	*35.3*	*2.5*	*1.6*	*0.9*	*0.9*	*0.0*	*54.8*	*7.3*	*0.1*
Repos	*100.0*	*61.7*	*51.2*	*10.5*	*7.8*	*2.7*	*2.7*	*0.0*	*37.3*	*1.0*	*0.0*
Non-residents	94.2	73.0	64.5	8.5	4.3	4.2	4.1	0.2	20.5	0.7	5.8
Debt certificates including bonds	**99.8**	**54.2**	**53.4**	**0.8**	**0.8**	**0.0**	**0.0**	**0.0**	**44.8**	**0.8**	**0.2**
Of which: mortgage securities (b)	100.0	64.3	64.3	0.0	0.0	0.0	0.0	0.0	35.7	0.0	0.0
Trading derivatives	**99.8**	**88.8**	**80.2**	**8.6**	**1.0**	**7.5**	**7.5**	**0.1**	**11.0**	**0.1**	**0.2**
Subordinated liabilities	**99.0**	**56.5**	**54.7**	**1.8**	**1.7**	**0.1**	**0.1**	**0.0**	**41.7**	**0.8**	**1.0**
Other financial liabilities	**91.2**	**67.0**	**57.9**	**9.1**	**3.5**	**5.6**	**5.5**	**0.1**	**21.6**	**2.6**	**8.8**
Provisions	**99.0**	**72.1**	**70.2**	**1.9**	**1.3**	**0.6**	**0.5**	**0.1**	**25.9**	**1.0**	**1.0**
Of which: provisions for pensions and similar	99.9	76.2	75.1	1.1	1.1	0.1	0.0	0.0	23.5	0.1	0.1
Equity	**97.1**	**53.0**	**49.1**	**3.9**	**2.5**	**1.4**	**0.8**	**0.6**	**38.9**	**5.2**	**2.9**
Valuation adjustments	99.8	26.6	25.3	1.3	0.0	1.3	1.3	0.0	71.9	1.4	0.2
Own funds	96.9	55.1	51.0	4.1	2.7	1.4	0.7	0.7	36.2	5.5	3.1
Of which: capital and reserves	*96.8*	*56.1*	*52.1*	*4.0*	*2.9*	*1.1*	*0.4*	*0.7*	*34.9*	*5.8*	*3.2*
Other liabilities	**97.9**	**44.9**	**39.6**	**5.2**	**2.1**	**3.1**	**3.0**	**0.1**	**50.9**	**2.2**	**2.1**
MEMORANDUM ITEMS:											
Unadjusted earning financial assets	97.3	52.5	41.6	10.8	3.1	7.8	7.5	0.2	40.9	4.0	2.7
Unadjusted securities portfolio	100.0	67.1	45.2	21.9	1.4	20.4	20.4	0.0	31.5	1.4	0.0
Equity portfolio	100.0	67.1	58.8	8.2	0.7	7.5	7.5	0.0	31.8	1.1	0.0
Investments in the group	*100.0*	*77.9*	*74.7*	*3.1*	*0.5*	*2.6*	*2.6*	*0.0*	*21.9*	*0.2*	*0.0*
Other investments	*100.0*	*59.3*	*54.6*	*4.7*	*4.7*	*0.0*	*0.0*	*0.0*	*39.1*	*1.5*	*0.0*
Other equity securities	*100.0*	*55.8*	*41.3*	*14.4*	*0.6*	*13.8*	*13.8*	*0.0*	*42.2*	*2.0*	*0.0*
Contingent exposures and liabilities	100.0	77.9	56.0	21.9	2.2	19.7	17.7	2.0	20.2	1.9	0.0
Variable-rate credit	98.8	40.4	34.1	6.3	2.4	3.9	3.7	0.2	52.6	5.7	1.2
Asset transfers	93.2	48.0	41.1	6.9	5.6	1.3	1.3	0.0	37.6	7.6	6.8
Of which: securitised (c)	*74.1*	*35.5*	*28.6*	*6.9*	*6.4*	*0.5*	*0.5*	*0.0*	*33.6*	*5.0*	*25.9*
Total mortgage covered bonds issued (d)	100.0	42.0	41.9	0.1	0.1	0.0	0.0	0.0	55.5	2.4	0.0

SOURCE: Banco de España. Data available at 9 March 2007.

a. Institutions existing at each date.

b. This item almost entirely corresponds to mortgage covered bonds which are marketable securities. Accordingly, privately placed (and securitised) mortgage covered bonds are not included.

c. This figure relates solely to the outstanding volume of securitisations whose underlying assets have been derecognised from the CI's balance sheet and thus classified as «transferred». In order to see total asset securitisations originated by CIs, please refer to Chart 1.A.10 under the item «transfer of assets due to securitisation».

d. Figure taken form the confidential return «Supplementary information on the Balance Sheet» of CIs, under the new accounting rules in CBE 4/2004. It includes all mortgage covered bonds, whether marketable or not.

CREDIT INSTITUTIONS (a)**: DOUBTFUL EXPOSURES AND THEIR COVERAGE** (b) TABLE 1.A.5

Total business (€m). Year-end data

	2003	2004	2005	2006
Doubtful assets and contingent exposures	**7,859**	**9,785**	**10,174**	**11,406**
Past-due mortgages on completed housing	653	1,223	1,069	1,405
Other past-dues	3,251	4,501	4,579	5,219
Other	3,954	4,061	4,526	4,782
Allowances and provisions	**19,323**	**21,467**	**25,609**	**31,170**
Specific	4,469	4,558	4,838	5,126
General	14,855	16,909	20,771	26,044
Other information				
Total exposures (c)	914,653	1,642,075	2,061,369	2,497,725
Write-offs as at year-end	20,462	22,059	20,066	20,380
Additions	2,378	2,373	1,996	2,621
Reductions and other	2,232	2,130	3,981	1,872
Of which: due to expiration	29	560	2,456	503
Ratios (%)				
Doubtful / Total exposures	0.86	0.60	0.49	0.46
Doubtful exposures to ORS / Total lending to ORS	0.89	0.91	0.76	0.70
(Allowances + Provisions) / Doubtful exposures	245.88	219.39	251.72	273.27

SOURCE: Banco de España. Data available at 9 March 2007.

a. Institutions existing at each date.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.
c. In 2004, 2005 and 2006, all information in this chart is taken from Return T.10. Due to the application of CBE 4/2004, the total credit exposure includes all debt instruments except those measured at fair value and those covered by country risk allowances or provisions. Excluded until 2003, aside from country risk, were exposures to general government and deposits with CIs. As a result, in 2004 there was an increase in the series (denominator of the ratio "doubtful/total exposures").

STRUCTURE OF LENDING TO RESIDENT PRIVATE SECTOR (a) TABLE 1.A.6

Business in Spain. Year-end data (%)

	2003	2004	2005	2006
Lending to business	**51.0**	**50.8**	**50.0**	**51.6**
Goods	20.7	19.5	18.6	18.2
Agriculture, fishing and extractive industries	*2.5*	*2.3*	*2.1*	*1.9*
Manufacturing	*8.2*	*7.3*	*6.8*	*6.2*
Energy and electricity	*1.8*	*1.7*	*1.3*	*1.3*
Construction	*8.2*	*8.3*	*8.4*	*8.8*
Services	30.3	31.2	31.4	33.4
Commerce, repairs and hotels and restaurants	*7.7*	*7.2*	*6.8*	*6.4*
Transport and communications	*3.2*	*3.1*	*2.8*	*2.5*
Real estate development	*9.8*	*11.9*	*13.5*	*16.4*
Financial intermediation	*1.6*	*1.9*	*1.1*	*1.2*
Other services	*8.1*	*7.1*	*7.1*	*6.9*
Lending to households	**46.7**	**47.0**	**48.2**	**46.7**
Housing (purchase and refurbishing)	34.7	35.5	37.3	36.3
Consumer credit	4.4	4.1	3.8	3.4
Other purposes	7.7	7.4	7.1	7.0
Other	**2.3**	**2.3**	**1.8**	**1.8**

SOURCE: Banco de España. Data available at 17 May 2007.

a. Institutions existing at each date.

KEY DATA OF THE BANCO DE ESPAÑA CENTRAL CREDIT REGISTER

TABLE 1.A.7

Year-end data

	2003	2004	2005	2006
Reporting institutions (number)	**353**	**354**	**351**	**357**
Exposures admitted (number)	**23,360,635**	**25,699,044**	**28,100,024**	**30,914,293**
Of which:				
Banks	8,990,775	9,871,632	10,689,643	11,884,646
Savings banks	11,017,236	12,147,532	13,263,428	14,518,098
Co-operatives	1,697,842	1,887,683	2,071,721	2,224,253
Exposures admitted (€m)	**1,761,103**	**2,024,205**	**2,510,884**	**3,191,096**
Of which:				
Banks	900,420	1,028,130	1,286,398	1,617,888
Savings banks	714,325	829,539	1,037,637	1,346,652
Co-operatives	84,437	99,643	119,857	140,513
Different borrowers (number)	**13,713,433**	**14,683,686**	**15,706,037**	**16,799,763**
Resident Spanish individuals	12,567,991	13,359,688	14,146,762	14,911,657
Resident foreign individuals	336,648	460,586	641,226	899,579
Resident legal entities	799,045	852,597	903,115	968,608
Non-resident individuals	5,305	6,626	10,542	14,598
Non-resident legal entities	4,444	4,189	4,392	5,321
Other items				
Incorrectly identified borrowers (number)	7,648	1,362	4,454	5,740
Suspended exposures (€m)	339	231	1,231	1,380
Borrower additions (number) (a)	5,730,563	6,170,406	6,711,919	7,086,200
Borrower deletions (number) (a)	4,429,941	4,672,844	4,986,216	5,473,400
Access and rectification rights exercised (number)	24,877	25,068	28,853	44,470
Reports issued				
Automatically	210,876,798	228,069,991	246,966,045	269,172,543
Requested by reporting institutions	2,946,685	4,156,253	5,365,159	6,242,990
For debtors	64,289	66,746	75,303	89,742
Data Protection Agency	12	5	7	16
Courts	425	109	1,284	457
Other central credit registers	29	12	3,746	5,068
MEMORANDUM ITEM:				
Reports received from other central credit registers (b)	—	—	9,106	11,385

SOURCE: Banco de España. Data available at 19 March 2007.

a. The 2005 figures of borrower additions and deletions have changed slightly due to data adjustments made in 2006.
b. From June 2005 onwards, the figures come from reports issued or received within a new framework of data exchange established in that year with six other EU central credit registers.

ACTIVITY OF CIs AND OF THEIR CONSOLIDATED GROUPS (a) (b)

TABLE 1.A.8

Year-end data (€m and %)

	2003	2004	2005	2006	MEMORANDUM ITEMS: 2006 BUSINESS IN SPAIN 2005	MEMORANDUM ITEMS: 2006 BUSINESS IN SPAIN 2006	MEMORANDUM ITEMS: 2006 BUSINESS ABROAD 2005	MEMORANDUM ITEMS: 2006 BUSINESS ABROAD 2006
BALANCE SHEET TOTAL	**1,565,098**	**2,057,111**	**2,536,680**	**2,912,955**	**76.3**	**78.1**	**23.7**	**21.9**
ASSETS:								
Cash and central banks	32,518	33,911	46,478	49,319	51.7	58.9	48.3	41.1
Loans and advances to credit institutions	177,960	191,834	223,377	245,842	83.0	85.0	17.0	15.0
Loans and advances to other debtors	935,875	1,258,138	1,573,954	1,951,871	78.6	80.0	21.4	20.0
Debt securities	268,279	308,968	390,848	326,234	67.6	65.3	32.4	34.7
Investments	39,258	25,012	28,587	27,764	77.8	87.4	22.2	12.6
Tangible assets	24,929	32,303	34,551	36,229	79.1	80.6	20.9	19.4
Other assets	86,279	206,945	238,886	275,695	73.1	75.9	26.9	24.1
Of which: consolidated goodwill	*9,282*	*16,338*	*16,425*	*17,936*	*4.1*	*3.8*	*95.9*	*96.2*
LIABILITIES AND EQUITY:								
Deposits from credit institutions	287,843	342,998	443,726	454,209	82.3	83.4	17.7	16.6
Deposits from other creditors	853,687	1,067,441	1,231,164	1,390,931	74.8	77.1	25.2	22.9
Debt certificates including bonds	157,220	250,084	386,555	554,927	74.6	80.1	25.4	19.9
Subordinated liabilities	33,995	58,480	64,475	72,945	58.0	68.6	42.0	31.4
Provisions	25,629	35,352	36,590	36,890	76.6	79.5	23.4	20.5
Tax liabilities	...	11,863	14,282	17,931	81.0	81.6	19.0	18.4
Equity	88,897	128,201	151,281	176,237	95.3	93.7	4.7	6.3
Minority interest	*6,214*	*4,999*	*6,274*	*5,705*	*63.6*	*64.2*	*36.4*	*35.8*
Valuation adjustments	—	*12,253*	*18,901*	*22,471*	*85.7*	*93.0*	*14.3*	*7.0*
Own funds	*86,132*	*110,949*	*126,106*	*148,061*	*98.3*	*95.0*	*1.7*	*5.0*
Of which: capital and reserves (including share premium)	*74,755*	*100,074*	*109,713*	*124,763*	*101.5*	*98.8*	*-1.5*	*1.2*
Other liabilities	117,828	162,691	208,606	208,885	66.8	57.4	33.2	42.6
MEMORANDUM ITEMS:								
Interest-bearing financial liabilities	1,401,623	1,785,440	2,205,537	2,544,306	75.7	78.6	24.3	21.4
Off-balance-sheet customer funds	...	303,027	589,398	676,993	100.0	100.0	—	—
Of which: managed by the group	*304,972*	*357,032*	*473,718*	*519,631*	*73.7*	*74.3*	*26.3*	*25.7*
Unadjusted securities portfolio	327,507	396,670	494,182	453,539	71.9	72.1	28.1	27.9
Of which: equity portfolio	*59,227*	*88,099*	*104,169*	*127,402*	*88.2*	*89.7*	*11.8*	*10.3*
Investments in the group	7,366	10,995	14,175	8,657	58.0	90.2	42.0	9.8
Other investments	25,506	12,095	12,590	15,662	96.9	87.8	3.1	12.2
Other equity securities	26,352	65,009	77,404	103,083	92.3	89.9	7.7	10.1
CIs abroad (number)	**162**	**166**	**159**	**159**				
Subsidiaries	113	115	108	106				
Rest of European Union	29	31	26	37				
Latin America	37	36	36	28				
Other	47	48	46	41				
Branches	49	51	51	53				
Rest of European Union	34	37	36	37				
Latin America	1	1	1	1				
Other	14	13	14	15				

SOURCE: Banco de España. Data available at 9 March 2007.

a. Institutions existing at each date.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.

SECURITIES ISSUED BY SPANISH SSPEs

TABLE A.1.9

Year-end data (€m and %)

	2003	2004	2005	2006	MEMORANDUM ITEMS: 2006 STRUCTURE %	CHANGE IN PP	% ANNUAL CHANGE
BREAKDOWN BY TYPE OF UNDERLYING BEING SECURITISED:							
Total	**36,157**	**52,510**	**68,904**	**93,801**	**100.0**	**–**	**36.1**
Assets of CIs (Bond issuance)	**24,391**	**32,391**	**43,961**	**64,193**	**68.4**	**4.6**	**46.0**
Mortgage loans (not to SMEs or property developers)	16,858	18,853	29,617	38,889	41.5	–1.5	31.3
Of which: Mortgage SSPEs (PH) (a)	*5,030*	*4,890*	*6,850*	*5,050*	*5.4*	*–4.6*	*–26.3*
Of which: Asset SSPEs (PH and CTH) (a)	*11,828*	*13,963*	*22,767*	*33,839*	*36.1*	*3.0*	*48.6*
Mortgage loans to property developers	0	475	730	0	0.0	–1.1	–100.0
SMEs	6,253	8,764	6,571	12,795	13.6	4.1	94.7
Consumer loans	1,280	235	0	5,527	5.9	5.9	–
Credit to general government	0	1,850	0	0	0.0	0.0	–
Auto loans	0	1,763	3,235	1,369	1.5	–3.2	–57.7
Corporate loans	0	0	3,100	5,536	5.9	1.4	78.6
Other	0	451	796	77	0.1	–1.0	–90.3
Assets of CIs (commercial paper issuance) (b)	**–734**	**1,196**	**–1,327**	**904**	**1.0**	**2.9**	**–**
Of which: receivables	–702	1,210	–925	1,055	1.1	2.5	–
Assets of non-financial corporations	**300**	**239**	**145**	**1,032**	**1.1**	**0.9**	**612.2**
Liabilities of CIs	**12,200**	**18,685**	**26,125**	**27,673**	**29.5**	**–8.4**	**5.9**
Mortgage covered bonds	10,800	18,685	24,280	25,925	27.6	–7.6	6.8
Territorial covered bonds	1,400	0	665	0	0.0	–1.0	–100.0
Treasury bonds	0	0	1,180	1,450	1.5	–0.2	22.9
Subordinated loans	0	0	0	298	0.3	0.3	–
MEMORANDUM ITEMS:							
Total mortgage-backed assets (c)	20,848	25,301	34,895	48,546	51.8	1.1	39.1
Total funding to mortgage market	31,648	43,986	59,175	74,471	79.4	–6.5	25.8
Bonds issued on foreign stock markets	150	965	1,035	1,421	1.5	0.0	37.3
BREAKDOWN BY TYPE OF ORIGINATOR:							
Total	**36,157**	**52,510**	**68,904**	**93,801**	**100.0**	**–**	**36.1**
Banks	9,629	22,676	20,325	34,262	36.5	7.0	68.6
Savings banks	23,298	25,071	40,019	47,951	51.1	–7.0	19.8
Co-operatives	849	2,715	5,463	6,792	7.2	–0.7	24.3
SCIs	1,404	1,810	2,953	3,687	3.9	–0.4	24.9
Unclassified from financial institutions	678	0	0	77	0.1	0.1	–
Non-financial corporations	300	239	145	1,032	1.1	0.9	612.2

SOURCES: CNMV, AIAF and Banco de España. Data available at 22 February 2007.

a. PH: Collateralised mortgage bonds *(participaciones hipotecarias)* as defined in Royal Decree 685/1982. CTH: mortgage transfer certificates *(certificados de transmisión hipotecaria)* as defined in Law 44/2002.
b. For this category in particular, the data provided are the change in the outstanding balance of securitisation in the year, which is equal to net promissory note issuance. Since the securitised assets are very short-term, a large amount of promissory notes is issued and redeemed under ABCP programmes during the year. This also explains why there may be negative net inssuance of the securities of these vehicles.
c. Sum of the items “Mortgage loans (not to SMEs or property developers)”, “Mortgage loans to property developers”, and the mortgage-backed part of those funds clasified as “SMEs”, “corporate loans” and “other”.

INFORMATION ON OUTSTANDING AMOUNTS OF SPANISH SSPE LIABILITIES

TABLE 1.A.10

Year-end data (€m and %)

	2003	2004	2005	2006	MEMORANDUM ITEMS: 2006 STRUCTURE %	CHANGE IN PP	% ANNUAL Δ
BREAKDOWN BY TYPE OF UNDERLYING BEING SECURITISED:							
Total	**76,628**	**120,443**	**173,592**	**243,163**	**100.0**	**–**	**40.1**
Assets of CIs (Bond issuance)	**52,431**	**75,593**	**103,003**	**144,188**	**59.3**	**0.0**	**40.0**
Mortgage loans (not to SMEs or property developers)	37,197	49,657	68,969	93,330	38.4	–1.3	35.3
Of which: mortgage SSPEs (PH) (a)	*20,050*	*21,737*	*24,310*	*24,528*	*10.1*	*–3.9*	*0.9*
Of which: asset SSPEs (PH and CTH) (a)	*17,146*	*27,920*	*44,658*	*68,802*	*28.3*	*2.6*	*54.1*
Mortgage loans to property developers	129	476	992	697	0.3	–0.3	–29.7
SMEs	9,759	17,113	20,252	28,069	11.5	–0.1	38.6
Consumer loans	1,324	1,459	938	6,087	2.5	2.0	548.9
Credit to general government	868	2,665	2,126	1,749	0.7	–0.5	–17.7
Auto loans	2,455	3,273	5,213	5,337	2.2	–0.8	2.4
Corporate loans	0	0	3,100	7,625	3.1	1.3	146.0
Other	699	950	1,413	1,293	0.5	–0.3	–8.5
Assets of CIs (Commercial Paper issuance) (b)	**3,349**	**5,078**	**4,284**	**5,255**	**2.2**	**–0.3**	**22.7**
Of which: receivables	3,349	4,543	3,581	4,703	1.9	–0.1	31.3
Assets of non-financial corporations	**300**	**539**	**656**	**397**	**0.2**	**–0.2**	**–39.5**
Liabilities of CIs	**20,548**	**39,233**	**65,650**	**93,323**	**38.4**	**0.6**	**42.2**
Mortgage covered bonds	19,148	37,833	62,405	88,330	36.3	0.4	41.5
Territorial covered bonds	1,400	1,400	2,065	2,065	0.8	–0.3	0.0
Treasury bonds	0	0	1,180	2,630	1.1	0.4	122.9
Subordinated loans	0	0	0	298	0.1	0.1	–
MEMORANDUM ITEMS:							
Total mortgage-backed assets (b)	42,788	61,052	83,381	112,999	46.5	–1.6	35.5
Total funding to mortgage market	61,936	98,884	145,786	201,329	82.8	–1.2	38.1
Bonds issued on foreign stock markets	2,055	2,611	3,561	2,842	1.2	–0.9	–20.2
Transfer of assets due to securitisation (c)	**–**	**76,089**	**99,614**	**140,969**			**41.5**
Securitised assets held on the balance sheet	–	32,352	63,104	107,396			70.5
Assets transferred via securititsation	54,483	43,737	36,642	33,573			–8.4
Of which: securitisations originated from 1.1.2004	*0*	*1,860*	*3,631*	*7,477*			*50.5*
% of total securitised assets of CIs	*–*	*2.3*	*3.6*	*5.3*			*6.4*
BREAKDOWN BY TYPE OF ORIGINATOR:							
Total	**76,628**	**120,443**	**173,592**	**243,163**	**100.0**	**0.0**	**40.1**
Banks	27,649	46,192	59,244	82,277	33.8	–0.3	38.9
Savings banks	42,994	64,665	96,666	134,692	55.4	–0.3	39.3
Co-operatives	940	3,564	10,305	16,615	6.8	0.9	61.2
SCIs	3,531	4,532	6,004	8,083	3.3	–0.1	34.6
Unclassified from financial institutions	1,214	951	716	1,099	0.5	0.0	53.4
Non-financial corporations	300	539	656	397	0.2	–0.2	–39.5
HOLDERS OF ASSET-BACKED BONDS ISSUED BY SPANISH SSPEs (d) (e):							
Total held by:	**77,586**	**122,537**	**174,491**	**244,216**	**100.0**	**–**	**40.0**
Non-financial corporations and households	1,591	1,807	1,594	4,663	1.9	1.0	192.5
Financial institutions	30,444	43,096	45,583	42,385	17.4	–8.8	–7.0
Banks and savings banks	*22,452*	*29,323*	*29,610*	*24,665*	*10.1*	*–6.9*	*–16.7*
Money market funds (f)	*2,541*	*3,158*	*2,938*	*0*	*0.0*	*–1.7*	*–100.0*
Non-monetary CIUs	*3,237*	*4,700*	*5,617*	*8,876*	*3.6*	*0.4*	*58.0*
Insurance companies	*2,213*	*5,915*	*7,418*	*8,844*	*3.6*	*–0.6*	*19.2*
Rest of the world	45,553	77,636	127,314	197,168	80.7	7.8	54.9
OTHER LIABILITIES: CREDIT EXTENDED TO SPANISH SSPEs:							
Total	**3,668**	**3,000**	**4,000**	**4,000**	**100.0**	**–**	**0.0**
Of which: by CIs	3,668	3,000	4,000	4,000	100.0	–	0.0

SOURCES: CNMV, AIAF and Banco de España. Data available at 22 February 2007. For holders of asset-backed bonds, data available at 24 April 2007.

a. PH: Collateralised mortgage bonds *(participaciones hipotecarias)* as defined in Royal Decree 685/1982. CTH: mortgage transfer certificates *(certificados de transmisión hipotecaria)* as defined in Law 44/2002.
b. Sum of the items "Mortgage loans (not to SMEs or property developers)", "Mortgage loans to property developers", and the mortgage-backed part of those funds clasified as "SMEs", "corporate loans" and "other".
c. All the data provided under the caption "Transfer of assets due to securitisation" come from the confidential balance sheet of CIs under the new accounting regulations established in CBE 4/2004. The difference between the total of this caption and the sum of the captions "Assets of, and bonds issued by, CIs" and "Assets of, and promissory notes issued by, CIs" in this table, stems from the fact that in the former, the institutions report the outstanding balance of underlying securitised assets, while in the latter, the figure is the outstanding balance of the securities in the AIAF market.
d. Unlike the outstanding balances broken down by type of securitised asset and issuer, the figures in this section are market prices, since they are drawn from another statistical source. Nearly all asset-backed bonds not belonging to covered-bond securitisations pay a floating rate coupon and are therefore listed at 100% of their nominal value. The divergences thus arise in fixed-coupon asset-backed bonds.
e. The figures in this table have been slightly modified due to a periodic revision of the balance of payments position data.
f. Owing to the publication of the regulations implementing the Collective Investment Institutions Law (Royal Decree 1309/2005 of 4 November 2005), there were no funds in the money market fund category (FIAMM) in 2006.

BREAKDOWN OF THE INDIVIDUAL INCOME STATEMENT FOR CIs (a) (b)

TABLE 1.A.11

Data of each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Financial income	**57,198**	**58,746**	**69,221**	**91,346**	**4.16**	**3.61**	**3.59**	**4.02**	**–4.3**	**2.7**	**17.8**	**32.0**
Interest and similar income	51,947	52,373	63,169	81,987	3.78	3.22	3.28	3.61	–4.1	0.8	20.6	29.8
Return on equity instruments	5,251	6,373	6,052	9,359	0.38	0.39	0.31	0.41	–6.1	21.4	–5.0	54.6
Financial cost	**–26,618**	**–28,197**	**–36,986**	**–53,082**	**–1.94**	**–1.73**	**–1.92**	**–2.34**	**–12.1**	**5.9**	**31.2**	**43.5**
NET INTEREST INCOME	**30,580**	**30,549**	**32,235**	**38,264**	**2.22**	**1.88**	**1.67**	**1.68**	**3.8**	**–0.1**	**5.5**	**18.7**
Of which: investment of own funds	*4,224*	*4,594*	*5,567*	*6,889*	*0.31*	*0.28*	*0.29*	*0.30*	*–2.2*	*8.8*	*21.2*	*23.7*
Non-interest income	**8,493**	**11,855**	**13,956**	**17,222**	**0.62**	**0.73**	**0.72**	**0.76**	**–7.1**	**39.6**	**17.7**	**23.4**
Fees and commissions (net)	8,747	9,937	11,290	12,742	0.64	0.61	0.59	0.56	8.2	13.6	13.6	12.9
Collection and payment service (net)	*4,894*	*5,325*	*5,802*	*5,655*	*0.36*	*0.33*	*0.30*	*0.25*	*6.1*	*8.8*	*9.0*	*–2.5*
Securities service (revenue)	*1,069*	*1,082*	*1,189*	*1,411*	*0.08*	*0.07*	*0.06*	*0.06*	*–2.0*	*1.2*	*9.8*	*18.7*
Marketing of non-banking products (revenue)	*2,314*	*2,873*	*3,369*	*4,097*	*0.17*	*0.18*	*0.17*	*0.18*	*11.2*	*24.2*	*17.3*	*21.6*
Contingent exposures and commitments (net)	*1,035*	*1,122*	*1,283*	*1,533*	*0.08*	*0.07*	*0.07*	*0.07*	*11.2*	*8.3*	*14.4*	*19.5*
Exchange of foreign currencies and banknotes (revenue)	*61*	*57*	*51*	*52*	*0.00*	*0.00*	*0.00*	*0.00*	*–18.9*	*–5.3*	*–11.7*	*3.1*
Other fees and commissions (net)	*–626*	*–523*	*–403*	*–6*	*–0.05*	*–0.03*	*–0.02*	*0.00*	*–11.6*	*–16.5*	*–22.9*	*–98.5*
Gains or losses on financial assets and liabilities and exchange differences (net)	–253	1,918	2,666	4,479	–0.02	0.12	0.14	0.20	—	—	39.0	68.0
Held for trading	*948*	*730*	*1,118*	*919*	—	*0.04*	*0.06*	*0.04*	—	—	*53.1*	*–17.8*
Other financial instruments	—	*1*	*–13*	*–79*	—	*0.00*	*0.00*	*0.00*	—	—	—	*517.0*
Available-for-sale financial assets	—	*1,252*	*1,412*	*2,331*	—	*0.08*	*0.07*	*0.10*	—	—	*12.8*	*65.1*
Loans and receivables	—	*53*	*127*	*22*	—	*0.00*	*0.01*	*0.00*	—	—	*141.0*	*–82.5*
Other gains or losses on financial assets and liabilities (c)	*16*	*–573*	*–318*	*320*	—	*–0.04*	*–0.02*	*0.01*	—	—	*–44.5*	
Exchange differences	*–1,217*	*456*	*339*	*967*	*–0.09*	*0.03*	*0.02*	*0.04*	—	—	*–25.5*	*184.9*
GROSS INCOME	**39,073**	**42,404**	**46,191**	**55,486**	**2.84**	**2.61**	**2.40**	**2.44**	**1.2**	**8.5**	**8.9**	**20.1**
Operating expenses	**–22,623**	**–23,616**	**–25,118**	**–26,995**	**–1.65**	**–1.45**	**–1.30**	**–1.19**	**3.1**	**4.4**	**6.4**	**7.5**
Personnel	–13,427	–14,030	–14,875	–16,038	–0.98	–0.86	–0.77	–0.71	3.3	4.5	6.0	7.8
Other administrative expenses	–7,101	–7,455	–8,096	–8,819	–0.52	–0.46	–0.42	–0.39	4.0	5.0	8.6	8.9
Depreciation and amortisation	–2,094	–2,130	–2,147	–2,137	–0.15	–0.13	–0.11	–0.09	–1.1	1.7	0.8	–0.4
Other operating income	**133**	**771**	**996**	**1,120**	**0.01**	**0.05**	**0.05**	**0.05**	**60.4**	**478.1**	**29.2**	**12.5**
NET OPERATING INCOME	**16,584**	**19,559**	**22,069**	**29,611**	**1.21**	**1.20**	**1.15**	**1.30**	**–0.9**	**17.9**	**12.8**	**34.2**
Provisioning expenses, write-downs and other (net)	**759**	**–5,170**	**–5,160**	**–4,839**	**0.06**	**–0.32**	**–0.27**	**–0.21**	**3.7**	**—**	**–0.2**	**–6.2**
Impairment losses (net)	—	–4,263	–4,732	–6,585	—	–0.26	–0.25	–0.29	—	—	11.0	39.2
Loans and receivables	—	*–4,278*	*–4,594*	*–6,315*	—	*–0.26*	*–0.24*	*–0.28*	—	—	*7.4*	*37.5*
Other	—	*15*	*–138*	*–270*	—	*0.00*	*–0.01*	*–0.01*	—	—	—	*95.1*
Provisioning expenses (net)	—	–1,952	–2,026	–2,910	—	–0.12	–0.11	–0.13	—	—	3.8	43.7
Other income (net)	—	1,099	1,672	4,734	—	0.07	0.09	0.21	—	—	52.1	183.1
Mandatory transfer to welfare funds	—	–54	–75	–78	—	0.00	0.00	0.00	—	—	37.8	4.2
PROFIT OR LOSS FOR THE PERIOD BEFORE TAXES	**12,143**	**14,390**	**16,909**	**24,772**	**0.88**	**0.88**	**0.88**	**1.09**	**19.6**	**18.5**	**17.5**	**46.5**
Income tax	**–2,417**	**–2,079**	**–2,848**	**–4,951**	**–0.18**	**–0.13**	**–0.15**	**–0.22**	**130.7**	**–14.0**	**37.0**	**73.8**
PROFIT FOR THE PERIOD	**9,726**	**12,310**	**14,061**	**19,821**	**0.71**	**0.76**	**0.73**	**0.87**	**6.8**	**26.6**	**14.2**	**41.0**
MEMORANDUM ITEMS:												
Average total assets	1,374,957	1,627,238	1,926,334	2,272,200	100.00	100.00	100.00	100.00	10.1	18.3	18.4	18.0
Average own funds (d)	85,503	99,665	114,137	123,105	6.22	6.12	5.93	5.42	7.1	16.6	14.5	7.9
Efficiency ratio (e)	—	—	—	—	57.90	55.69	54.38	48.65	—	—	—	—
Return on average equity (d)	—	—	—	—	11.38	12.35	12.32	16.10	—	—	—	—
Credit risk allowances and provisions												
Specific allowances or provisions	*–1,902*	*–3,079*	*–1,478*	*–1,731*	*–0.14*	*–0.19*	*–0.08*	*–0.08*	*–17.9*	*61.9*	*–52.0*	*17.1*
General allowances or provisions	*–3,308*	*–159*	*–3,809*	*–5,338*	*–0.24*	*–0.01*	*–0.20*	*–0.23*	*72.1*	*–95.2*	*297.1*	*40.2*
Net additions to country-risk allowances and provisions	*–3*	*0*	*105*	*–36*	*0.00*	*0.00*	*0.01*	*0.00*	*–96.1*	—	—	—

SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this table refer to institutions active at some time during 2006.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.
c. For 2004 to 2006, this item includes gains or losses on hedging derivatives as well as other gains or losses not included in the items «held for trading», «other financial instruments», «available-for-sale financial assets» and «loans and receivables». For 2003, it includes any other item that cannot be specifically allocated.
d. Includes own funds for accounting purposes excluding retained earnings; also included are declared dividends and remuneration, and valuation adjustments arising from exchange differences.
e. The efficiency ratio is defined as operating expenses divided by gross income.

MAIN MARGINS OF THE INDIVIDUAL INCOME STATEMENT FOR CIs (a) (b) TABLE 1.A.12

Data for each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Net interest income:												
Banks	15,143	15,022	14,989	18,502	1.98	1.67	1.40	1.50	1.5	-0.8	-0.2	23.4
Savings banks	12,774	12,861	14,191	16,325	2.43	2.06	1.92	1.83	6.2	0.7	10.3	15.0
Co-operatives	1,597	1,525	1,686	1,917	3.09	2.50	2.34	2.21	3.5	-4.5	10.5	13.7
SCIs	1,066	1,141	1,369	1,520	3.17	2.77	2.82	2.65	11.7	7.1	20.0	11.0
Gross income:												
Banks	19,661	22,123	23,294	28,393	2.58	2.45	2.18	2.30	-3.8	12.5	5.3	21.9
Savings banks	16,349	16,985	19,086	22,799	3.10	2.72	2.58	2.55	6.5	3.9	12.4	19.5
Co-operatives	1,960	1,953	2,164	2,462	3.79	3.21	3.00	2.84	7.5	-0.3	10.8	13.7
SCIs	1,103	1,344	1,647	1,832	3.28	3.26	3.39	3.19	13.1	21.8	22.6	11.2
Net operating income:												
Banks	8,643	11,184	11,776	16,005	1.13	1.24	1.10	1.30	-8.4	29.4	5.3	35.9
Savings banks	6,554	6,874	8,419	11,415	1.24	1.10	1.14	1.28	8.5	4.9	22.5	35.6
Co-operatives	771	725	882	1,083	1.49	1.19	1.22	1.25	7.7	-6.0	21.7	22.8
SCIs	616	777	992	1,108	1.83	1.88	2.04	1.93	12.8	26.1	27.7	11.7
Profit before tax:												
Banks	6,666	8,578	9,691	14,542	0.87	0.95	0.91	1.18	17.6	28.7	13.0	50.1
Savings banks	4,555	4,839	5,896	8,714	0.86	0.78	0.80	0.98	23.2	6.2	21.9	47.8
Co-operatives	510	466	691	747	0.99	0.77	0.96	0.86	11.2	-8.6	48.2	8.1
SCIs	412	507	631	770	1.23	1.23	1.30	1.34	25.6	23.0	24.5	22.0
Profit for the period:												
Banks	5,260	7,391	7,965	11,582	0.69	0.82	0.75	0.94	9.5	40.5	7.8	45.4
Savings banks	3,767	4,193	5,075	7,114	0.72	0.67	0.69	0.80	2.4	11.3	21.0	40.2
Co-operatives	439	402	613	657	0.85	0.66	0.85	0.76	7.5	-8.4	52.4	7.2
SCIs	260	323	409	469	0.77	0.78	0.84	0.82	19.9	24.3	26.4	14.6

SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this table refer to institutions active at some time during 2006.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.

BREAKDOWN OF THE CONSOLIDATED INCOME STATEMENT FOR CIs (a) (b) TABLE 1.A.13

Data for each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Financial income	**66,200**	**67,951**	**93,775**	**115,884**	**4.45**	**3.92**	**4.04**	**4.30**	**–14.3**	**2.6**	**38.0**	**23.6**
Interest and similar income	65,547	66,301	91,826	113,282	4.41	3.83	3.96	4.20	–14.5	1.2	38.5	23.4
Return on equity instruments	654	1,651	1,950	2,602	0.04	0.10	0.08	0.10	18.5	152.5	18.1	33.5
Financial cost	**–32,904**	**–34,134**	**–53,807**	**–69,866**	**–2.21**	**–1.97**	**–2.32**	**–2.59**	**–22.9**	**3.7**	**57.6**	**29.8**
NET INTEREST INCOME	**33,296**	**33,818**	**39,968**	**46,019**	**2.24**	**1.95**	**1.72**	**1.71**	**–3.6**	**1.6**	**18.2**	**15.1**
Of which: investment of own funds	*3,678*	*4,304*	*6,210*	*7,636*	*0.25*	*0.25*	*0.27*	*0.28*	*–7.1*	*17.0*	*44.3*	*23.0*
Non-interest income	**19,932**	**20,972**	**27,416**	**34,698**	**1.34**	**1.21**	**1.18**	**1.29**	**12.1**	**5.2**	**30.7**	**26.6**
Share of profit or loss of entities accounted for using the equity method	3,504	2,447	3,579	4,572	0.24	0.14	0.15	0.17	34.6	–30.2	46.2	27.7
Associates	–	*1,259*	*1,979*	*1,653*	–	*0.07*	*0.09*	*0.06*	–	–	*57.3*	*–16.5*
Jointly controlled entities	–	*416*	*527*	*667*	–	*0.02*	*0.02*	*0.02*	–	–	*26.7*	*26.5*
Group entities	–	*773*	*1,072*	*2,252*	–	*0.04*	*0.05*	*0.08*	–	–	*38.8*	*110.1*
Fees and commissions (net)	*13,643*	*15,187*	*18,280*	*20,793*	*0.92*	*0.88*	*0.79*	*0.77*	*0.2*	*11.3*	*20.4*	*13.7*
Collection and payment service (revenue)	*7,164*	*7,523*	*8,615*	*9,224*	*0.48*	*0.43*	*0.37*	*0.34*	*–0.3*	*5.0*	*14.5*	*7.1*
Securities service (revenue)	*3,193*	*3,612*	*2,362*	*2,631*	*0.21*	*0.21*	*0.10*	*0.10*	*–4.9*	*13.1*	*–34.6*	*11.4*
Marketing of non-banking products (revenue)	*3,092*	*3,681*	*6,486*	*7,614*	*0.21*	*0.21*	*0.28*	*0.28*	*6.7*	*19.0*	*76.2*	*17.4*
Contingent exposures and commitments (revenue)	*948*	*1,146*	*1,296*	*1,554*	*0.06*	*0.07*	*0.06*	*0.06*	*9.1*	*20.9*	*13.1*	*19.9*
Exchange of foreign currencies and banknotes (revenue)	*106*	*106*	*124*	*136*	*0.01*	*0.01*	*0.01*	*0.01*	*–18.6*	*–0.3*	*17.2*	*9.0*
Other fees and commissions (net)	*–860*	*–881*	*–604*	*–367*	*–0.06*	*–0.05*	*–0.03*	*–0.01*	*3.3*	*2.4*	*–31.4*	*–39.3*
Gains or losses on financial assets and liabilities and exchange differences (net)	*2,784*	*3,338*	*5,558*	*9,333*	*0.19*	*0.19*	*0.24*	*0.35*	*77.5*	*19.9*	*66.5*	*67.9*
Held for trading	*1,247*	*1,687*	*2,288*	*2,726*	–	*0.10*	*0.10*	*0.10*	–	–	*35.6*	*19.1*
Other financial instruments	–	*15*	*47*	*–111*	–	*0.00*	*0.00*	*0.00*	–	–	–	–
Available-for-sale financial assets	–	*2,495*	*3,505*	*5,549*	–	*0.14*	*0.15*	*0.21*	–	–	*40.5*	*58.3*
Loans and receivables	–	*93*	*249*	*110*	–	*0.01*	*0.01*	*0.00*	–	–	*168.9*	*–55.9*
Other gains or losses on financial assets and liabilities (c)	*891*	*–1,859*	*–1,253*	*142*	–	*–0.11*	*–0.05*	*0.01*	–	–	*–32.6*	–
Exchange differences	*646*	*907*	*722*	*918*	*0.04*	*0.05*	*0.03*	*0.03*	*–40.4*	*40.5*	*–20.5*	*27.1*
GROSS INCOME	**53,229**	**54,790**	**67,385**	**80,716**	**3.58**	**3.16**	**2.91**	**2.99**	**1.7**	**2.9**	**23.0**	**19.8**
Operating expenses	**–30,015**	**–31,219**	**–36,113**	**–39,018**	**–2.02**	**–1.80**	**–1.56**	**–1.45**	**–3.8**	**4.0**	**15.7**	**8.0**
Personnel	–17,242	–17,971	–20,492	–22,258	–1.16	–1.04	–0.88	–0.83	–2.2	4.2	14.0	8.6
Other administrative expenses	–9,880	–10,166	–12,454	–13,396	–0.66	–0.59	–0.54	–0.50	–5.7	2.9	22.5	7.6
Depreciation and amortisation	–2,892	–3,081	–3,167	–3,364	–0.19	–0.18	–0.14	–0.12	–6.6	6.5	2.8	6.2
Other operating income	**391**	**997**	**1,241**	**1,462**	**0.03**	**0.06**	**0.05**	**0.05**	**29.1**	**154.9**	**24.5**	**17.8**
NET OPERATING INCOME	**23,605**	**24,568**	**32,513**	**43,160**	**1.59**	**1.42**	**1.40**	**1.60**	**10.2**	**4.1**	**32.3**	**32.7**
Provisioning expenses, write-downs and other (net)	**–6,994**	**–6,682**	**–6,049**	**–6,078**	**0.17**	**–0.39**	**–0.26**	**–0.23**	**72.6**	**–**	**–9.5**	**0.5**
Impairment losses (net)	–	–5,858	–6,546	–9,100	–	–0.34	–0.28	–0.34	–	–	11.7	39.0
Goodwill impairment losses	–	*–360*	*–13*	*–73*	–	*–0.02*	*0.00*	*0.00*	–	–	*–96.3*	*449.6*
Loans and receivables	–	*–5,462*	*–6,354*	*–8,776*	–	*–0.32*	*–0.27*	*–0.33*	–	–	*16.3*	*38.1*
Other	–	*–36*	*–179*	*–251*	–	*0.00*	*–0.01*	*–0.01*	–	–	*403.0*	*39.9*
Provisioning expenses (net)	–	–2,814	–3,059	–3,700	–	–0.16	–0.13	–0.14	–	–	8.7	21.0
Other income (net)	–	2,044	3,631	6,800	–	0.12	0.16	0.25	–	–	77.7	87.2
Mandatory transfer to welfare funds	–	–54	–75	–78	–	0.00	0.00	0.00	–	–	37.8	4.2
PROFIT OR LOSS FOR THE PERIOD BEFORE TAX	**16,611**	**17,886**	**26,464**	**37,082**	**1.12**	**1.03**	**1.14**	**1.38**	**26.5**	**7.7**	**48.0**	**40.1**
Income tax	**–4,005**	**–3,464**	**–5,516**	**–9,214**	**–0.27**	**–0.20**	**–0.24**	**–0.34**	**71.2**	**–13.5**	**59.3**	**67.0**
CONSOLIDATED PROFIT OR LOSS FOR THE PERIOD	**12,606**	**14,422**	**20,948**	**27,868**	**0.85**	**0.83**	**0.90**	**1.03**	**16.9**	**14.4**	**45.2**	**33.0**
Profit or loss atributed to the group	11,543	13,604	19,835	26,483	0.78	0.79	0.86	0.98	16.3	17.9	45.8	33.5
Profit or loss atributed to minority interests	1,064	818	1,112	1,386	0.07	0.05	0.05	0.05	23.6	–23.1	35.9	24.6
MEMORANDUM ITEMS:												
Average total assets (ATA)	1,487,390	1,732,600	2,319,369	2,696,863	100.00	100.00	100.00	100.00	5.3	16.5	33.9	16.3
Average own funds of the group (d)	82,569	97,469	119,253	134,325	5.55	5.63	5.14	4.98	4.4	18.0	22.3	12.6
Efficiency ratio (e)					56.39	56.98	53.59	48.34				
Return on average equity of the group (d)					13.98	13.96	16.63	19.72				

SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this table refer to institutions active at some time during 2006.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.
c. For 2004 to 2006, this item includes gains or losses on hedging derivatives as well as other gains or losses not included in the items “held for trading”, “other financial instruments”, “available-for-sale financial assets” and “loans and receivables”. For 2003, it includes any other item that cannot be specifically allocated.
d. Includes own funds for accounting purposes excluding retained earnings; also included are declared dividends and remuneration, and valuation adjustments arising from exchange differences.
e. The efficiency ratio is defined as operating expenses divided by gross income.

MAIN MARGINS OF THE CONSOLIDATED INCOME STATEMENT FOR CIs (a) (b)

TABLE 1.A.14

Data for each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Net interest income:												
Banks	18,979	19,302	23,686	27,498	2.16	1.91	1.64	1.67	–9.2	1.7	22.7	16.1
Savings banks	12,195	12,467	13,794	15,813	2.24	1.93	1.77	1.69	4.8	2.2	10.7	14.6
Co-operatives	1,591	1,522	1,677	1,903	3.07	2.47	2.29	2.17	3.5	–4.4	10.2	13.5
SCIs	532	527	811	804	4.23	3.75	3.84	3.51	10.9	–0.9	53.8	–0.9
Gross income:												
Banks	32,270	33,704	42,714	50,511	3.67	3.34	2.96	3.06	–3.5	4.4	26.7	18.3
Savings banks	18,427	18,494	21,598	26,751	3.39	2.86	2.77	2.86	11.2	0.4	16.8	23.9
Co-operatives	1,972	1,974	2,182	2,480	3.80	3.20	2.98	2.82	8.1	0.1	10.5	13.7
SCIs	559	617	892	975	4.45	4.40	4.22	4.26	12.0	10.4	44.4	9.3
Net operating income:												
Banks	14,441	15,656	20,791	26,732	1.64	1.55	1.44	1.62	5.5	8.4	32.8	28.6
Savings banks	8,087	7,840	10,327	14,787	1.49	1.21	1.32	1.58	19.7	–3.1	31.7	43.2
Co-operatives	774	734	890	1,091	1.49	1.19	1.22	1.24	9.3	–5.1	21.3	22.5
SCIs	303	338	505	551	2.41	2.41	2.39	2.41	12.6	11.5	49.2	9.2
Profit before tax:												
Banks	10,145	11,292	17,556	23,558	1.15	1.12	1.22	1.43	23.0	11.3	55.5	34.2
Savings banks	5,763	5,892	7,852	12,359	1.06	0.91	1.01	1.32	35.7	2.2	33.3	57.4
Co-operatives	523	488	697	764	1.01	0.79	0.95	0.87	13.0	–6.7	42.7	9.7
SCIs	180	214	360	400	1.43	1.53	1.70	1.75	9.1	18.8	68.0	11.2
Consolidated profit or loss for the period:												
Banks	7,168	8,901	13,203	16,780	0.82	0.88	0.91	1.02	16.2	24.2	48.3	27.1
Savings banks	4,666	4,840	6,533	9,625	0.86	0.75	0.84	1.03	14.5	3.7	35.0	47.3
Co-operatives	290	277	409	438	0.56	0.45	0.56	0.50	32.2	–4.5	47.6	7.1
SCIs	69	81	152	169	0.55	0.58	0.72	0.74	–2.8	17.6	87.2	11.1

SOURCE: Banco de España. Data available at 9 March 2007.

a. The data in this table refer to CGs, and individual Cis not belonging to any CG, active at some time during 2006.
b. The information relating to 2003 is based on the accounting rules under CBE 4/1991, while that for 2004, 2005 and 2006 was taken from the statements reported under CBE 4/2004. Therefore, the break in the series, which it was attempted to minimise, occurs in the transition from 2003 to 2004.

SOLVENCY OF CONSOLIDATED GROUPS OF CIs (a) TABLE 1.A.15

Year-end data (€m and %)

	AMOUNT				STRUCTURE %				% ANNUAL Δ			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Own funds	**113,496**	**138,853**	**171,249**	**209,972**	**100.0**	**100.0**	**100.0**	**100.0**	**9.7**	**22.3**	**23.3**	**22.6**
Tier 1 capital	86,346	101,208	122,127	135,733	76.1	72.9	71.3	64.6	7.8	17.2	20.7	11.1
Capital stock, reserves and similar items	*80,725*	*100,544*	*117,484*	*128,016*	*71.1*	*72.4*	*68.6*	*61.0*	*4.8*	*24.6*	*16.8*	*9.0*
Preference shares	*16,091*	*19,265*	*19,310*	*22,878*	*14.2*	*13.9*	*11.3*	*10.9*	*–0.9*	*19.7*	*0.2*	*18.5*
Other tier 1 capital (b)	*–1,188*	*2,461*	*1,758*	*2,774*	*–1.0*	*1.8*	*1.0*	*1.3*	*14.1*	*–307.2*	*–28.6*	*57.8*
Consolidation goodwill	*–9,282*	*–21,061*	*–16,425*	*–17,936*	*–8.2*	*–15.2*	*–9.6*	*–8.5*	*–23.0*	*126.9*	*–22.0*	*9.2*
Tier 2 capital	31,095	40,613	63,433	84,589	27.4	29.2	37.0	40.3	14.1	30.6	56.2	33.4
Subordinated debt	*27,388*	*31,916*	*35,291*	*40,801*	*24.1*	*23.0*	*20.6*	*19.4*	*11.9*	*16.5*	*10.6*	*15.6*
Other tier 2 capital (c)	*3,708*	*8,697*	*28,141*	*43,788*	*3.3*	*6.3*	*16.4*	*20.9*	*32.6*	*134.6*	*223.6*	*55.6*
Deductions (d)	–3,945	–2,969	–14,310	–10,351	–3.5	–2.1	–8.4	–4.9	0.4	–24.8	382.0	–27.7
Requirements	**81,994**	**101,330**	**124,126**	**150,546**	**100.0**	**100.0**	**100.0**	**100.0**	**9.7**	**23.6**	**22.5**	**21.3**
Standard methods	81,390	100,723	123,566	149,855	99.3	99.4	99.5	99.5	10.0	23.8	22.7	21.3
Credit and counterparty risk	*78,071*	*97,423*	*117,085*	*142,914*	*95.2*	*96.1*	*94.3*	*94.9*	*10.1*	*24.8*	*20.2*	*22.1*
Trading book risk	*2,758*	*2,429*	*5,341*	*5,557*	*3.4*	*2.4*	*4.3*	*3.7*	*22.7*	*–11.9*	*119.9*	*4.0*
Foreign exchange and gold risk	*561*	*870*	*1,140*	*1,381*	*0.7*	*0.9*	*0.9*	*0.9*	*–33.9*	*55.1*	*31.0*	*21.1*
Commodity risk	*0*	*0*	*0*	*3*	*0.0*	*0.0*	*0.0*	*0.0*	*—*	*–3.8*	*128.0*	*560.5*
Internal models	0	206	193	299	0.0	0.2	0.2	0.2	—	—	–6.3	54.5
Additional and deduction for netting arrangements	604	401	367	392	0.7	0.4	0.3	0.3	–19.5	–33.7	–8.4	6.9
Average weight of credit and counterparty risk (%)	62.4	63.8	63.9	67.4								
Solvency ratio (%)	**11.1**	**11.0**	**11.0**	**11.2**								
Tier 1 (%)	8.4	8.0	7.9	7.2								
Core capital ratio (%) (e)	6.9	6.5	6.6	6.0								
MEMORANDUM ITEM: Other solvency ratios estimated:												
1988 Basel Capital Accord (%)	12.7	12.3	12.0	11.9								
Of which: tier 1 (%)	*8.6*	*8.1*	*8.2*	*7.6*								

SOURCE: Banco de España. Data available at 26 March 2007.

a. The 2005 information includes any adjustments made by CGs pursuant to the provision on the entry into force of CBE 2/2006.
b. Amount net of specific deductions from tier 1 capital, except for consolidation goodwill.
c. Amount net of deductions and specific eligibility limits for tier 2 capital.
d. Deductions made from total own funds.
e. The numerator of this ratio is tier 1 capital excluding preference shares.

DISTRIBUTION OF CONSOLIDATED GROUPS AND ASSETS ACCORDING TO SOLVENCY (a) TABLE 1.A.16

Year-end data

	NUMBER OF CGS				% OF ASSETS			
	2003	2004	2005	2006	2003	2004	2005	2006
Distribution according to overall solvency ratio:								
< 8%	1	1	–	–	0.0	0.0	–	–
≥ 8 and < 9 %	13	21	11	12	3.8	5.1	3.9	2.1
≥ 9 % and < 10 %	34	33	30	20	10.1	6.7	14.9	11.2
≥ 10 % and < 11 %	29	32	36	32	44.9	58.7	51.7	35.7
≥ 11 % and < 12 %	34	26	21	33	23.5	13.9	10.4	28.3
> 12%	105	103	117	114	12.3	9.4	12.9	16.2
Distribution according to tier 1 solvency ratio:								
< 5%	1	–	–	2	0.0	–	–	1.6
≥ 5 and < 6 %	1	2	5	11	0.4	1.8	2.4	5.6
≥ 6 % and < 8 %	27	31	46	52	60.5	64.7	70.6	70.5
≥ 8 % and < 10 %	64	65	52	42	25.1	19.9	14.8	10.3
≥ 10 % and < 11 %	18	18	12	15	1.5	2.1	0.9	1.7
> 11%	105	100	100	89	7.0	5.3	5.1	3.9
MEMORANDUM ITEMS:								
Institutions not subject to capital requirements (b)	52	56	60	65	5.4	6.1	6.2	6.4
Number of reporting CGs	216	216	215	211	94.6	93.9	93.8	93.6

SOURCE: Banco de España. Data available at 26 March 2007.

a. The 2005 information includes any adjustments made by CGs pursuant to the provision on the entry into force of CBE 2/2006.
b. The CIs not subject to the solvency ratio in Spain are branches of Community institutions and branches of institutions of third countries with equivalent regulations.

CAPITAL REQUIREMENTS FOR CREDIT AND COUNTERPARTY RISK OF CONSOLIDATED GROUPS OF CIs (a)

TABLE 1.A.17

End-2006 data (%)

	EXPOSURES SUBJECT TO CREDIT AND COUNTER-PARTY RISK	VALUATION ADJUS-TMENTS	ADJUSTED EXPOSURE	RISK MITIGATION TECHNIQUES				SUBSTI-TUTED AND ADJUSTED EXPOSURES	BREAKDOWN OF SUBSTITUTED AND ADJUSTED EXPOSURES OF OFF–BALANCE–SHEET ITEMS BY CONVERSION FACTOR				ADJUSTED , SUBSTITUTED AND CONVERTED EXPOSURES	RISK–WEIGHTED ASSETS	CAPITAL REQUIRE-MENTS
				AMOUNT OF RISK MITIGATION TECHNIQUES APPLIED		SUBSTITUTION EFFECT OF RISK MITIGATION TECHNIQUES									
				PERSONAL GUARANTEES	FINANCIAL COLLATERAL	INFLOWS	OUTFLOWS (–)		0%	20%	50%	100%			
Risk weights:															
0%	8.2	0.0	8.2	0.3	0.0	4.3	–0.3	12.3	0.6	0.0	0.6	0.6	11.3	0.0	0.0
10%	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0
20%	8.6	–0.1	8.5	0.3	1.1	1.7	–1.4	8.8	0.5	0.0	0.9	0.6	7.9	1.6	0.1
50%	21.0	0.0	21.0	1.4	0.0	0.2	–1.4	19.8	0.0	0.0	0.7	0.7	19.4	9.7	0.8
100%	62.1	–1.8	60.3	3.5	0.4	0.7	–3.9	57.1	7.4	0.1	8.5	3.8	45.4	45.4	3.6
TOTAL	100.0	–1.9	98.1	5.4	1.5	7.0	–7.0	98.1	8.5	0.1	10.7	5.7	84.2	56.7	4.5

SOURCE: Banco de España. Data available at 26 March 2007.

a. Standardised amounts as a percentage of total exposures subject to credit and counterparty risk.

INFORMATION PROVIDED BY NON-CONSOLIDATED MIXED GROUPS OF FINANCIAL INSTITUTIONS AND FINANCIAL CONGLOMERATES SUBJECT TO SUPERVISION BY THE BANCO DE ESPAÑA (a)

TABLE 1.A.18

Year-end data (€m and %)

	AMOUNT				STRUCTURE %				Δ ANNUAL %			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Effective own funds	84,091	104,580	146,876	188,123	100.0	100.0	100.0	100.0	11.9	24.4	40.4	28.1
Credit institutions or groups	*83,128*	*102,875*	*137,345*	*183,240*	*98.9*	*98.4*	*93.5*	*97.4*	*12.8*	*23.8*	*33.5*	*33.4*
Insurance undertakings or groups	*4,248*	*9,354*	*11,349*	*6,781*	*5.1*	*8.9*	*7.7*	*3.6*	*10.1*	*120.2*	*21.3*	*–40.2*
Deductions	*–3,284*	*–7,649*	*–1,817*	*–1,899*	*–3.9*	*–7.3*	*–1.2*	*–1.0*	*35.3*	*132.9*	*–76.2*	*4.5*
Capital requirements	62,421	79,159	105,515	136,030	100.0	100.0	100.0	100.0	11.4	26.8	33.3	28.9
Credit institutions or groups	*60,898*	*76,283*	*100,133*	*132,724*	*97.6*	*96.4*	*94.9*	*97.6*	*11.7*	*25.3*	*31.3*	*32.5*
Insurance undertakings or groups	*1,908*	*3,574*	*5,595*	*3,624*	*3.1*	*4.5*	*5.3*	*2.7*	*1.6*	*87.3*	*56.5*	*–35.2*
Deductions	*–385*	*–697*	*–212*	*–318*	*–0.6*	*–0.9*	*–0.2*	*–0.2*	*16.9*	*80.9*	*–69.5*	*49.6*
Surplus or deficit	**21,670**	**25,420**	**41,361**	**52,093**	**–**	**–**	**–**	**–**	**13.5**	**17.3**	**62.7**	**25.9**
Surplus or deficit of CGs	22,229	26,593	37,212	50,516	–	–	–	–	15.7	19.6	39.9	35.8

SOURCE: Banco de España. Data available at 26 March 2007.

a. Until 2004 the figures relate to compliance with the minimum capital requirements for mixed groups. From 2005, the figures are the aggregate of the information reported by mixed groups and that on cmpliance with the additional capital adequacy requirements for financial conglomerates. The 2005 information includes any adjustments made by financial conglomerates and mixed groups pursuant to the provision on the entry into force of CBE 2/2006.

APPRAISAL COMPANIES AND SERVICES

TABLE 1.A.19

Key data for each year (a)

	2003	2004	2005	2006	% ANNUAL Δ
Operational appraisal companies (number)	65	58	58	56	–3.4
DI appraisal services (number)	3	3	3	3	0.0
Number of appraisers	8,627	9,389	9,958	9,888	–0.7
Of which: associate appraisers	*554*	*523*	*526*	*555*	*5.5*
Number of appraisals performed (thousands)	**1,411**	**1,630**	**1,820**	**1,802**	**–1.0**
Of which:					
Complete buildings for residential use (b)	43	42	48	53	10.4
Of which: primary residence (b)	…	*39*	*44*	*49*	*11.4*
Dwellings (c)	1,151	1,290	1,434	1,411	–1.6
Of which: part of larger building (c)	…	*939*	*1,038*	*1,021*	*–1.6*
Commercial premises	69	76	90	78	–13.3
Commissioned by banks	487	548	555	526	–5.2
Commissioned by savings banks	682	770	906	915	1.0
For provision of mortgage collateral	1,321	1,538	1,719	1,713	–0.3
Amount of appraisals performed (€m)	**445,973**	**574,815**	**747,021**	**862,344**	**15.4**
Of which:					
Complete buildings for residential use (b)	100,348	129,879	155,060	192,770	24.3
Of which: primary residence (b)	…	*115,136*	*140,021*	*176,220*	*25.9*
Dwellings (c)	198,111	249,383	313,983	345,829	10.1
Of which: part of larger building (c)	…	*161,789*	*202,228*	*223,071*	*10.3*
Commercial premises	17,042	21,118	28,908	25,319	–12.4
Commissioned by banks	133,457	166,885	193,741	215,812	11.4
Commissioned by savings banks	209,662	264,313	346,972	398,850	15.0
For provision of mortgage collateral	388,509	505,676	634,637	746,981	17.7
Floor area in thousands of m2					
Complete buildings for residential use (b)	84,308	93,712	100,811	115,636	14.7
Of which: primary residence (b)	…	*84,184*	*92,014*	*106,497*	*15.7*
Dwellings (c)	151,992	156,692	175,933	172,165	–2.1
Of which: part of larger building (c)	…	*89,437*	*99,307*	*96,856*	*–2.5*
Appraisal companies					
Total assets (€m)	172.1	207.4	243.8	276.8	13.5
Of which: profit (€m)	*30.7*	*41.4*	*54.4*	*61.7*	*13.4*
ROE (%)	49.3	63.4	76.3	73.3	–3.9

SOURCE: Banco de España. Data available at 17 April 2007.

a. Data refer to the institutions existing as at end-December each year.
b. Includes those for residential use that are finished or under construction, taking their expected value upon completion. From 2004, information is available that enables buildings used as a primary residence to be distinguished from those used as a secondary residence, these categories including those buildings that because of their characteristics and location are most likely to be used as a habitual or temporary residence, respectively.
c. This refers to dwellings as individual elements of buildings, including single-family buildings. The information available from 2004 enables dwellings that form part, or are elements, of a building to be distinguished from those known as single-family buildings.

MUTUAL GUARANTEE COMPANIES

TABLE 1.A.20

Year-end data

	2003	2004	2005	2006	% ANNUAL Δ
Operational entities (number) (a)	23	23	23	23	4.3
Patron and participating members (number)	69,742	75,514	80,670	86,492	7.2
Of which: participating members	*69,010*	*74,783*	*79,931*	*85,746*	*7.3*
Financial items (€m)					
Balance sheet total	447	509	582	705	21.0
Outstanding exposure on guarantees	2,852	3,329	3,967	4,853	22.3
Non–reguaranteed exposure	*1,606*	*1,895*	*2,327*	*2,911*	*25.1*
Reguaranteed exposure (assigned)	*1,246*	*1,434*	*1,641*	*1,941*	*18.3*
Outstanding exposure on guarantees by economic sector:					
Primary	*77*	*91*	*98*	*122*	*24.4*
Industrial	*858*	*933*	*1,005*	*1,114*	*10.8*
Construction	*453*	*537*	*613*	*750*	*22.5*
Tertiary	*1,441*	*1,745*	*2,229*	*2,842*	*27.5*
Doubtful assets and guarantees (b)	134	177	227	271	19.2
Of which: non–reguaranteed	*73*	*97*	*116*	*136*	*17.4*
Own funds	163	178	198	262	31.9
Net technical provisions	176	202	228	271	18.7
Provision for bad debts	29	35	36	42	16.1
Turnover in the year (€m)					
Guarantees requested	1,772	2,150	2,404	3,176	32.1
Guarantees provided	1,342	1,704	2,015	2,665	32.3
Guarantees formalised	1,256	1,495	1,809	2,259	24.9
Ratios (%)					PP ANNUAL Δ
Weight of members participating in capital	55.84	58.45	61.81	59.14	–2.67
Doubtful assets and guarantees/exposure	4.28	4.84	5.27	5.11	–0.16
Doubtful assets and guarantees/exposure. Non–reguaranteed	3.85	4.39	4.33	4.05	–0.28
Guarantee commissions as % of total exposure	0.98	0.97	0.96	0.97	0.01
Guarantee commissions as % of total exposure, net of reguarantees	1.74	1.69	1.61	1.59	–0.02

SOURCES: Banco de España and CESGAR for number of members. Data available at 22 March 2007.

a. The register includes one company that is inactive and in the process of being liquidated.
b. Doubtful assets and guarantees are presented net of commissions received not included in profit and loss, of capital disbursed by the holder and of monetary contributions received specifically for covering exposures.

CURRENCY EXCHANGE BUREAUX AND MONEY TRANSFER AGENCIES

TABLE 1.A.21

Key year-end data, unless otherwise indicated

	DECEMBER			SEPTEMBER	
	2003	2004	2005	2005	2006
Number of licensed establishments	**2,664**	**2,575**	**2,336**	**2,387**	**2,374**
Foreign currency purchasing (Buy group)	2,609	2,517	2,279	2,329	2,315
Main activity	*255*	*548*	*199*	*198*	*201*
Non-core activity	*2,345*	*2,269*	*2,080*	*2,131*	*2,114*
Foreign currency buying and selling (B/S group)	15	15	14	14	14
B/S and transfers (B/S/T group)	40	43	43	44	45
B/S and transfers by immigrants or for living expenses	*35*	*38*	*38*	*39*	*40*
B/S and transfers of all types	*5*	*5*	*5*	*5*	*5*
Currency transactions from the beginning of the year (€m)					
Purchases from customers	1,570	1,505	1,407	1,106	992
Sales to customers	90	79	68	51	55
Purchases from other currency exchange bureaux or from CIs	42	44	43	33	29
Sales to other currency exchange bureaux or to CIs	1,532	1,477	1,390	1,096	971
Transfers dispatched	2,821	3,423	4,015	2,847	3,864
Transfers received	224	213	211	160	150
				JUNE	
Balance sheet and income statement of B/S and B/S/T groups (€m)					
Capital y reserves	65	70	86	74	91
Income from main activity	151	178	187	81	102
Other information on B/S and B/S/T groups (number)					
Branches	191	173	191	180	188
Salaried employees	1,377	1,485	1,578	1,540	1,584
Agents	4,968	6,483	7,876	6,863	8,791
Of which: individuals	*2,826*	*3,900*	*4,921*	*4,166*	*5,632*
Premises on which agents conduct business	6,754	8,649	18,725	16,854	18,248

SOURCE: Banco de España. Data on licensed proprietors available at 27 April 2007. Other data available at 27 February 2007.

2 Exercise of supervisory functions in 2006

In 2006 the Banco de España did not have to take any precautionary measures with respect to the supervised institutions, it being sufficient with the ongoing off-site and on-site supervision exercised under the Law of Autonomy of the Banco de España (LABE) and the existing prudential regulations.

After the initial year of application, 2006 saw the new accounting rules — the European Union regulations on International Accounting Standards and the Banco de España Circular CBE 4/2004 of 22 December 2004 — fully in place. The new accounting framework of the international financial reporting standards, to which the institutions, supervisors and markets have had to adapt, now has a sufficiently long track record to consider that the process is complete. The period of adaptation to the far-reaching changes introduced by the accounting rules went satisfactorily and without incidents calling for comment.

The other major regulatory change in train is the adoption of the new Capital Framework known as Basel II, which was approved in June 2004 by the Basel Committee for Banking Supervision (BCBS). The final text of the new European Union legislation is set out in Directives 2006/48/EC and 2006/49/EC, adopted by the Council and the European Parliament on 14 June 2006 and amending, respectively, Directive 2000/12/EC relating to the taking up and pursuit of the business of credit institutions and Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions. The EU directive transforming Basel II (minimally) not only affects the large international banks, but applies to all credit institutions.

The new European regulations will in turn be transposed into Spanish law in 2007 for full application in 2008. The institutions and the Banco de España have been working to implement the new rules since the essential features of the model became known. The new framework offers a broad range of alternatives for measuring Pillar 1 risks that the institutions can use according to their capacity, strategy, needs and risk profile, provided they obtain the authorisation of the Banco de España. Hence, in addition to the standard methods of calculating the minimum capital requirements for credit, market and operational risk, internal models can be used to measure these same risks for the purpose of determining capital requirements.

To implement the so-called "advanced approaches", certain extremely rigorous quantitative and qualitative requirements have to be met. In other words, there is an incentive to develop sound risk measurement procedures and to make effective and proven use of the techniques applied in an institution's management. Given the complexity of these approaches, the involvement of different areas of the institutions and the amount of information needed, it is vital for certain checks and assessments to be conducted by the institution itself and by the supervisor.

Consequently, 2006 was a year characterised by attention to the process of supervisory prevalidation of the advanced internal models. This effort to validate and review the parallel calculations of institutions is being continued this year. Like the Banco de España, the financial groups currently engaged in validation processes are devoting considerable resources to these processes, which, in this first stage, will terminate in December 2007.

The rest of this chapter deals with various matters relating to the exercise of supervisory activity by the Banco de España in 2006. First, a brief description is given of the supervisory actions carried out, indicating the supervised institutions, the on-site inspections made and the personnel of the Directorate General Banking Supervision, along with an enumeration of the requirements and recommendations letters sent to the institutions as a result of these actions. Second, the events stemming from the exercise of sanctioning powers in 2006 are explained and the number of proceedings initiated and of proceedings resolved is indicated for each type of infringement. Third, reference is made to the Banco de España's other supervisory functions (e.g. those relating to rules regulating the transparency of banking transactions and providing for the protection of customers' interests in their dealings with institutions, and the keeping of official registers). Finally, under the heading of supervisory policies, two subjects of particular importance are addressed: business continuity and the implementation of the Capital Requirements Directive in Spain.

2.1 Supervisory activity: remote analysis and on-site inspections

At 31 December 2006, the Banco de España had under its supervision a total of 496 institutions of a diverse nature, of which 355 were credit institutions. Additionally, the Bank has supervisory responsibilities for 115 foreign credit institutions limited to its capacity as consolidated supervisor of groups headed by a Spanish credit institution.

The Banco de España's ongoing supervision of the aforementioned institutions consists of a system of permanent monitoring and analysis of their situation, supported by an intense programme of information checking in on-site inspections. In 2006 it made 177 inspection visits, including those commenced before the beginning of the year, of which 96 were underway at 31 December 2006, as detailed in Table 2.1.

In supervisory planning, two types of inspection visits are distinguished: overall ones and those limited to certain matters. Overall inspections are intended to obtain up-to-date, reasonably complete information on all aspects of an institution or group that is relevant from the supervisory standpoint. Partial inspections have a limited scope and seek to obtain sufficient knowledge of one or more areas of the institution or group (e.g. loan portfolio or the treasury or custody activity) or to monitor specific matters (e.g. the degree of compliance with requirements previously formulated by the Banco de España, the relevant circumstances for the year-end closing of accounts, etc.).

To carry out the actions described above, the Banco de España's Directorate General Banking Supervision employed 416 persons as at 31.12.2006, as detailed in Annex 2.4. According to overall estimates, they spent 54% of their time on ongoing analyses of institutions, 38% on on-site inspections and 8% on other functions such as internal counselling, participating in the design of supervisory policy, attending international fora and carrying out other supervisory support tasks.

As a result of the knowledge acquired in the ongoing supervision of institutions, the Banco de España is capacitated to take various types of measures envisaged in law, such as: i) recommendations and requirements; ii) approval of restructuring plans; iii) initiation of proceedings to sanction institutions and their board of directors and management; and iv) intervention or director-replacement measures.

The next section of this Report refers to the exercise of sanctioning power over supervised institutions and gives details of the proceedings initiated in the year. In 2006 no precautionary measures needed to be taken with respect to the supervised institutions, so the section focuses on summarising the recommendations and requirements that in 2006 were sent to credit institutions and other supervised firms in letters relating to different aspects of their activity.

SUPERVISORY ACTIVITY IN 2006: ON-SITE INSPECTIONS TABLE 2.1

	INSPECTION VISITS	
	COMPLETED	UNDERWAY
Credit institutions	**69**	**80**
Banks	36	37
Savings banks	11	21
Credit co-operatives	10	12
Foreign branches	1	2
EU credit institutions	*1*	*2*
Specialised credit institutions	11	8
Other institutions	**12**	**16**
Appraisal companies	2	6
Mutual guarantee companies	3	5
Currency exchange bureaux and money transfer agencies	7	5
TOTAL	**81**	**96**

SOURCE: Banco de España.

The requirements and recommendations that the Banco de España considers it appropriate to notify to the supervised institutions are measures intended to remedy observed deficiencies or non-compliances with prudential regulations and resolve internal control and management defects, with the ultimate purpose of improving the risk profile of credit institutions and thus contributing to the stability of the Spanish financial system.

In 2006 the Banco de España sent a total of 97 recommendation and requirement letters to institutions either in an individual capacity or as the heads of consolidated groups. In the latter case, the observations may refer to more than one institution in the group and to the consolidated group as a whole. The letters are listed in Table 2.2 by type of supervised institution.

These 97 letters contained a total of 423 recommendations and requirements. In terms of amount, matters relating to credit risk continued to be the most significant, with a total of 145 requirements and recommendations referring basically to the proper management, classification and provisioning of credit risk. These letters were used to inform institutions of, among other things, the Banco de España's observations regarding mortgage portfolio risk.

The appropriate management by institutions of all their risks and the improvement of internal control procedures are matters of constant interest in the Banco de España's supervision and they gave rise to a total of 95 recommendations or requirements in the year. Meanwhile, the strict monitoring of compliance with solvency rules gave rise to 30 observations.

A total of 61 recommendations were aimed at compliance by institutions with other mandatory rules. They included most notably 22 relating to the reporting of risk exposures to the Banco de España's Central Credit Register and 29 relating to accounting matters.

On 31 occasions the Banco de España called institutions' attention to proper compliance with regulations on consumer and user protection and, in general, on transparency in transactions with customers.

SUPERVISORY ACTIVITY IN 2006: LETTERS SENT TO SUPERVISED INSTITUTIONS TABLE 2.2

	LETTERS SENT TO INSTITUTIONS
Credit institutions	**80**
Banks	24
Savings banks	14
Credit co-operatives	20
Foreign branches	9
EU credit institutions	*4*
Non-EU credit institutions	5
Specialised credit institutions	13
Other institutions	**17**
Appraisal companies	5
Mutual guarantee companies	4
Currency exchange bureaux and money transfer agencies	8
TOTAL	**97**

SOURCE: Banco de España.

The remainder, amounting to 48 requirements or recommendations, related to different aspects of the activity of the supervised institutions and to compliance with diverse regulations applicable to them. They gave rise, where applicable and depending on the nature of the deficiencies detected, to the appropriate communications to the Spanish National Securities Market Commission (CNMV) and to the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC) within the framework of the co-operation agreements entered into by the Banco de España with these two institutions.

2.2 Exercise of the sanctioning power during 2006

The supervisory function attributed by the Spanish legal system to the Banco de España includes the exercise of sanctioning power. The exercise of this power as the most significant expression of administrative disciplinary action is reserved for the restraint of conduct constituting a major infringement of sectoral regulations.

Sanctioning power depends not only on the principle of material legality, whereby unlawful behaviour and the resulting penalties are specified by law, but also on the principle of procedural legality, whereby the government necessarily has to follow certain rules. This latter principle means that to impose a sanction for an act constituting an infringement defined as such, all the related steps must conform to the legally established procedure.

The sanctioning procedure in the Law of Discipline and Intervention of Credit Institutions specifically provides for the application of the aforementioned principles to financial and credit sector law, the supervision of which is entrusted to the Banco de España.

The exercise of this sanctioning power in the area of competence of the Banco de España thus has the purpose of correcting, by disciplinary means, any conduct and acts of supervised institutions, or of their directors or senior management, not complying with banking regulation and disciplinary rules.

Proceedings initiated in 2006

As regards *sanctioning procedures initiated* in 2006, the Banco de España initiated 17 proceedings against supervised institutions and, in unison with these, 46 proceedings against

PROCEEDINGS INITIATED BY THE BANCO DE ESPAÑA

TABLE 2.3

INSTITUTIONS	2003	2004	2005	2006
Banks	3	–	1	1
Branch of EU foreign credit institutions	–	–	–	1
Savings banks	–	–	1	–
Owner of significant holdings in credit institutions	1	–	–	–
Non-compilance with ECB minimum reserve requirements	4	4	3	5
Use of names or pursuit of activities reserved for credit institutions	–	2	–	–
SCIs	2	–	–	1
Appraisal companies	3	1	5	2
Appraisal companies revocations	–	–	1	–
Currency-exchange bureaux	8	4	5	5
Unauthorised currency-exchange bureaux	3	2	–	2
Currency-exchange bureaux revocations	–	183	163	1
Total	**24**	**196**	**179**	**18**

SOURCE: Banco de España.

their directors or senior management. In particular, perusal of the different types of institutions subject to sanctioning activity shows that disciplinary proceedings were opened against one commercial bank, one branch of an EU credit institution, one specialised credit institution, two appraisal institutions, five currency-exchange bureaux and two unauthorised currency-exchange bureaux, and, lastly, five proceedings were conducted for non-compliance with the ECB minimum reserve ratio.

These figures are similar to those of previous years and represent a firming of the recent trend in disciplinary action against both the supervised institutions that commit administrative infringements and the directors or senior management of those institutions. Also, as in previous years, the above information also continues to reflect the range of institutions against which sanctioning proceedings have been opened, which includes commercial banks, branches of credit institutions, specialised credit institutions, appraisal institutions and currency-exchange bureaux.

Proceedings resolved in 2006

The sanctioning proceedings resolved by the Banco de España in 2006 comprised a total of 18 proceedings against supervised institutions and 56 against their directors or senior management. As for the type of infringement found to have been committed in the proceedings conducted and resolved in this period, the competent authorities imposed sanctions, on the one hand, on supervised institutions for the commission of 13 very serious infringements, 33 serious ones and 13 minor ones and, on the other hand, on directors and senior management of the same for the commission of 39 very serious infringements and 132 serious ones, with 2 proceedings having been dismissed. Also imposed were 5 sanctions due to non-compliance with the ECB minimum reserve ratio.

Proceedings to withdraw authorisation brought against supervised institutions

Along with the sanctioning activity in the strict sense, and as a result of the evident links and similarity to it, this section also includes data on the initiation, processing and resolution of the proceedings to withdraw authorisation brought against supervised institutions. One proceeding was initiated and resolved in this respect in 2006 to withdraw authorisation to carry on the professional activity of foreign currency exchange in establishments open to the public, as a consequence of the application by the bureau itself for deregistration from the official register.

PROCEEDINGS RESOLVED, BY TYPE OF INFRINGEMENT TABLE 2.4

	NUMBER OF PROCEEDINGS	SANCTIONING PROCEDURES					OTHER PROCEEDINGS				
		INFRINGEMENT									
		VERY SERIOUS	SERIOUS	MINOR	PROCEEDING DISMISSED	PROCEEDING SUSPENDED	NON-COMPILANCE WITH ECB MINIMUM RESERVE REQUIREMENTS	RESERVED NAME/ ACTIVITY (ARTS. 28-29 LDI)	APPRAISAL COMPANY REVOCATIONS (RD 775/97)	UNAUTHORI-SED CURR. EXCH. BUREAUX	CURR. EXCH. BUREAUX REVOCATIONS
Proceedings against institutions											
2003	20	9	35	5	2		4	3		3	
2004	75	16	73	14			4	2			53
2005	232	5	16	2			3	1	1	1	220
2006	18	13	33	13			5				1
Proceedings against particular directors of such institutions or individual currency exchange bureaux proprietors											
2003	42	59	131		3	2					
2004	70	61	199					1		1	10
2005	87	14	47		2						63
2006	56	39	132		2						

SOURCE: Banco de España.

This last proceeding can be considered to complete the process of regularisation which commenced in this market sector in 2004 and enabled the deregistration of 347 inactive establishments not engaging in the activity of foreign currency exchange for which they had obtained the required authorisation and had thus been entered in the Banco de España registers.

As regards the subject matter of the sanctioning proceedings resolved in 2006, the main features of the infringements committed are described and classified below by nature and gravity of the infringements sanctioned.

Very serious infringements

Very serious infringements were found to have been committed in 1 proceeding conducted against an entity that owned a significant holding; in 3 proceedings against appraisal companies and their respective directors and/or senior management and, finally, in two proceedings against currency-exchange and money-transfer bureaux and their directors and/or senior management.

Infringements by the owners of significant holdings

In the proceeding conducted against an entity that owned a significant holding, 1 very serious infringement consisting of the acquisition of a significant holding in violation of Title VI of the Law of Discipline and Intervention of Credit Institutions was found to have been committed. Also, in this proceeding it was resolved to dismiss and suspend the proceeding against two individuals who similarly owned a holding of this nature.

Appraisal companies' infringements

3 appraisal companies and their 6, 4 and 3 directors were sanctioned for the commission of a very serious infringement derived from non-compliance with the requirement for authorisation to exercise the activity of appraisal, consisting of having an organisation, resources and internal control system required under the sectoral regulations. In addition, the infringement consisting of failure to meet the authorisation condition of holding the minimum required percentage of fully paid capital (i.e. the amount of own funds falls below that required minimum paid-in capital) was found in the proceedings against those three institutions and 6, 3 and 3 of their respective directors. Finally, in one proceeding against one of the aforementioned institutions and three of their directors (the chairman-CEO and two other board mem-

bers), it was found that, in addition to one of the aforementioned infringements, there were two other very serious infringements, the first consisting of resistance to or refusal of the inspection tasks entrusted to the Banco de España and the second of insufficient insurance coverage against liability.

Infringements of currency-exchange and money-transfer bureaux

Very serious infringements were found in two proceedings against currency-exchange and money-transfer bureaux.

In the two proceedings against these establishments and, respectively, 3 and 2 directors and/or senior managers, penalties were imposed for the very serious infringement consisting of non-compliance with the obligations in respect of external audit of the institution's annual accounts. The circumstances found during these proceedings warranted in both cases the imposition of the sanction of withdrawal of authorisation to carry on the activity of currency exchange and money transfer, and of the sanction of disqualification from serving as a director or manager in any currency-exchange bureau or in the financial sector for three years in the case of the three directors in the first proceeding and for two years in the second proceeding.

In the proceeding against one of these establishments, its sole director and an attorney thereof, it was found that, in addition to the aforementioned very serious infringement, there were another two of the same nature for the keeping of accounting records with fundamental irregularities preventing the establishment's net worth and financial position from being known, and for the failure to report to the competent administrative body such data or documentation as must be sent to it or may be required by it in the exercise of its functions, or the lack of veracity in such reports when it hinders the determination of the establishment's financial position. These infringements warranted the imposition of the respective sanctions of withdrawal of authorisation to carry on the activity of currency exchange and money transfer, and two sanctions of disqualification from serving as a director or manager in any currency-exchange or financial-sector institution for a period of two years as either its sole director or its attorney.

The seriousness of the conduct found, the close relationship between the sanctioned acts and the bureau's solvency, and the means envisaged in the sectoral regulations to enable its supervision and control warranted application to the various offenders and, in particular, to the bureau, of the heaviest penalties envisaged by Spanish law and the consequent inability to continue operating in the market.

Serious infringements

The serious infringements sanctioned encompass an extensive and varied range of conduct largely dependent on the nature of the offending institution. For the purpose at hand, they can however be divided into four broad categories. First, conduct having to do with the solvency of institutions; second, that relating to the technical compliance of institutions' activities with the applicable legislation; third, infringements concerned with transparency in relations with customers; and finally, the fourth category comprises conduct relating to compliance with current accounting rules and/or failure to report adequately to the Banco de España as a fundamental element in supervisory activity.

Solvency-related infringements

The first of these four broad categories of serious infringement, which is characterised by inappropriate practices by institutions that directly or indirectly affect their solvency, includes the proceedings against five currency-exchange and cross-border money-transfer bureaux and their directors and/or senior managers (7, 3, 2, 5 and 2, respectively) for the following conduct:

1. Non-compliance with the rules regulating the minimum capital of these establishments, since it was established that their own funds were below the minimum level required to retain the authorisation (proceedings against three bureaux and their 7, 3 and 2 directors and/or senior managers).

2. Non-compliance with the rules regulating insurance against liability. This requirement is aimed at protecting bureaux against any contingency that may directly or indirectly affect their own funds (conduct present in the 5 proceedings against this type of institution and their directors and/or senior management resolved in 2006, which gives an idea of the considerable non-compliance with sectoral regulations in this connection).

Technical infringements

The second category of serious infringements relates to whether the activities of the supervised institutions are in technical compliance with the applicable legislation. Although this category covers a wide and varied range of types of conduct, they can however ultimately be grouped under this single heading as they all involve failure to comply with the rules that technically define what is meant by the fitting and prudent pursuit of activity.

In the proceedings against currency-exchange and cross-border money-transfer bureaux and their senior officers, the following serious infringements were found to have been committed:

1. Non-compliance with rules on the documentation and recording of cross-border money transfers or on customer identification. For this reason, sanctions were imposed on 4 bureaux and their directors and/or senior managers (2, 7, 5 and 3, respectively)

2. Non-compliance with the rules regulating the agents and correspondents of bureaux and, in particular, with those regulating the entry into agreements with such agents, due to a failure to observe certain of the regulatory requirements. This non-compliance appears in the 3 proceedings against these bureaux and their 2, 3 and 2 directors and/or senior managers, respectively.

3. Non-compliance consisting of the performance of activities outside the scope of the exclusive corporate purpose, which diverts personal and human resources used in the activity of currency exchange and cross-border money transfer to other unauthorised activities and is not permitted by the regulations (sanctions imposed on two bureaux and on 7 and 5 directors and/or senior managers, respectively).

Meanwhile, in the case of proceedings against appraisal companies and their directors and/or senior management, there were found to be serious infringements consisting of the issuance of appraisal certificates or reports which contained inaccuracies and, in particular, a lack of concordance with the data and evidence obtained in the valuation activity performed and/or which departed, without saying so expressly, from the procedures, checks and instructions envisaged in the applicable legislation (sanctions on 4 bureaux and on 3, 4, 6 and 3 directors and/or senior managers, respectively).

Transparency related infringements

The third broad group into which serious infringements have been divided consists of failure by supervised institutions to comply with transparency requirements in their relations with customers. This group is unquestionably becoming an increasingly significant concern of supervisory authorities, which must focus on reconciling the strict solvency requirements placed on institutions with the most scrupulous respect for the rights of the customers of supervised institutions.

This type of infringement was found in the proceedings against 4 currency-exchange and cross-border money-transfer bureaux and their directors and/or senior managers (7, 3, 5 and 2 respectively).

Accounting and reporting infringements

The fourth category into which the various serious infringements sanctioned in 2006 have been classified is that of conduct relating to compliance with current accounting rules and/or failure to report adequately to the Banco de España.

In 2006 sanctions were imposed on 1 savings bank and on 16 directors and/or senior managers in it for non-compliance with current rules on accounting and on preparation of balance sheets and income and other financial statements to be compulsorily reported to the competent administrative authority.

As regards currency-exchange and cross-border money-transfer bureaux, non-compliances classifiable in this group were also found. As a result, sanctions were imposed on 2 bureaux and on their 3 and 7 directors and/or senior managers, respectively, for the infringement consisting of inaccuracy in the data or documentation that must be sent to the competent administrative body in the exercise of its duties. Also, 1 bureau and 5 directors and/or senior managers were sanctioned for non-compliance with current rules on accounting and on preparation of balance sheets and income and other financial statements that have to be reported to the competent administrative authority.

Finally, 4 appraisal companies and their 3, 6, 3 and 3 directors and/or senior managers, respectively, were sanctioned for failure to report data that has to be sent to the Banco de España.

Minor infringements

Lastly, as mentioned above, 13 sanctions were imposed for minor infringements in 2006. Under the Law of Discipline and Intervention of Credit Institutions, these can only be committed by supervised institutions and not by their senior officers. Such infringements are, by their very nature, limited to isolated or scantly significant non-compliances that cannot be classified as serious infringements.

Minimum reserve infringements

Five infringements consisting of non-compliance with the obligation of credit institutions to maintain a certain level of minimum reserves established by the Governing Council of the European Central Bank in accordance with Article 19 of the Statute of the European System of Central Banks and of the European Central Bank, were found to have been committed in the appropriate proceedings brought and resolved by the European Central Bank, which were heard by the Banco de España.

Finally, the numbers of sanctioning proceedings initiated and resolved in 2006 were the same as in previous years and no significant differences were seen in this connection.

2.3 Other supervisory activities of the Banco de España

2.3.1 FEE AND COMMISSION CHARGES

Freedom in setting the prices of bank services entails the obligation to draw up a brochure of fee and commission charges. This brochure sets the fees and commissions, as well as the valuation conditions and chargeable expenses, i.e. the maximum amounts applicable, the item to which they relate and terms of their application in the transactions and services which banks habitually provide. This brochure is to be available at all times to customers and, since 2001, can also be consulted on the Banco de España website. In the case of regular services, the charges have to be included in the brochure before they can be applied to the product or transaction concerned.

The Banco de España is responsible for checking and registering the brochure that includes these charges and for checking any changes thereto. Such checking does not, however, include securities transactions unless they relate to the Public Debt Book-Entry Market.

Checking is restricted by law to verifying that the brochure reflects maximum prices and the conditions governing their application in an orderly, clear and comprehensible fashion.

The main development in this verification process in 2006 arose as a result of the changes made to the National Electronic Clearing System (known by its Spanish acronym "SNCE" and managed by the private-sector company Iberpay). The reason for these changes was to bring into line with international banking practices the way in which a part of the transfers sent via this system is handled, all within the process of creation of a single euro payments area (SEPA).

The aim of creating a single euro payments area is to enable transactions to be conducted throughout the whole euro area with the same ease, safety and cost currently available in the national environment, so as to virtually wipe out the current distinction between national and cross-border payments.

Until recently, the SNCE only allowed domestic transfers in which the fees/commissions and expenses were borne by the originator of the transaction. However, international transfers have been allowing the originator to decide whether the transaction fees/commissions and expenses are to be borne by him, by the beneficiary or shared between them such that each pays what is charged by his own bank. This is the practice in most EU countries and is also that in the SEPA.

Hence, since 17 October 2006 the SNCE has been technically prepared to handle transfers in which the originator indicates a way of sharing fee/commission payments that differs from the traditional one. This new system does not, for the time being, affect transfers made for the purpose of paying wages, pensions or other benefits, tax refunds and other similar payments.

In the framework of the current pricing freedom legislated for fee and commission charges in Spain, this change means that institutions can charge fees and commissions for the payment of a transfer received when its originator has indicated that the fees/commissions and expenses are shared between him and the beneficiary of the transfer.

As a result of these changes, some institutions have included in their brochure of fee and commission charges a fee for receiving certain transfers in which the originator has specified that the expenses are to be shared with the beneficiary, i.e. that he only wishes to bear the expense of the service provided by the institution in which he has his account. They have also included different amounts for outward transfers depending on whether the originator decides to bear all the fees/commissions and expenses or to share them with the beneficiary.

The Banco de España, in the performance of its work of checking and registering brochures of fee and commission charges, which does not allow it to intervene in the services for which a price is charged or in their price, has established the following criteria regarding these new fees and commissions:

FEE AND COMMISSION CHARGES TABLE 2.5

Number. Yearly data

	TOTAL				BANKS				SAVINGS BANKS			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Cases examined	1,384	1,264	1,255	1,172	573	526	535	425	424	402	437	402
Decisions (a)	987	1,008	1,014	903	372	370	398	298	301	354	359	334
Approvals	*287*	*393*	*426*	*412*	*85*	*131*	*173*	*156*	*97*	*137*	*158*	*151*
With objections	*700*	*615*	*588*	*491*	*287*	*239*	*225*	*142*	*204*	*217*	*201*	*183*
Objections formulated	3,183	2,003	1,420	1,568	1,293	845	510	391	1,055	651	460	547
	CREDIT CO-OPERATIVES				SCIs				SECURITIES-DEALER COMPANIES AND CEBs			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Cases examined	257	222	220	244	55	55	36	51	75	59	27	50
Decisions (a)	204	200	200	179	52	45	33	48	58	39	24	44
Approvals	*54*	*89*	*71*	*61*	*20*	*16*	*12*	*23*	*31*	*20*	*12*	*21*
With objections	*150*	*111*	*129*	*118*	*32*	*29*	*21*	*25*	*27*	*19*	*12*	*23*
Objections formulated	614	367	360	488	130	83	51	88	91	57	39	54

SOURCE: Banco de España.

a. A single decision may correspond to several cases.

– The inclusion of fees and commissions for services that so far had been provided without charging a unit cost to the customer, as in the case of the service of receiving a domestic transfer and paying it to the beneficiary, should be carried out in such a way they it does not increase the overall cost for transfers. Hence the amount to be collected by an institution for the aggregate fees for sending and receiving a transfer with an option to share costs should not exceed the charge for a transfer in which the fees are borne by the originator alone.

– Also, when fees and commissions are set for the payment of a transfer received, they should tend to be charged as a fixed amount and not as a percentage of the amount of the transfer received, so as to better reflect the nature of the service to be provided. Nevertheless, should a percentage of the transfer amount be charged, an absolute maximum should be set as an assurance to customers that they will not be charged an amount that is out of proportion with the service received.

– In this same vein, the overall services relating to a given single category of transfers (in this case the inclusion of an option to share costs) should be treated consistently so that, for example, there is a limit on the maximum amount that an originator can be charged for a transfer with this option.

It should be pointed out that these fees and commissions, like all those included in the brochures of charges, are maximum amounts. Their inclusion in these brochures does not constrain the freedom of bank customers to negotiate individually or collectively with institutions the fees or commissions to be applied.

At the end of 2006, there were still few institutions charging these new fees (6 credit co-operatives, 1 savings bank and 1 commercial bank), but their number has increased during the first quarter of 2007, mostly in credit co-operatives and savings banks.

Regarding other changes to brochures, as has been the case in recent years, the absence of regulatory changes requiring these brochures of charges to be adjusted by all institutions explains why the number of cases examined is similar to, albeit slightly less than, that of the two preceding years. However, the growing importance of fees and commissions in transaction cost-benefit terms means that, as has become usual in the last few years, this number still remains higher than the levels usual up to 2002 (around 1,000 cases).

The smaller number of proposed changes was naturally reflected directly in the number of letters containing observations (491 in 2006, compared with 588 in 2005), and, although the number of observations grew slightly with respect to last year, most of them related to mere formalities.

As mentioned above, the number of cases presented was somewhat smaller than in the previous year, reflecting a decrease in the proposals made by commercial and savings banks and a slight increase in those presented by other institutions.

2.3.2 ADVERTISING

The function assigned to the Banco de España in this area is the authorisation, prior to publication, of credit institutions' advertising projects that refer to the cost or return to the public of the services or products offered.

This authorisation, which is unique among our peer countries (where self-regulation usually plays a greater role), is intended to ensure that advertising reflects clearly, accurately and in a manner respectful of competition the essential features of financial offers, and that the cost or the return offered has been calculated in keeping with the rules regulating the annual percentage rate (APR) formula. This measure seeks to harmonise that calculation so as to ensure that different offers can be compared.

As has been happening for several years, the number of advertising projects continued to increase. The growth in 2006 with respect to 2005 was 6.64%, as can be seen in Table 2.6. In any event, this figure understates the number of cases actually analysed, since in order to present the information in a form comparable with that of prior years, it does not include institutions' projects sheltered by CBE 8/1990, whereby projects are deemed to have been authorised if the Banco de España has not issued a ruling to that effect within eight days of it having been requested. Such projects numbered 320 in 2006 (27 in 2005). If these figures are taken into account, the number of advertising projects submitted for authorisation increased by 11.95%, which in any event is down on the growth of 28% in 2005.

The growth in 2006 was driven by campaigns to attract deposits, which increased by 21.66%, compared with a decrease of 4.61% in lending product campaigns, although the total number of the latter (3,039 projects authorised) is still appreciably higher than that of the former (1,837 projects). The figures for services, although increasing considerably in relative terms (80.88%), show that they continued to account for a minimal share of the total projects analysed, with a total of 123.

Regarding the categories of institutions that submitted advertising projects for authorisation, the trend of the last few years was broken, since the SCIs that had been leading the growth suffered a significant fall from 1,639 projects in 2005 to 1,264 in 2006, while the opposite occurred with commercial banks, which went from 2,267 projects in 2005 to 2,953 in 2006, or growth of 30.26%. Meanwhile, the number of campaigns by savings banks and credit co-operatives remained unchanged from the previous year.

ADVERTISING PROJECTS

TABLE 2.6

Number. Yearly data

	TOTAL				BANKS				SAVINGS BANKS				CREDIT CO-OPERATIVES				SCIs			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Cases processed	**3,539**	**4,273**	**5,455**	**5,817**	**1,997**	**2,315**	**2,688**	**3,452**	**520**	**743**	**780**	**727**	**166**	**120**	**186**	**159**	**856**	**1,095**	**1,801**	**1,479**
BY TYPE OF DECISION:																				
Authorised	2,797	3,622	4,764	4,999	1,515	1,932	2,267	2,953	448	633	687	632	148	111	171	150	686	946	1,639	1,264
Rejected	5	7	24	13	3	2	8	6	–	2	2	2	–	1	1	0	2	2	13	5
Modified (a)	478	519	476	638	340	317	319	419	31	77	61	67	10	8	2	6	97	117	94	146
Returned (b)	259	125	191	167	139	64	94	74	41	31	30	26	8	0	12	3	71	30	55	64
BY TYPE OF TRANSACTION (c):																				
Lending transactions	1,907	2,298	3,186	3,039	945	1,045	1,200	1,480	228	270	264	237	50	37	84	58	686	946	1,638	1,264
Deposit transactions	810	1,244	1,510	1,837	505	825	1,020	1,392	217	345	404	355	86	74	86	90	–	–	–	–
Other	80	80	68	123	65	62	47	81	3	18	19	40	12	–	1	2	–	–	1	–
BY TYPE OF MEDIUM (c):																				
Press	732	1,156	1,707	1,349	295	561	540	692	49	67	65	94	18	20	40	18	370	508	1,062	545
Radio	143	177	179	246	89	121	131	191	–	2	3	4	–	0	1	0	54	54	44	51
Television	158	290	383	331	97	197	252	220	5	3	14	4	–	0	5	1	56	90	112	106
Other	1,764	1,999	2,495	3,073	1,034	1,053	1,344	1,841	394	561	605	530	133	130	125	131	206	294	421	571

SOURCE: Banco de España.

a. Modifications, normally in prices, in projects authorised in the same or in previous years.
b. Relate to projects whose content does not require authorisation, or which have been withdrawn by the applicant.
c. Data relating to authorisations.

The decrease in the number of campaigns by SCIs was mainly due to a significant decline in the number of projects featuring auto financing offers, which dropped to 836 projects from 1,249 in 2005. Also down, albeit to a lesser extent, was the number of projects offering fast loans. It should be kept in mind that although the media, particularly TV, continue to disseminate a significant number of advertisements for fast loans by credit institutions, as pointed out at the beginning of this section, only advertising that refers to return or cost is subject to prior authorisation by the Banco de España. Any promotional material not referring to return or cost is not subject to examination, which explains the considerable number of advertisements for these products that are being disseminated and that show no correlation with the number of cases analysed by the Banco de España.

In order to properly assess the figures for each type of institution, and as noted in past reports, it should be kept in mind that not all the advertising of savings banks (or of regional or local credit co-operatives) is subject to the prior authorisation of the Banco de España, but only that with wider than regional scope, since otherwise it comes under the control of the respective regional government.

The products most advertised by CIs were, on the lending side and in this order, auto financing (offered almost exclusively by SCIs), personal loans, mortgage loans and, finally, the financing of a multitude of consumer products. On the deposit side, they were fixed term and rate deposits earning monetary interest, structured deposits and time deposits in which the monetary interest is replaced by a consumer product (technically known as interest in kind). As regards services, it is increasingly common to see offers of the various types of flat fees, such as those

REPORTING OF INTEREST RATES ON LENDING TRANSACTIONS TABLE 2.7

Number. Yearly data

	2003	2004	2005	2006
Reports processed	**277**	**293**	**300**	**174**
Banks	166	146	173	109
Savings banks	60	79	68	37
Credit co-operatives	51	68	59	28

SOURCE: Banco de España.

for groups of services based on a sight deposit, as well as others like cards, transfers, etc. for which a single price is charged.

The main new development in the year was the defensive policy of an increasing number of institutions in response to the offers of commercial banks operating primarily via the Internet and offering short-term deposits with interest rates similar to those offered by the former. Also noteworthy were the first advertising campaigns for a new product known as a "reverse mortgage[1]", campaigns offering debt reorganisation services launched to compete with those offered by non-bank intermediaries and, anecdotally, deposits whose yield is tied to the football league results.

It should be noted that an increasingly large number of institutions is targeting immigrants with products such as small-amount loans, offers of flat fees tailored to their specific needs and auto financing.

The number of rejections returned to the level of past years (0.22% of applications) after the rise in 2005 (to 0.44%), and was a minimal percentage of total applications. Even considering the number of projects dropped by the institution before reaching fruition, their number fell significantly with respect to 2005, adding to the idea that the situation in 2005 was a one-off phenomenon.

As regards the media, there was a significant fall in advertising in the print media (down from 1,707 projects to 1,349 in 2006) in what seems to be a shift to the "Other" heading, which groups together a miscellany of media (brochures, leaflets, posters, Internet), with significant growth in the Internet (36.67%), although in absolute terms (723 projects) it is still well behind the print media (press and magazines), which accounted for 1,349 projects.

As noted in past Reports, in order to properly assess the figures on advertising in the Internet, it should be noted that, in accordance with current law, not all the information that appears on institutions' websites concerning the specific characteristics of their products or services should be classified as advertising (and, where applicable, subject to prior authorisation by the Banco de España), either because access to it will necessarily have to be at the initiative of customers and consequently making such information available to them cannot be considered an act of advertising, or because of its strictly informative nature.

1. It involves the opening of a credit account collateralised by the house of the account holder(s). The periodic advances made with a charge to this account consist of amounts pre-calculated on the basis of the house's appraised value and of the life expectancy of the customer(s) and known commercially by the institutions as a life annuity or pension.

CONSULTATIONS ON INTEREST RATES AND FEES/COMMISSIONS TABLE 2.8

Number. Yearly data

	2003	2004	2005	2006
Consultations	**267**	**209**	**187**	**154**
By credit institutions	208	181	167	149
Banks	*100*	*87*	*74*	*75*
Savings banks	*75*	*76*	*82*	*64*
Credit co-operatives	*7*	*1*	*0*	*1*
Other	*26*	*17*	*11*	*9*
By individuals	23	9	12	2
By corporations	15	6	4	0
By the courts	21	13	4	3
Internet consultations	**77,535**	**63,585**	**73,078**	**99,864**
Interest rates (a)	13,290	8,089	8,324	19,450
Fee and commission charges	64,245	55,496	64,754	80,414

SOURCE: Banco de España.

a. Number of hits on the related BE website pages with information on the interest rates reported for institutions´ lending transactions.

2.3.3 REPORTING OF INTEREST RATES ON LENDING TRANSACTIONS

Spanish commercial banks, savings banks and credit co-operatives and the branches of foreign CIs are obliged to disclose a number of interest rates on their lending transactions. These are their prime rate, the respective rates on current-account and credit-account overdrafts, the latter two applicable at the maximum rate unless lower rates are contractually envisaged, and the indicative reference rates relating to other financial facilities deemed most habitual or representative. In turn, institutions should report such rates, and changes therein, to the Banco de España, indicating the dates from which they will be applicable. The Banco de España publishes these rates on its website so that they may be freely consulted by analysts and customers.

It should be noted that in 2006 interest rates decreased significantly. Considering that one of the mandatorily reportable rates is that on tacit overdrafts of consumers, which is subject to a legally stipulated ceiling, in that its annual percentage rate (APR) is limited to 2.5 times the legal rate of interest, and that the APR on these transactions reported by the great majority of institutions is the maximum possible rate, each time the legal rate of interest changes, those institutions reporting the maximum rate have to submit a new report to adjust the rate to the new limit. Since the legal rate of interest in 2006 did not change from that prevailing in 2005, many institutions did not change their reported rate.

To gauge the public usefulness of these data above and beyond their purely supervisory utility, Table 2.8 draws together the replies made in writing to CIs, to individuals and to court consultations channelled through the Banco de España's legal department, basically in relation to the interest rates obligatorily reported, although occasionally these consultations also relate to the fees shown in the charges brochures reviewed by the Banco de España. Also, it gives the number of consultations of the database of interest rates reported by CIs on the Banco de España website.

As can be seen in the table, 2006 saw significant growth in the consultations made via the Internet, which in the case of fees was correlated in time with advertising campaigns offering a number of free services by some institutions, and in the case of interest rates was probably caused by the upward trend in 2006.

2.3.4 THE BANK CUSTOMER'S PORTAL

The bank customer's portal was created in February 2005 by the Banco de España on its Internet website to provide information and financial guidance to non-business customers of credit institutions.

Located on the Banco de España's home page, it contains, along with the due navigational guidance, all the information sources (registers, interest rates, fee and commission charges, complaints service) that the Banco de España website makes available to the public and other users.

The core of the Portal consists of the areas aimed at providing information and guidance on the main bank products (occasionally specific pages are included on new products or those entailing particular risk) and the basic details of their cost or yield (interest rate and fees/commissions).

In 2006 the Portal had more than 400 pages, divided into eight major areas, some ancillary services (glossary, financial simulator, etc.) and a section devoted to news and new developments. Also, there is a contact mailbox at which questions and queries will be answered.

Dissemination of the Portal

In 2006 the Portal received 905,898 visits (480,060 in 2005, although it was only operating for ten months in that year), with a daily average of around 2,500 visits, compared with 1,500 in 2005, and a growing trend which in 2006 reached a maximum in November with a daily average of 3,500 visits. These visitors represented 13% of those accessing the Banco de España website.

The most frequently visited sections in 2006 were: banking products (28.84% of total visits), interest rates (18.73%), simulators (14%), frequently asked questions (7.53%), glossary (6.90%), Central Credit Register (4.43%) and fees and commissions (3.80%).

Also noteworthy is the number of queries of a general nature received through the Portal's "Contact Us" facility, which in 2006 amounted to 1,410, with the average response time amounting to 1.5 days. The number of telephone inquires was 1,031.

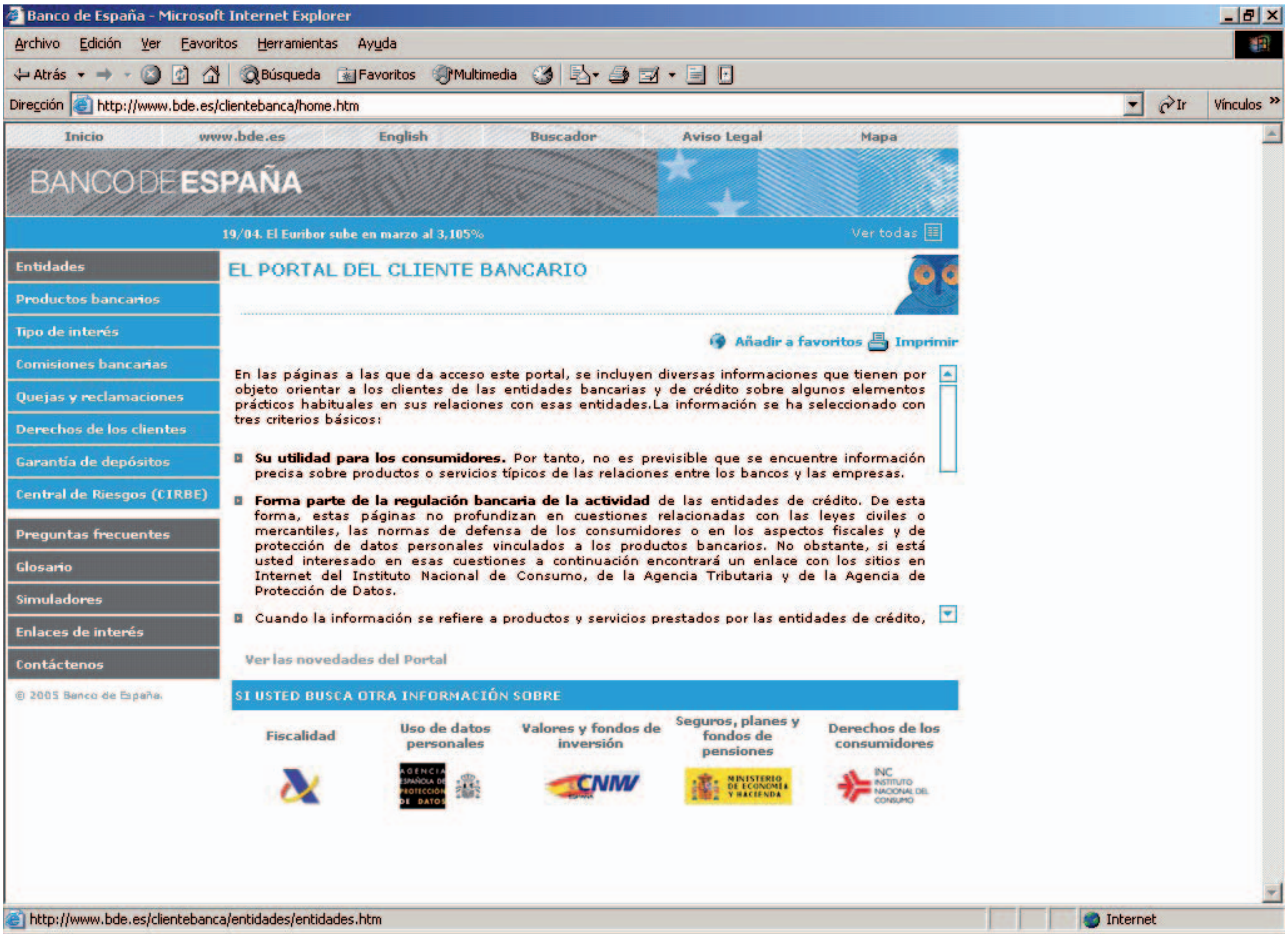
Another indicator of the dissemination of the Portal is the impact that the news, statistics or articles included in it have on the media. In this connection, it is increasingly common for national and local press articles about matters concerning the rights of bank customers to cite the Portal as a source of information.

All this enables us to affirm that, despite the absence of any promotion campaign at any time in 2006, the Portal is becoming increasingly well known and used by the public.

The activity of the Portal in 2006

Under the initial plans conceiving the current version of the Portal as a preliminary stage to be improved in the short term, in 2005 a study was conducted to assess those elements of the Portal best suited to its objective of providing information and guidance.

The conclusions indicated that, although the Portal scored highly on technical accessibility and on the quality and scope of its content, it was also necessary to improve its design and architecture so as to attract the attention of users and help them to understand the Portal's content.



Hence an additional and very important aim of the activities of the Portal's managers in 2006 was to put into practice the conclusions of that study, as explained in more detail in the Box.

Furthermore, work continued on updating the Portal's content, incorporating new features, publishing news items considered to be of interest to bank customers and, as mentioned above, attending to the numerous queries received.

2.3.5 CUSTOMER SERVICE DEPARTMENT

Spanish credit institutions and the branches of foreign institutions are obliged to have a Customer Service Department and, in addition, can optionally have an ombudsman. The Banco de España is responsible for verifying the Customer Protection Rules regulating the activity of the Customer Service Department and ombudsman, except in the case of savings banks and local and regional credit co-operatives, the verification of which is carried out by the competent body of the Regional (Autonomous) Community in which their registered office is located. In any event, the Banco de España must be informed of the designation of the head of this service or department and, where applicable, of the ombudsman.

The process of verifying these Rules consists of checking whether they contain the necessary regulation required under the applicable legislation (Ministerial Order ECO/734/2004 of 11 March on the customer service department and ombudsman of financial institutions). This process commenced in 2004, continued in 2005, and in 2006 consisted of verifying the new Rules of institutions registered in that year and the changes proposed by institutions in the Rules in force. Hence practically all institutions have completed this formality or are in the process of doing so.

A new version of the Bank Customer's Portal was made available to the public in the second half of April 2007 (http://www.bde.es/clientebanca/home.htm.).

Based on our accumulated experience, particularly that of the queries received from users, and taking into account the conclusions of the assessment study conducted, significant improvements were made, especially in:

– Graphic design and architecture, to make it more attractive and versatile and, above all, more manageable for the public.

  A new, more colourful, visual language makes the image less flat.

  Specific banners have been created for each section to draw customers' attention to particular messages that may be useful to them and that, in addition to centring texts, constitute an alternative menu.

– The order and language of the content, to make it more accessible to the public.

  The texts have been restructured to make them simpler and less technical, and to enhance the connection (via related subjects) between them and the connection to the questions an average customer would ask.

  The content has been adapted to on-line language (concise texts; links to "more" on each topic). The navigation system used to move from page to page (which, in addition, lists the various steps along the inquiry route) will allow a faster search speed and thus greater information availability.

– Scope of content and new tools.

  New points have been added to the sections dealing with the most common banking products, namely mortgage loans and deposits, and an attempt is made to be responsive to the concerns voiced in the queries received. Diverse examples supplement and clarify the explanations. Counting these additions, the Portal now has more than 600 pages.

  New simulators are available to deal with certain increasingly frequent topics such as loans with grace periods or the effect of partial early repayment on a loan, or to enable users to assess the practical effect of the ever-wider range of deposits available, through the inclusion of a simulator to calculate the amount of interest and the related APR.

Analysis of the overall data for 2006 shows that a total of 22 sets of Rules were verified. Objections were formulated to only six of them and were attended to immediately by the respective institutions. Also, during the verification process the institutions involved were informed of ad hoc recommendations aimed at improving the transparency, clarity or functionality of their Rules.

Apart from its Rule verification work, the Banco de España continued and improved the examination of the activity data sent to it voluntarily by these departments and, where applicable, by ombudsmen. Following consultations with the respective sectors, a more detailed breakdown of the data (by transaction and by geographical area) was obtained, although this involved a slight delay so, at the date of publication of this Report, complete data were only available for the first half of 2006.

Comparison of the data for the first half of 2006 with those for the whole of 2005 shows that 52,128 complaints or claims were made to customer service departments in those six months, as against 76,132 in all of 2005; 96.3% of them were admitted for consideration and 95.4% resolved (97% and 92%, respectively, in 2005). Of the 47,888 claims resolved in the first half of 2006 (52,212 in all of 2005), 53.4% were resolved in favour of the customer, with financial rights accruing thereto in 48.7% of cases. Notably, the average time taken to resolve claims was 16 calendar days, which was much less than the average of one month in 2005 and than the legal maximum of two months permitted by current legislation.

As regards where and how they were submitted, 21.8% were via the Internet. Mention should also be made of those submitted in person in the Regional (Autonomous) Communities of Madrid (27.1% of the total) and Andalucia (14.1%).

By subject matter, 27.5% of the matters resolved by customer service departments concerned disagreements with fees/commissions and expenses; 21.8% lack of diligence, neglect, delays, etc.; and 13.2% discrepancies with entries recorded in accounts.

Ombudsmen were substantially less active that customer service departments, largely due to the small number of ombudsmen registered (14 in 2006, two more than in 2005) in comparison with the number of institutions (354). Of the 2,379 claims resolved by them in the first half of 2006, 49.3% were in favour of the customer, with financial rights accruing thereto in 38.7% of cases. The average time taken to resolve claims was 29 calendar days, which was much less than the legal maximum of two months permitted by legislation. If the claims resolved by ombudsmen are classified by where they were submitted, 24.2% were made in Madrid; 17.7% in Castilla y León; and 12.5% in Andalucia. Only 7.6% were submitted by the Internet.

As regards the main matters in terms of claim size, 25% of the claims resolved were about fees/commissions and expenses, while 19% were because of discrepancies with entries recorded in accounts.

2.3.6 OFFICIAL REGISTERS OF SUPERVISED INSTITUTIONS

The law of the Spanish financial system requires various public registers to be kept by the Banco de España in which certain institutions must register before they commence activities. The purpose of these registers is twofold: on the one hand, they seek to implement the “vetted access” principle governing the presence of various institutions operating on Spain’s financial markets, and, on the other, they aim to publicise the fact that those institutions are subject to supervision by the Banco de España. The institutions that must be entered in these registers are as follows:

- All CIs licensed to provide banking services in Spain: commercial banks, savings banks, credit co-operatives, specialised credit institutions, foreign branches of CIs and foreign CIs providing services without an establishment, as well as the representative offices of foreign CIs whose functions are of a merely commercial or market prospection nature.

- The owners of currency-exchange and/or cross-border money-transfer bureaux, which are the only establishments other than CIs (excluding SCIs) that are licensed to buy and sell foreign banknotes or make transfers abroad.

- Appraisal companies, to which this activity is confined when it involves goods or rights that are to be transferred in the mortgage market, that are to form part of the assets of real estate investment or pension funds or that are to be used to cover the technical provisions of insurance companies.

- Mutual guarantee and reguarantee companies.

These registers can be consulted by either traditional means or on the Banco de España's website, where clicking on Supervision provides access to both the register of institutions and to that of agents (discussed below). The register of institutions is available not only as it currently stands, but as it stood at past dates, and selective searches can be made on the basis of different criteria (type of institution, country of origin, registered office, etc.).

The existence of these registers in no way interferes with those which regional governments may have set up for the institutions over which they have certain supervisory powers. Such institutions are essentially savings banks whose registered offices are in the region and credit co-operatives whose operating scope does not extend beyond the region in question. Nor do these registers interfere with the more general powers of the Mercantile Registers.

Table 9 lists the number of institutions subject to supervision by the Banco de España and entered in the corresponding registers, was well as the number of institutions that operate in Spain under the freedom to provide services.

As in previous years, the net change in 2006 in the number of institutions with an establishment was, at seven more than in 2005, scantly significant. The changes in gross terms were somewhat more significant, since the total additions in 2006 amounted to 22 institutions, which were partially offset by the 15 deletions in the same period.

In overall terms, the additions consisted of eleven CIs, of which eight were branches of foreign credit institutions, all from EU countries, and three were SCIs which, according to their programme of activities, will basically engage in consumer credit extension, leasing and house purchase lending, one MGC focused on the audiovisual industry and four owners of currency-exchange and/or money-transfer bureaux, mainly engaged in the business of migrant remittances. Also, six representative offices were opened, all by EU institutions except one from Colombia.

The deletions consisted of six CIs, made up of two commercial banks dissolved without liquidation (one was Banco Urquijo, absorbed by Banco Sabadell, and the other was J.P. Morgan Bank, upon overall assignment of its assets and liabilities), two branches of EU CIs that discontinued their activity and two SCIs, of which one assigned overall its assets and liabilities to its parent and the other voluntarily gave up its authorisation. The other deletions were two ap-

OFFICIAL REGISTERS OF INSTITUTIONS TABLE 2.9

Number. Year-end data (a)

	2003	2004	2005	2006
Institutions with an establishment	**553**	**547**	**542**	**549**
Credit institutions	350	348	350	355
Representative offices	57	56	53	54
Mutual guarantee companies	23	23	23	24
Reguarantee companies	1	1	1	1
Currency-exchange bureaux and money transfer agencies (b)	55	58	57	59
Appraisal companies	67	61	58	56
Credit institutions operating without establishment	**309**	**355**	**383**	**404**
Of which: EU CIs operating without an establishment	305	350	378	398
Of which: financial subsidiaries of EU CIs	2	3	3	3

SOURCE: Banco de España.

a. The number of institutions also includes those that are non-operational and in the process of deregistering.
b. Does not include foreign currency purchasing establishments.

praisal companies, both voluntarily deregistered, two currency-exchange and/or money-transfer bureaux, due to revocation without sanction, and five representative offices, all from EU countries.

Additionally, in net terms 21 new foreign CIs, all from the EU except one from Switzerland, communicated in 2006 their intention to provide services in Spain without a permanent establishment. This increase was commensurate with previous years and in line with the increasing globalisation of lending activity and with the strengthening of operations through electronic procedures. Notably these institutions included two from the UK engaged in the issuance of payment instruments in the form of electronic money.

2.3.7 OTHER INFORMATION RECEIVED IN THE BANCO DE ESPAÑA: SENIOR OFFICERS, SHAREHOLDERS, AGENTS AND ARTICLES OF ASSOCIATION

Register of senior officers

The Banco de España receives information on members of the board of directors and senior management of supervised institutions for inclusion in the Register of Senior Officers; in the case of savings banks, this information is passed to the Ministry of Economy. For these purposes, the category "senior officers" includes members of the board of directors or equivalent body of the company in question, whether they be an individual or a legal entity (in which case the individual representing it is also registered as such), and its general managers or similar officers.

The purpose of these registers, which are confidential, is to manage and supply up-to-date personal and professional data on the main people responsible for the activity of supervised institutions. They are thus intended to act as an ancillary tool in the exercise of the supervisory and sanctioning powers assigned to the Banco de España, since throughout the EU, and as provided for under harmonised Community law, those in the most senior positions of responsibility at CIs must have a recognised commercial and professional standing and reputation, in keeping with the factors envisaged to this end in the law.

Moreover, for senior officers of commercial banks, savings banks and credit co-operatives, the Register is also a specific element for checking the restrictions and incompatibilities to which such individuals are subject in respect of holding similar posts at other companies. In the case of the senior officers of commercial banks and credit co-operatives, the Banco de España is responsible for this checking, while in that of savings banks the regional governments have this

REGISTER OF SENIOR OFFICERS TABLE 2.10

Number and percentage. Yearly data (except registered senior officers)

	2003	2004	2005	2006
Senior officers	**4,845**	**4,837**	**4,838**	**4,898**
Legal persons	377	386	392	401
Individuals	4,468	4,451	4,446	4,497
Of which:				
Males	*4,135*	*4,071*	*4,048*	*4,055*
Females	*333*	*380*	*398*	*442*
Percentage of females in commercial banks	*5*	*5*	*5*	*6*
Percentage of females in savings banks	*11*	*13*	*14*	*15*
Percentage of females in credit co-operatives	*4*	*5*	*6*	*7*
Percentage of females in SCIs	*4*	*5*	*5*	*5*
Percentage of females in other crediti institutions	*9*	*10*	*10*	*11*
Additions or deletions in supervised institutions	**2,862**	**1,724**	**1,212**	**1,401**
Of which: First-time additions	632	650	449	678
Reinstatements	106	92	61	80
Inquiries as to integrity of senior officers	**38**	**48**	**36**	**56**
Average number of people listed per document	4	8	6	6

SOURCE: Banco de España.

responsibility. The fact that registration in the Banco de España register precedes that required in the Mercantile Register ensures compliance with the incompatibility criteria as a prerequisite for effectively taking up a senior post.

In Table 2.10 the number of senior officers is based on identity without regard to the number of posts that each may hold. Consequently, the stated figure is the total number of senior officers registered and not the total number of senior posts in the institutions supervised by the Banco de España.

As at 31 December 2006 the total number of senior officers registered in the related registers remained, as in previous years, at around 5,000, with an insignificant annual change in line with the minimal alterations in the number of institutions.

Of the total senior officers, around 8% were legal persons, of which only 20% were supervised institutions, the distribution remaining practically unchanged in recent years. Legal persons made up the highest proportion of senior officers in the boards of directors of MGCs, which account for 73% of them, in line with the broad representative nature that the boards of these institutions usually have.

The percentage of women in the registers of senior officers with respect to the total natural persons registered continued to increase little by little, reaching practically 10% by the end of 2006. Of the 442 women in the registers, 317 were senior officers in CIs, although only in savings banks, where the proportion is 15%, do they have a significant presence. By contrast, in commercial banks and credit co-operatives this percentage falls to 6% and 7%, respectively, and it is even lower in SCIs. Their presence in other supervised institutions is relatively more significant, with percentages of around 20% (except in MGCs), and they form a majority of the senior officers in the public-sector reguarantee company.

REGISTER OF SHAREHOLDERS TABLE 2.11

Number. Year-end data

	BANKS				CREDIT CO-OPERATIVES				SCIs			
	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Registered shareholders	**618**	**566**	**612**	**583**	**359**	**364**	**362**	**367**	**179**	**179**	**175**	**179**
Individuals	126	96	101	99	171	169	164	156	38	38	39	36
Legal persons	492	470	511	484	188	195	198	211	141	141	136	143
Credit institutions (a)	*115*	*116*	*116*	*117*	*67*	*72*	*69*	*87*	*60*	*61*	*60*	*61*
Other	*377*	*354*	*395*	*367*	*121*	*123*	*129*	*124*	*81*	*80*	*76*	*82*
MEMORANDUM ITEM:												
Spanish	411	367	385	381	358	362	360	365	155	155	151	153
Foreign	207	199	227	202	1	2	2	2	24	24	24	26

SOURCE: Banco de España.

a. Spanish credit institutions and branches in Spain of foreign ones.

Since these registers also record the administrative penalties which the registered officers have incurred in connection with the disciplinary rules applicable to them, other supervisory authorities inquire about significant past infringements to check the standing of officers. In 2006 these inquiries increased considerably by 55%, probably due to the greater buoyancy of the investment services sector, since a large number of them were made by the securities market supervisor.

Information on shareholders

The Banco de España also receives confidential information on the shareholders of commercial banks and SCIs and on the members of credit co-operatives. These institutions are required to report data quarterly on all their shareholders or holders of contributions that are deemed to be financial institutions, and on those who, while not deemed to be such, hold shares or contributions representing a percentage of the share capital of the institutions greater than or equal to 0.25% in the case of commercial banks, 1% in credit co-operatives and 2.5% in SCIs.

This information is intended to assist in the basic supervisory tasks of the Banco de España, it being essential for the latter to know the share ownership structure of the institutions under its supervision, and to contribute to the effectiveness of the legal provisions which bring under control of the Banco de España any equity holdings in these institutions exceeding certain thresholds.

The number of shareholders reported by commercial banks fell by 5% in 2006, so, after the rise of 2005, it settled back to a similar level to that of 2004. This decrease took place almost solely in legal persons of foreign nationality, which thus returned to the figures of prior years.

The number of reported members of credit co-operatives and of SCIs, many of them forming part of larger credit groups, remained unchanged.

Reporting of agents

CIs operating in Spain and, since the beginning of 2002, also the currency-exchange bureaux licensed to make cross-border money transfers, are obliged to report to the Banco de España those agents whom they have authorised to operate habitually with their customers, in the name of and on behalf of the principal, in negotiating or entering into transactions

CREDIT INSTITUTIONS' AGENCY AGREEMENTS AS AT 31 DECEMBER TABLE 2.12

Number. Year-end data

	2003	2004	2005	2006
Total	**9,719**	**10,678**	**12,570**	**20,856**
Banks	4,315	4,410	4,786	10,294
Savings banks	369	260	294	689
Credit co-operatives	90	81	71	68
Specialised credit institutions	42	52	50	67
Branches of credit institutions	41	35	38	45
Currency exchange bureaux and/or money transfer agencies	4,862	5,840	7,331	9,693
Agency agreements	**105**	**106**	**106**	**106**

SOURCE: Banco de España.

typical of their activity. There is no obligation to report correspondents, persons granted special power of attorney, persons linked to the institution by an employment relationship, or those who are only authorised to attract customers but not to negotiate or enter into transactions. Nor is there any obligation to report agents' representatives, attorneys or employees.

In addition, Spanish CIs must report to the Banco de España the list of foreign CIs with which they have entered into agency agreements or, where applicable, agreements to provide financial services to customers.

Given that the dissemination of information on agents, which by law is expressly deemed to be of a public nature, is important from the standpoints of the legal certainty of business operations and, above all, of the protection of bank customers, it has been published on the Banco de España website since 2004.

Of the 46 owners of currency-exchange bureaux licensed to make transfers, 39 of them have agent networks constituting the main channel through which they provide their services. As at 31 December 2006, 9,693 agents were included in the register (a third of them retained by just two owners), up 32% on 2005. This increase is in line with those of past years and reflects, apart from the operational importance of these networks, the considerable buoyancy of this sector, linked to the growth of immigration.

In the case of CIs, the number of registered agents increased extraordinarily in 2006 owing to the reporting as such of the independent commission agent network used by a commercial bank to promote and market investment products. As at 31 December 2006, this network comprised more than 5,300 agents, thereby raising the number of agents as at that date to 11,163; otherwise, this figure would have been around 5,800, with growth of approximately 11% with respect to 2005.

As at 31 December 2006, the CIs with agency contracts for negotiating or entering into their transactions with customers numbered 64, only four more than in 2005. Additionally, disregarding the aforementioned large set of new registrations, agency contracts continued to be concentrated around three commercial banks, which reported more than 1,000 agents each, and a second group of five institutions (three commercial banks and two savings banks), each with more than 100 agents.

REGISTER OF ARTICLES OF ASSOCIATION TABLE 2.13

Yearly data (number)

	2003	2004	2005	2006
Amendments registered	232	268	229	214
Cases processed	62	59	60	66
BREAKDOWN OF CASES BY TYPE OF INSTITUTION:				
Banks	27	33	13	11
Savings banks	4	3	2	0
Credit co-operatives	24	15	39	44
SCIs	5	3	1	2
MGCs	2	5	5	9
BREAKDOWN OF CASES BY PROCESSING CHANNEL:				
Reported to Directorate General of the Treasury and Financial Policy	49	46	28	51
Reported to regional government	13	13	32	15

SOURCE: Banco de España.

Agency agreements with foreign institutions for the regular provision of financial services to customers remained unchanged.

Special register of articles of association (Registro Especial de Estatutos)

The Banco de España also keeps a register of articles of association of supervised institutions in which the successive amendments of them are recorded. This register shows a certain stability, tending slightly downward since 2004, around 230 amendments per year.

Moreover, this register acts as a means of control for the Banco de España in relation to amendments of supervised institutions' articles of association which, in some cases, are subject to authorisation by the Ministry of Economy and Finance or the relevant regional government body, further to a report by the Banco de España. In addition, and insofar as they reflect employer/union agreements that are usually of significance from a prudential and operational perspective, they are used as an ancillary instrument of supervision.

Table 2.13 sets out both the number of amendments registered and the number of applications to amend articles of association in which, due to the need for administrative authorisation, the procedure involved a report by the Banco de España.

Worthy of comment in 2006, along with the increase of 10% in the number of cases processed, was the notable decrease in those reported to regional (autonomous) governments, which fell to half. This made it evident that most of the amendments reported in the case of credit co-operatives took place at co-operatives of national scope, the authorisation of which is the competence of the Ministry of Economy and Finance. These amendments were mostly to adapt the articles of association of these institutions to the changes made in the regulations for credit co-operatives, particularly insofar as equity contributions are concerned.

Mention should also be made of the rise in the number of amendments of the articles of association of MGCs, which was mainly due to the definition of the minimum shares to be required of shareholders receiving guarantees from the company.

The predominant reasons for the changes in the articles of association of commercial banks were the adaptation thereof to the provisions of *Law 19/2005 of 14 November on the European Company,* the variation in the amount of share capital and the improvement of corporate governance structures and practices.

2.3.8 ELIGIBILITY OF SUBORDINATED DEBT AND HYBRID CAPITAL INSTRUMENTS AS OWN FUNDS IN THE SOLVENCY RATIO

The capital instruments eligible as own funds include, along with the subordinated debt recognised as own funds in 1985, other elements known as hybrid capital instruments which have certain characteristics of ordinary capital. These characteristics are basically that they can be set off against losses without need to liquidate the institution, that the institution has issued them on a permanent basis and that the returns on them depend on the existence of sufficient profits.

These instruments include perpetual subordinated debt and preference shares, in many cases issued by special purpose entities that are subsidiaries of CIs.

There are no restrictions on the issuance of such instruments although, when they take the form of securities divided into series, the regulations of the securities markets in which they are to be traded will apply. Moreover, the issuance of preference shares is regulated by *Law 13/1985, as amended by Law 19/2003 of 4 July 2003* which, among other new developments[2] provided, in line with what the Banco de España had been suggesting, that at the time of the new issue, its amount, together with that of any preference shares of special purpose entities that may be outstanding, shall not exceed 30% of the tier 1 capital of the consolidated group or sub-group to which the issuer belongs.

In any event, the Banco de España must verify that these instruments meet the conditions established by bank solvency law as a requisite for their eligibility as own funds of the issuing institution or of its consolidated group[3].

For the purposes of such verification and regarding in particular the issuance of preference shares, the Banco de España has established a number of criteria enforceable from a prudential perspective. These criteria relate to interest payment, securities redemption, securities guarantees/ collateral, calculation of limits and results, treatment of funds and transparency of the issue[4]. Additionally, if the preference shares incorporate early-redemption incentives (interest rate step-up in those cases in which the issue is not redeemed early), only those issues targeted at the institutional market will be eligible. Moreover, such step-ups are not available until 10 years have elapsed and may not exceed the initial rate by 100 bp, or by 50% of the spread in the case of a reference rate. The shares that incorporate this type of incentive may not exceed 15% of the tier 1 capital of the issuing entity or its group; any shares beyond this limit, up to a maximum limit of 30%, are eligible as tier 2 capital on the same terms as subordinated debt with undefined maturity.

The chief characteristic of the eligible debt issues in 2006 was their distribution among institutional investors, with whom 94% of the total amount issued was placed. This contrasts with the situation in previous years, especially 2004 and 2005, when the total amount distributed to retail customers through institutions' branch networks was 45% and 31%, respectively. This

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2. See Report on Banking Supervision in Spain 2003, Section III.1.2. **3.** See Rule 8 of Banco de España Circular CBE 5/1993 of 23 March1993 on the determination and monitoring of minimum own funds. **4.** These criteria implement and complete those contained in the second additional provision of Law 13/1985 of 25 May 1985 on investment ratios, own funds and reporting requirements of financial intermediaries, introduced by Law 19/2003 of 4 July 2003 on the legal regime governing capital movements and cross-border transactions and on specific measures for the prevention of money laundering (see Section II.3.6 of the *Report on Banking Supervision in Spain, 2004).*

latter circumstance did not fully concord with the complexity of many issues and with the associated risk, and introduced an additional reputational risk.

Also noteworthy was the spectacular increase of 90% in the amount of subordinated debt issued, both fixed maturity and undefined maturity, although the amount issued of the latter was below that reached in 2004. These significant increases contrasted with the decrease in the amount of preference shares issued, which fell by 26%.

The increase in the amount of subordinated debt issued was accompanied by a larger number of issues, although the latter rose much more modestly (25% in traditional debt and 66% in undefined-maturity debt), indicating that the average amount of each issue was also higher. This concords with the greater activity in international markets with sufficient capacity to absorb larger volumes of issuance.

This greater recourse to institutional markets is also consistent with the more important role played in 2006 by the special purpose entities of Spanish CIs, particularly commercial banks, which multiplied their issuance with respect to the previous year by 4.5 times to €7,538 million, equal to 59% of the traditional debt. In turn, 56% of issues (93% of those by special purpose entities) was placed solely on foreign markets. This, however, was not reflected in undefined-maturity subordinated debt which, although targeted in its entirety at institutional investors, was issued only by parent companies, mainly savings banks, and nearly all placed on the Spanish market.

An unprecedented event was the issuance by nine savings banks of the respective subordinated debt issues for a total amount of nearly €300 million. To place these issues, a special purpose entity was set up to provide small credit institutions with easier access to institutional markets and achieve the greater diversification of risk permitted by better placement terms.

The issues in 2006 were typically denominated in euro (only eight issues were in other currencies) at variable-rate interest, normally tied to 3-month Libor or Euribor with a spread somewhat less than 50 basis points, and a term to maturity of around ten years, with an early redemption option from year 5, along with an interest rate step-up of 50 basis points for traditional issues (usually, after ten years, 150 basis points for undefined-maturity debt issues), in anticipation of non-exercise of the option.

The amount of subordinated loans also increased notably by 47% (by 33% in number) although, as has become usual, they were almost solely between CI subsidiaries and their parents, so as to enable the former to comply with their specific capital requirements.

As regards preference share issues, apart from the aforementioned decrease in their total amount (albeit not in their number, which was up by 16%), it should be noted that 61% of them were by special purpose entities and 65% of the total (against 22% in 2005) were placed solely on foreign markets. The decrease in issue volume was more marked in savings bank issues, which fell by 46% despite their unchanged total number.

Although the preference shares issued did not have a fixed maturity, they all allowed early redemption, normally from year 10, with an interest rate step-up of 100 basis points should this option not be exercised. Except in one case, the issue currency was the euro and the shares earned variable-rate interest at Euribor plus a spread which in certain cases was as high as 225 basis points.

ISSUANCE OF ELIGIBLE INSTRUMENTS BY SPANISH CIs | TABLE 2.14

€m. Yearly data

	NUMBER				AMOUNT			
	2003	2004	2005	2006	2003	2004	2005	2006
TOTAL	**56**	**70**	**63**	**79**	**6,372**	**13,230**	**8,471**	**16,078**
Subordinated debt	**49**	**49**	**51**	**65**	**4,810**	**6,654**	**5,587**	**13,942**
Fixed-term	***47***	***46***	***48***	***60***	***4,532***	***5,104***	***5,222***	***12,728***
Banks	15	16	11	24	2,668	3,795	1,865	8,853
Savings banks	26	19	28	25	1,814	1,235	2,870	3,724
Credit co-operatives	1	2	3	3	20	24	403	23
SCIs	5	9	6	8	30	50	85	128
Of which:								
Loans	*9*	*15*	*9*	*12*	*303*	*704*	*202*	*297*
Undated	***2***	***3***	***3***	***5***	***278***	***1,550***	***365***	***1,214***
Banks	2	2	1	2	278	1,050	15	64
Savings banks	–	1	2	3	–	500	350	1,150
Preference shares	**7**	**21**	**12**	**14**	**1,562**	**6,576**	**2,884**	**2,136**
Banks	3	14	3	6	1,100	5,063	1,800	1,602
Savings banks	4	7	8	8	462	1,513	995	534

SOURCE: Banco de España.

Finally, as in previous years, in 2006 there were no issues of non-voting equity units *(cuotas participativas)* of savings banks.

2.4 Supervisory policies in Spain

2.4.1 BUSINESS CONTINUITY

The continuity of a business can be defined as the situation in which an entity's operations take place continuously and without interruption. However, extreme events[5] such as some of those seen in recent years (terrorist attacks, pandemics or natural disasters) evidence the risk of serious disturbances or interruptions in the operations of the financial sector and the need to mitigate their consequences, addressing the issue globally on a co-ordinated basis.

The Banco de España considers that managing business continuity should form part of the operational risk management of a credit institution. As with the management of any risk, it is necessary to set it in an overall framework including policies, strategies and procedures to ensure that certain operations, particularly the most critical ones, can be maintained or recovered as soon as possible in the event of a serious disruption of the system.

Although the scope and details may vary considerably from one credit institution to another depending on their characteristics and profile, the management of business continuity should include the following:

- Business impact analyses.—These identify the operations and services that are "critical" for an institution, the main factors on which its continuity depends (both internal and external) and the appropriate levels of protection in different possible situations.

5. For these purposes, an extremely serious event can be defined as a large-scale, exogenous and sudden event that may have major deleterious effects.

– Recovery strategy.—This establishes the recovery objectives and priorities on the basis of the results of the business impact analysis. It should include, among other things, the "target service level" that an institution wishes to offer in the event of this type of problems, and the framework that will enable it to return to the initial situation.

– Business continuity plans.—These are detailed guides for implementing the recovery strategy. They establish and assign functions, responsibilities and delegation of powers in a scenario in which an extreme event affects the key personnel of an institution. They also define the mechanisms for activating continuity plans.

– Testing programmes to check the effectiveness of the continuity plans that have been approved.

– Staff training and awareness programmes.

– Communication and crisis management programmes.

Against this background, the high-level principles of business continuity[6] published by the Joint Forum[7] provide an overarching framework in which to subsequently develop more detailed processes tailored to the characteristics of each country, sector or institution. Given that business continuity is a global issue, unsurprisingly its recommendations are directed not only at financial institutions in the broad sense of the term, but also at their supervisors. The report covers the following areas:

– *Obligations and responsibilities of the board of directors and senior management.*—As with the management of any risk, ultimate responsibility for business continuity management rests with an institution's board of directors and senior management. All institutions and financial authorities should adopt an overall approach enabling effective business continuity management. The governing bodies should create and promote an organisational culture that places the necessary importance on ensuring business continuity.

  Business continuity management should form part of any institution's overall risk management programme and address not only technical aspects, but also the fact that employees, insofar as they may be directly or indirectly affected by an extreme event, may not be available following that event. An organisation's business continuity management should cover at least its most critical operations.

  It should be kept in mind that outsourcing business operations or services does not transfer the associated business continuity management responsibilities to the service provider.

  A framework should be implemented for reporting to the board and senior management on matters related to business continuity management, including implementation status, incident reports, action plans, etc.

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6. Joint Forum: "High Level Principles for Business Continuity" (August 2006): http://www.bis.org/publ/joint17.pdf **7.** The Joint Forum was set up in 1996 under the auspices of the Basel Committee on Banking Supervision (BCBS), the International Organisation of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to address matters relating to the supervision of so-called "financial conglomerates" and other cross-sectoral topics of interest to supervisors in the three sectors.

A financial institution's business continuity management should be reviewed by an independent party, such as internal or external audit, and the findings reported to the board and senior management on a timely basis.

To avoid confusion in an operational disruption, an institution's business continuity management should clearly specify which senior managers would form part of the crisis management team, their roles, responsibilities and authority to act, and who would replace them if necessary.

– *Risk of major operational disruptions*.—Financial institutions and financial authorities should incorporate the risk of a major operational disruption into their approaches to business continuity management. Financial authorities' business continuity management also should address how they will respond to a major operational disruption that affects financial institutions or the financial system.

  Because access to the resources needed for the full recovery of their operations may be limited during a major operational disruption, financial institutions should identify through a business impact analysis those business functions and operations that are to be recovered on a priority basis and establish appropriate recovery objectives for those operations.

  Operational disruptions vary in intensity, scope and duration. Recent experience of various extreme events, however, has demonstrated that on occasions their consequences and impact can be very severe, not only for the domestic market, but also at times for the international market. In this connection, financial institutions should review the adequacy of their recovery plans, particularly with respect to its alternate site: this should be located sufficiently far away from the primary business location, should not depend on the same physical infrastructure components and should have the staff, information and technical resources needed to recover critical operations in the event that its primary offices are severely damaged or access to the affected area is restricted.

– *Recovery objectives and re-establishment of activity.*—Financial institutions should develop recovery objectives that reflect and are proportionate to the risk they pose to the operation of the financial system. These objectives can be identified in consultation with the competent financial authorities.

  A financial institution's business continuity management should consider the risk that a disruption suffered by it may also affect the ability of other financial institutions – or even of the financial system as a whole – to continue their usual operations. For this purpose, recovery objectives should identify expected recovery levels and recovery times for each type of activity.

– *Internal and external communications.*—To manage a crisis and maintain public confidence, an institution requires clear, regular communication. Financial institutions and financial authorities should include in their business continuity plans procedures for communicating within their organisations and with relevant external parties in the event of a major operational disruption.

  The ability to communicate effectively in the event of a major operational disruption is essential, not only initially (to gather information on the seriousness of the events and be in a position to take the necessary decisions), but also during the process of recovery of an organisation's operations, in order to be able to inform domestic and international interested parties of the progress made and to help maintain public confidence in the process. In this respect, institutions' business continuity plans should include communication protocols and procedures identifying, inter alia, the persons responsible for communication (both within and outside the organisation).

– *Cross-border communications.*—Given the growing interdependencies among financial systems, the communication procedures of financial institutions and financial authorities also have to include procedures for communicating with financial authorities in other jurisdictions in the event of major operational disruptions with cross-border implications.

  A disruption in one country may have international repercussions and affect the operations of an institution in another country. To cope with this, communication protocols should address the possibility of contact with financial authorities in other countries and identify the officials at other financial authorities who should be involved in the action to be taken in response to operational disruptions.

– *Testing the effectiveness of plans and updating them.*—Financial institutions and financial authorities should test their business continuity plans, evaluate their effectiveness and update their business continuity management, as appropriate.

  For business continuity management to be effective, it is necessary to periodically test the ability to recover critical operations as intended and to modify as needed the business continuity plan or other aspects of business continuity management. In addition, internal or external audit should assess the effectiveness and results of an organisation's testing programmes and report their findings to senior management and the board so that these can take the appropriate decisions. This practice also helps promote awareness of the importance of these matters among the institution's staff, particularly among those who may be assigned certain responsibilities in the event of a major operational disruption.

  Programmes to test the effectiveness of business continuity plans in alternate or back-up sites are particularly important in the case of those institutions that present risk to the financial system, although, in view of the substantial costs involved, the decision to undertake such programmes should be based on a cost-benefit analysis.

– *Review of business continuity plan management by financial authorities.*—Financial authorities should incorporate business continuity management reviews into their programmes for assessing the financial institutions for which they are responsible.

2.4.2 VALIDATION OF BASEL II ADVANCED MODELS

The final EU text of the new international capital adequacy regulations is contained in Directives 2006/48/EC and 2006/49/EC, which in Spain are in the process of being transposed into national law.

Implementation of advanced models

It is well known that the Banco de España, being conscious of the difficulties faced by institutions and the supervisor in achieving effective, high-quality implementation of the advanced approaches permitted under the new solvency regulations, and once the final version of the new Basel II Framework had been enacted, considered that it was not prudent to wait until a full set of Spanish rules was available and thus decided in 2004 to set in train the process of validating these approaches in Spain.

Consequently, the Banco de España drew up a precise roadmap for the process with a three-year time horizon, identified the institutions initially considered capable of being ready to use advanced models from January 2008, designed the basic information needed to carry out a demanding and in-depth validation, established the required validation teams, defined the phases and tasks in which the validation would take place and communicated all this to the sector and to other international supervisors in Europe and Latin America.

Regarding the official application that definitively formalises the regulatory use of advanced models for credit, operational or market risk, it will naturally depend on what is specified in the future Spanish legislation once the solvency directives have been transposed into national law.

To meet its commitment to transparency and communication with the sector, the Banco de España published on its website the document entitled "Implementation and Validation of Basel II Advanced Approaches in Spain" in 2006. This document aims to give an overview of how the Banco de España considers the process of implementation and validation of advanced models should proceed and of the relations that should exist between supervisors for this purpose. Specifically, it highlights the objectives, criteria, timetable and basic documentation necessary for implementing these approaches and the manner in which these should be validated. This document should be regarded as a preliminary guide issued by the Banco de España, which will be completed in 2007 and subsequent years though the addition of further guides and specific documents on particular aspects of the validation of Basel II advanced approaches.

Although the solvency directives do not impose parallel calculations of capital requirements to compare current requirements with the best estimates under Basel II advanced methods, both the Banco de España and the member countries of the Basel Committee consider them to be important for the validation of advanced approaches. In the case of Spain, it was decided that the institutions participating in the validation processes under way should perform three parallel calculation exercises. The first will relate to December 2006 data, only for the main IRB portfolios in the validation process in 2006. The second and third exercises will be carried out with June and December 2007 data, respectively, for the whole group and all the exposures and portfolios.

IRB Approaches to credit risk

In the second half of 2005 the Banco de España's validation teams examined the information received from the institutions and assessed the status of Basel II implementation in them and whether they were in a position to be admitted to the validation processes to be commenced shortly. In this respect, it should be pointed out that the work carried out by the teams up to end-2005 should not be considered a pre-validation of the models submitted by the institutions, but rather an assessment of whether the information received was or was not sufficient to commence the processes themselves.

As a result of the foregoing, and in response to the letters from institutions indicating their willingness to use IRB approaches from January 2008 and applying to participate in the necessary validation and parallel calculation processes, in February 2006 the Banco de España sent this group of institutions the respective letters communicating the acceptance resolutions of the Banco de España's Executive Commission admitting them to the IRB approach validation and parallel calculation processes to be carried out in 2006 and 2007. The letters specified that these processes would conclude with the mandatory future pronouncement by the Executive Commission on the regulatory use of the proposed approaches once the validation processes were successfully completed.

Also, each institution was individually notified of the weaknesses and areas for improvement that had been detected in the analyses conducted and of the defects to be remedied by compliance with certain conditions, and was urged to inform the Banco de España promptly of any progress made in resolving those matters. Included with these letters was the minimum layout of the IRB Dossier, which institutions will have to set about preparing, since after the future commencement of the regulatory use of IRB approaches, it will be necessary for the duly updated documentation of the internal model, plus the data incorporated, the calculations carried out and the changes made, to be available at all times to the Banco de España, observing for this purpose the structure of the IRB Dossier.

The process of validation of the most significant portfolio(s) for which the institutions intend to use IRB approaches from January 2008 proceeded during 2006 under specific individualised work plans designed for each of the institutions. Moreover, work continued on the review of the main cross-sectional matters (methodology, use, controls, data and systems), which will affect all portfolios as a whole and will represent a significant advance for future work.

The processes of validation carried out during the year were undertaken on a continuous, iterative basis through on-site supervisory action in institutions and through tasks at the Banco de España itself. This enabled a fairly complete knowledge of the status of the models, and progress was made in the review, reporting environment and control of them. In addition, the measures taken by institutions to remedy the deficiencies and weaknesses pointed out by the supervisor were monitored.

As a result of this work, at the end of 2006 the validation teams were able to update the situation in each of the institutions involved and summarise their provisional conclusions. Generally speaking, it was seen that some institutions are at a more advanced stage than others in the implementation of IRB approaches, the main weaknesses observed being as follows:

- Lack of effective implementation of the models in management.
- The internal validation function and process is scantly developed.
- Methodological difficulties, particularly in cycle adjustments and in the treatment of loss given default (LGD).
- Problems with the suitability and quality of data.
- Insufficiency of IT systems and processes.
- Lack of documentation.

In 2007 the validation processes under way will continue as envisaged in the specific work plans designed for each institution. The aims are to review the deficiencies detected during the previous year, complete the validations of the main portfolios, finalise the reviews of cross-sectional matters and validate other portfolios of any significance not included in any roll-out schedule.

With regard to co-operation between supervisors in the implementation of advanced Basel II models in international banking groups, where the Banco de España is home supervisor and Spanish subsidiaries abroad seek to apply IRB approaches in January 2008, the validation work is being conducted in co-ordination with the UK host supervisor (The United Kingdom Financial Services Authority-FSA) and the Mexican host supervisor (Comisión Nacional Bancaria y de Valores de México-CNBV), depending on the type of model in question. The main difference in that in the UK case the co-ordination is also imposed by the EU directive, while in Mexico it derives from a voluntary co-ordination agreement in place directly between the two supervisory authorities. For other subsidiaries with a roll-out plan, it will be necessary to co-ordinate with the respective host supervisors.

As regards foreign subsidiaries in Spain, particularly European ones, where the Banco de España is host supervisor, it is in contact with the home supervisors (particularly those of the UK, France and Germany). In view of the roll-out plans of many of these subsidiaries, we will soon start validation work for certain Spanish institutions in French financial groups and will co-operate in that of German subsidiaries.

AMA operational risk models

Since the end of 2005, the Banco de España has been reviewing the advanced operational risk models of the institutions that, having adopted IRB for credit risk purposes, seek to use AMA models for regulatory purposes from January 2008. Although in practice the reviews under way are being conducted similarly to those for credit risk, for the time being no analogous formal acceptance procedure has been carried out in regard to the participation of these institutions in the processes of validation of AMA operational risk models.

As to the other groups undergoing the process of validation of IRB credit risk approaches, they will apply the standardised approach in operational risk in 2008, although in the future most will probably migrate to AMA models. In this respect it should be pointed out that, although in the initial stages of implementation the Banco de España is not demanding that the IRM and AMA approaches coincide in time for each institution, it is not expected that institutions that use the standardised approach in credit risk aspire to the regulatory use of AMA models for operational risk.

The AMA model validation work is being carried out by correspondent teams. So far the review scope has been limited to assessing the internal operational risk management system and to compliance with the general qualitative and quantitative requirements, insofar as the degree of development of the internal model was sufficient to enable an assessment. Special emphasis has been given to reviewing internal databases of operational risk loss events and the review of risk self-assessment has started. As far as methodology is concerned, the reasonableness of each institution's approach is being assessed, although it has not yet been possible to analyse the results of capital calculations, their quality or stability.

Generally the models are not yet sufficiently mature and the institutions will have to make a considerable effort to reach a level of quality that is acceptable for regulatory use with a view to 1 January 2008.

VaR market risk models

From June 2003 Banco de España Circular 5/1993 has permitted, upon prior mandatory authorisation from the Banco de España, the regulatory use of internal models for trading activity. Validation starts with a formal letter that must include all the required information and the steps are completed with the documents designed by the Banco de España, namely the Market Risk File and the Market Risk Dossier, and with the internal audit reports.

RESTRUCTURING OF THE BANCO DE ESPAÑA'S DIRECTORATE GENERAL BANKING SUPERVISION

BOX 2.2

The supervision of a sector of the economy like the banking industry, characterised by its powerful dynamism, the complexity of the risks involved, the range of increasingly sophisticated products, the use of new distribution channels associated with technological innovation and its internationalisation requires the competent authorities to devote an ever greater amount of organisational, human and technical resources to their function. In turn, the regulatory style of the new prudential rules, under which the risk management models of the institutions themselves influence the determination of capital requirements, introduces the need to adapt supervisory methods and resources and to apply approaches increasingly focussed on the situation of each institution or group. Accordingly, to strengthen the structure of the Directorate General Banking Supervision, to boost international co-ordination in this field and foment the participation of the Directorate General Banking Supervision in supervisory policy-making and domestic and international co-ordination, the Banco de España adopted the decision in July 2006 to create an assistant Directorate General with the following functions:

– Advice on and support of the design of the Banco de España's supervisory policy in the domestic and international areas.

– Advice on the adoption of common criteria within the Directorate General Banking Supervision.

– Performance of cross-sectional support functions within the Directorate General Banking Supervision.

– Relations with other Spanish authorities and organisations and with foreign supervisors in regard to prudential supervision.

– Co-ordination of the Banco de España's international activity in supervisory and regulatory matters.

To meet these aims a number of units and resources from the Supervision Department IV, the Office of the Director General of Banking Supervision and the Directorate General Banking Regulation's former Division of International Co-ordination have been grouped together in the newly created Associate Directorate General Banking Supervision. The decision to group together these units in a single directorate is based on the understanding that their tasks are inter-related both at domestic and at international level, and that the organisational restructuring will help to improve efficiency and co-ordination in prudential supervision.

In addition to the new Associate Directorate General, the Directorate General Banking Supervision continues to include the three operating departments entrusted with the full ongoing supervision of the credit institutions and other entities subject to supervision by the Banco de España, including both off-site analysis and on-site inspections.

The new Associate Directorate General consists of six units (see organisation chart in Annex 2.2) with the following main tasks:

1 Technical Secretariat and Institutional Relations (formerly the Office of the Director General of Banking Supervision), which helps to define supervisory policy, carries out support and technical advisory functions and is responsible for the institutional relations of the Directorate General Banking Supervision in Spain.

2 International Co-ordination and Advice Division, which co-ordinates the Banco de España's participation and position in international supervision and regulation fora and advises on banking policy.

3 Off-Site Analysis Division, which provides diverse support to the inspection divisions of the operating departments, including most notably the design and maintenance of a data query and analysis system for credit institutions' submissions to the Banco de España, thereby contributing to the knowledge of the main borrowers from credit institutions.

4 Depository and Custody Division, which is entrusted, as a specialised division, with inspection of the securities depository and custody activities of supervised institutions, in co-ordination with the inspection divisions of the operating departments.

5 Latin America Division, the basic mission of which is to continuously monitor the financial situation of the subsidiaries located in the Americas and their business risk profile, in co-ordination with the operating divisions of inspection.

6 Risk Management Models Division, which, in co-ordination with the operating divisions of inspection, carries out the review, validation and, if appropriate, approval of the Pillar 1 internal models under the new Capital Adequacy Directive. Additionally, its specialist teams lead inspections of the treasury departments of institutions with complex activities.

Also in July 2006 the Planning Division, which reports to the Director General of Banking Supervision, took on the functions of the Technological Innovation Division and that of defining and monitoring the development of new methodological applications.

The process is carried out by the relevant team and proceeds similarly to the treasury area examinations being conducted for some years now and, if appropriate, ends with the authorisation of the Banco de España.

To date, in application of this Banco de España circular, the models of two institutions have been approved and those of another two groups are undergoing the process of validation.

3 REGULATORY CHANGES IN PRUDENTIAL SUPERVISION IN 2006

3 Regulatory changes in prudential supervision in 2006

This chapter includes the most significant changes to the legal provisions that regulate the activity of CIs and other financial intermediaries or auxiliaries subject to supervision by the BE.

In 2006, hardly any significant legislative changes were made to national organisational and disciplinary rules. However, this does not mean that it was a year of inactivity in terms of banking regulation. On the contrary, 2006 was a year of intense work both for the regulator and for financial institutions.

The regulator, in its task of promoting and compiling future laws, was obliged to devote significant efforts to preparing the national legislation to transpose three key directives of the so-called Financial Services Action Plan, which seeks to develop an effective single European market in the provision of such services. Two of these directives, 2006/48/EC and 2006/49/EC of the European Parliament and of the Council, both of 14 June 2006, on, among other aspects, the capital adequacy of financial institutions, appeared in 2006. The third, Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments, was subject to various regulatory developments at the Community level in 2006.

Financial institutions, meanwhile, have already commenced the necessary adaptation of their systems, strategies and procedures to the forthcoming regulations that will be derived from this transposition. This adaptation will entail profound changes both to the conceptualisation and management of financial businesses.

Among other minor initiatives, reform of the legislative framework for the mortgage market was undertaken in 2006, in order to adapt it to the continuous technical changes to assets and liabilities of a mortgage nature. This reform, the ultimate aim of which is to make this market more dynamic, flexible and competitive, has also given rise to legislative preparation work which, although not as significant as that mentioned above, will also have a notable influence on the daily activity of institutions.

This chapter first refers briefly to the regulatory changes at the EU level referred to above. Given their extensive treatment in other parts of this report, the approach in this chapter is more conceptual, and avoids technical-type parameters. Subsequently, the national provisions which, as mentioned above, are most relevant in the sphere of supervision by the BE are presented, particularly distinguishing those specifically related to the solvency and prudential supervision of credit institutions and their groups.

3.1 Community provisions

Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast)[1]

Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 unified and codified all the directives relating to the taking up and pursuit of the business of credit institutions[2], regrouping them into a single text.

1. OJEU L 177/1 2006, of 30 June 2006. **2.** The most significant ones are the following: Council Directive 73/183/EEC of 28 June 1973 on the abolition of restrictions on freedom of establishment and freedom to provide services in respect of self-employed activities of banks and other financial institutions; Council Directive 77/780/EEC of 12 December 1977 (First Banking Co-ordination Directive); Council Directive 89/646/EEC of 15 December 1989 (Second Banking Co-ordination Directive); Council Directive 89/299/EEC of 17 April 1989 on the own funds of credit institutions; Council Directive 89/647/EEC of 18 December 1989 on a solvency ratio for credit institutions; Directive 92/30/EEC of 6 April 1992 on the supervision of credit institutions on a consolidated basis, and Council Directive 92/121/EEC of 21 December 1992 on the monitoring and control of large exposures of credit institutions.

Since then, this Directive has been significantly amended on various occasions. Thus, for reasons of clarity and legal certainty, the latest amendments have been included in a recast Directive, which repeals Directive 2000/12/EC and contains all the changes made to it to date. This Directive is 2006/48/EC of the European Parliament and of the Council of 14 June relating to the taking up and pursuit of the business of credit institutions.

The key change introduced by the Directive is that it incorporates into EU law the provisions of the document approved on 26 June 2004 by the Basel Committee on Banking Supervision, relating to minimum capital requirements and other rules applicable to credit institutions (known as Basel II and referred to extensively in other chapters and previous editions of this report). Its ultimate aim is to strengthen the banking system in the internal market, using as a tool for this purpose the solvency regulations, which have been amended to make them more rigorous and risk sensitive and to encourage improvement to the system's management.

For the same purpose, closer and more regular co-operation between the competent authorities of the Member States and other authorities or agencies is encouraged, through a greater and more fluid exchange of information.

In relation to the greater degree of rigour in solvency determination, the Directive addresses new types of risk. Thus, it establishes that credit institutions will be obliged to calculate capital requirements to cover, inter alia, their operational risk for which, apart from simple supervisory approaches, they may use advanced measurement approaches based on their own systems for measuring such risk. However, the use of some of these measurement systems will require prior authorisation from the competent authority. It further envisages special procedures to determine and cover dilution risk as a specific risk that complements credit risk in eligible purchase receivables.

As a factor of sensitivity to risk and as an incentive for enhanced management thereof, the Directive makes some important changes to the assessment of credit risk. Thus, the latter may be determined either by means of application to each of the categories in which the exposures are classified of the weights established in the Directive itself (Standardised Approach), or by means of the application of internal ratings-based approaches established by the institutions themselves (IRB Approach). This approach is based on the calculation of the probabilities of default and the losses that may be expected to be incurred as a result (severity), and may be applied to different degrees: foundation IRB and advanced IRB. In any event, the use of this method requires prior authorisation from the supervisory authority.

In addition, in order to assess that greater sensitivity to risk, the Directive has introduced a precise and at once complete treatment of the various techniques available both for reducing counterparty credit risk (including derivative instruments, repurchase agreements, deferred settlement) and transferring it (securitisation).

As regards the determination of capital requirements for exchange risk and the specific requirements for the held-for-trading portfolio and commodities, the Directive refers to Directive 2006/49/EC of the European Parliament and the Council of 14 June 2006, which supplements it for these purposes. This Directive, however, makes no significant changes to the treatment of the risks referred to, so that it is not studied in this chapter.

As part of the above-mentioned process of strengthening the solvency of credit institutions, Directive 2006/48 empowers the supervisor to assess the different systems, strategies and mechanisms established by institutions to comply with the Directive and, in particular, to calculate the amounts, types and distributions of internal capital considered appropriate to cover all those risks to which they are exposed. This assessment will be global and shall cover all the risks referred to by the Directive, including concentration, liquidity and interest risk.

To supplement the foregoing and to boost market transparency, competition between institutions and, ultimately, market discipline as a way of ensuring rigour in their operations, the Directive establishes various disclosure measures both for credit institutions and competent authorities. In the case of the former these obligations refer, among other aspects, to risk management objectives, the characteristics of own funds and the exposure to certain risks. In the case of the latter, to the legal provisions, the criteria and general methodologies used in assessing the procedures used by the institutions to comply with the requirements of the Directive.

The treatment of the solvency of credit institutions is thus based on three pillars: minimum capital requirements (pillar 1), supervisory review (pillar 2) and information to the market (pillar 3); pillars that must be jointly observed so that institutions have a level of capital commensurate with their overall risk profile.

The other modifications merely seek to assist the implementation of the changes mentioned above and are therefore of secondary importance. The aspects relating to supervision of the financial soundness of credit institutions do merit special attention however. This supervision continues to be the responsibility of the institution's home Member State, while the competent authority of the host Member State remains responsible for branch liquidity. Nevertheless, the application of this principle of supervision on a consolidated basis requires a high degree of planning and coordination between supervisory authorities, especially as regards the process of authorisation of the use of internal approaches to calculate exposure to credit and operational risk, which is formally the responsibility of the home Member State of the parent institution.

In any event, it should be taken into account that the obligation to comply with minimum capital requirements on the basis of the consolidated financial situation does not mean that such requirements do not have to be satisfied at the individual level, both by the parent and by the subsidiary institutions. Notwithstanding this, the Directive establishes the possibility that, when certain conditions are satisfied, Member States may exempt from individual compliance either the parent institution or subsidiary institutions or both.

Commission Directive 2006/73/EC of 10 August 2006[3] implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms

This Directive contains provisions applicable not only to investment services firms, but to all institutions that provide investment services professionally or regularly. As a result, and since the main providers of these services in the Spanish financial system are credit institutions, this section describes the provisions relating to the performance of such services, without mentioning those that regulate other aspects also addressed in the Directive in relation to investment services firms and multilateral trading systems.

Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 established the general framework of the regulatory regime for financial markets in the European

3. OJEU L 241/26 2006, of 2 September 2006.

Union, regulating the operating conditions for the performance of investment services, the organisational requirements applicable to the firms that provide them and to the markets on which they are performed, and the reporting requirements and rules of conduct applicable to the conduct of operations.

In application of the Lamfalussy procedure, Commission Directive 2006/73/EC implements Directive 2004/39/EC as regards, on the one hand, the organisational requirements and, on the other, the operating conditions of the institutions that provide investment services. Since credit institutions are already subject pursuant to their sectoral regulations to specific organisational requirements, those organisational requirements should be included among these more general requirements.

Institutions must take into account the nature, scale and complexity of their business, and the nature and range of services provided, when applying such requirements, which consist of:

a) the establishment of decision-making procedures that give special attention to: (i) the verification of compliance with the law and internal procedures, (ii) the management of risks and conflicts of interest, (iii) the treatment of claims and (iv) the outsourcing of transactions;

b) the establishment of an organisational structure which clearly and in documented manner specifies reporting lines and allocates functions and responsibilities, as well as the procedures to fulfil them properly;

c) personnel with sufficient skills to perform the functions assigned to them, and

d) maintenance of adequate and orderly records of their business and internal organisation.

In particular they shall have a compliance function and, where appropriate in view of the scale and complexity of their business, they shall organise and maintain an internal audit function which shall be independent of their operational structures. This function shall establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the systems and internal control mechanisms established by the institution.

The Directive gives special attention to the outsourcing of important operational functions, defined as those in the performance of which a defect or failure would materially impair the continuing compliance of a firm with its obligations. In this respect, institutions shall continue to be responsible for compliance with their obligations under Directive 2004/39/EC; in particular, the outsourcing must not result in the delegation by senior management of its responsibility, nor shall the relationship and obligations of firms that provide investment services in relation to their clients be altered

With regard to risk management, the Directive merely establishes, in general terms, that Member States shall require that the risk management procedures and policies that entities adopt must enable the risks present in the provision of services to be identified and, where appropriate, set the maximum tolerable levels. These procedures shall be subject to continuous monitoring in order to ensure their efficiency.

As for the terms on which investment services should be provided, the Directive puts special emphasis on certain aspects. Thus, in relation to the complaints received from clients or potential clients, firms are required to establish effective and transparent procedures that permit reasonable and prompt handling of the complaints received, as well as the recording of each complaint and of the measures taken for its resolution.

The Directive also establishes mechanisms to protect against conflicts of interest based on the definition of relevant persons, who are understood to be directors, partners, tied agents and employees of the entity that provides the service, and those who, in turn, provide services to the entity. In this respect, the Directive gives special attention to the receipt and payment of inducements.

With regard to rules of conduct, the Directive establishes that information to retail clients or potential clients must be fair, clear, readily understandable and not misleading. Also, it shall be accurate and in particular shall not emphasise any potential benefits of an investment service or financial instrument without also giving a fair and prominent indication of any relevant risks.

The regulation by the Directive of information to be disclosed is very broad and extremely detailed and ranges from that which should be provided on the entity providing the service itself to that relating to client categorisation, and that corresponding to the execution of orders including the best execution criteria and the general principles that will govern their processing.

As regards information on financial instruments in particular, the Directive requires institutions to provide clients or potential clients with a general description of the nature and risks of financial instruments, taking into account, in particular, the client's classification as a retail or professional client. That description must explain the nature of and risks particular to the specific instrument to enable the client to take investment decisions on an informed basis.

Finally, the Directive, concerns itself, again in great detail, with safeguarding client financial instruments and funds, for which purpose it establishes that the Member States shall impose certain restrictions on the operations that can be performed with them and require compliance with a number of requirements. In particular, entities must keep such records and accounts as are necessary to enable them at any time and without delay to distinguish held for one client from assets held for any other client, and from their own assets. Entities are also required to conduct, on a regular basis, reconciliations between their internal accounts and records and those of any third parties by whom those assets are held.

Commission Regulation (EC) No 1287/2006 of 10 August 2006[4] implementing Directive 2004/39/EC of the European Parliament and of the Council as regards record-keeping obligations for investment firms, transaction reporting, market transparency and admission of financial instruments to trading

Commission Regulation No 1287/2006 was published a result of the Commission's desire to ensure the harmonised implementation across all the Member States of Directive 2004/39/EC in relation to the record-keeping obligations of investment firms, market transparency and the information that must be reported on transactions, and the admission of financial instruments to trading.

As in the previous section, only those provisions that specifically affect the provision of investment services are referred to here, while those which would solely be applicable to entities not supervised by the BE are not mentioned.

4. OJEU L 241/1 2006, of 2 September 2006.

Thus, as regards the record-keeping of transactions and client orders, the entities that provide investment services will have to collect immediately, in relation to each order received and each transaction performed, a specified set of data: identification of the client and of any relevant person[5] acting on behalf of the client, the nature and type of order, date, time and other data identifying the transaction (unit price and total price, price notation, quantity, etc.), the person who executed the order or transmitted it, and any other details, conditions and particular instructions. This harmonisation will minimise the differences that may arise in the reporting of cross-border transactions.

As regards the information on transactions in financial instruments, the Regulation establishes that it shall be compiled, save in exceptional circumstances, in electronic form, and it specifies the conditions that shall be satisfied by the methods used in its compilation. It also specifies the way in which the competent authorities shall be notified of the transactions carried out and it regulates the exchange of information with the competent authorities of other Member States.

3.2 National provisions

3.2.1 REGULATION OF THE SOLVENCY OF CREDIT INSTITUTIONS

CBE 2/2006 of 30 June 2006[6] amending Circular 5/1993 of 26 March 1993 on the determination and control of minimum capital

Law 5/2005 of 22 April 2005 on supervision of financial conglomerates, which amends other financial sector laws, and Royal Decree 1332/2005 of 11 November 2005 which implements it, transposed into Spanish law Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance companies and investment firms in a financial conglomerate[7]. They also made important changes to the law on the solvency and capital of credit institutions.

Within the context of these changes, and in exercise of the Banco de España's powers pursuant to the above-mentioned Royal Decree, Circular CBE 2/2006 was published in order to adapt banking law to the above-mentioned amendments.

First, the Circular introduces significant changes in relation to the eligibility and deductibility of certain elements of capital. Thus, in the section on reserves, certain capital gains arising from the application of international accounting standards are eligible, as are positive valuation adjustments in respect of hedges of net investments in foreign operations. In particular, in the reserves for regularising, updating or revaluing assets, certain percentages are added to the gross amounts of gains (net of losses) that are recorded as valuation adjustments on available-for-sale financial assets within equity. These percentages are 35% for amounts generated in debt securities and 45% for those arising in equity instruments.

Likewise, included in the calculation of capital is the book value of the general provision relating to customers' insolvency risk, i.e. that linked to inherent losses or losses not specifically allocated for credit risk impairment of up to 1.25% of the risk-weighted assets that have formed the basis for calculating the provisions.

Also, the regime for non-voting shares and callable shares and other similar instruments is clarified, the part of these instruments that is actually paid up being eligible. In the same way, it is explicitly recognised that the Banco de España has the power to verify such instruments

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5. As defined in Directive 2006/73/EC; see previous section. **6.** BOE of 8 July 2006. **7.** See section 3.1.1 of the 2005 Report on Banking Supervision in Spain.

(non-voting, callable and preference shares), in order to classify their eligibility as capital and their assignment to the relevant elements thereof.

Reflecting the provisions of Royal Decree 1332/2005, new deductions are made from capital, inter alia, for holdings in insurance and reinsurance companies or in entities whose main business consists of taking holdings in insurance companies, when the holding is more than 20% of the capital of the investee.

Second, the Circular specifies the obligations of groups of financial institutions to have risk management and internal control procedures, and provides for the supervision of their intra-group operations, as already established in the higher-ranking provisions. The risk management procedures and internal control mechanisms shall be based on policies that are clearly defined by the governing bodies and implemented by means of an adequate, integrated, transparent organisational structure with well defined lines of responsibility, taking into consideration all the risks of the activity performed.

In these procedures, the processes of decision taking and risk identification, assumption, measurement, management, monitoring and control shall be approved by competent bodies at the appropriate level. These processes shall be based on objective criteria and shall take into consideration: the appropriate separation of functions, the establishment of operational limits, the frequency of the analysis and revision of both the risks and processes, the periodic preparation of rigorous stress tests, the necessary emergency plans, the adjustment to the policies defined by senior management and the quality, quantity and periodicity of the information reported to the governing bodies.

In addition, the management bodies of the institutions shall have adequate resources to allow them at all times to carry out a comprehensive assessment of the risks that have been incurred or may be incurred and to adopt the strategies of maintenance of the necessary capital levels in each case, anticipating the potential impact on solvency, profitability, liquidity and the risk profile of the institution of, among other factors, their commercial strategies, the development of competition and developments in the economic environment.

Third, some minor changes have been introduced into the definition of consolidable groups, especially when they are controlled by a financial institution situated in a third country. In the case of co-ordination groups of Spanish credit institutions controlled by a foreign financial institution with registered office outside the European Union, the Banco de España shall check, after hearing the institutions concerned, that they are not subject to supervision on a consolidated basis by the competent authority of a third country, which is equivalent to that provided for in Spanish law, in which case the consolidated supervision regime provided for in this Circular shall be applicable to such group.

In the section on the definition of large exposures and limits on concentration, the conditions are established to ensure that, in the aggregation and calculation of the exposures subject to these limits, the gains recorded as valuation adjustments of available-for-sale financial assets are not taken into account.

Finally, section eight of Circular 5/1993 (previously devoted to prudential monitoring of mixed groups) has been revised to also include the information that must be reported by financial conglomerates in relation to which Spain performs the function of co-ordinator, in accordance with the provisions of Law 5/2005 of 22 April 2005.

3.2.2 OTHER REGULATORY CHANGES THAT AFFECT THE ACTIVITIES OF CREDIT INSTITUTIONS

Law 26/2006 of 17 July 2006[8] on private insurance and reinsurance mediation

This law, which repeals Law 9/1992 of 30 April 1992 on private insurance mediation, previously the basic legal framework for this business, has a twofold aim. On one hand, it transposes into Spanish law Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation (this being the Directive that contained the foundations for the harmonisation of insurance mediation in the European Union). On the other, it updates the national regulation of this activity, adapting it to the actual situation of the Spanish insurance market.

This new regulation is based on three basic principles;

a) The regulation of new forms of mediation, covering insurance agents tied to various insurance undertakings and reinsurance brokers, hitherto non-existent categories of agent.

b) The principle of equal treatment for the different types of intermediary, for which purpose equivalent professional requirements are envisaged for all of them, according to their special nature.

c) The principle of transparency, to ensure that consumers are sufficiently protected in this area.

For the purposes of this chapter it is merely necessary to note here the activity of mediation through the distribution networks of credit institutions, an activity that is widely consolidated in the Spanish market. The law calls credit institutions that engage in this activity by the special name *"operadores de banca-seguros"* (bankassurance operators). According to the law, bankassurance operators are credit institutions and commercial companies that they control or have a stake in which, through the execution of an insurance agency contract with one (exclusive bankassurance operator[9]) or more insurance undertakings (tied bancassurance operator), perform the activity of insurance mediation as insurance agents, using credit institutions' distribution networks.

The performance of this activity is expressly made subject to the general rules for insurance agents and to the specific provisions for exclusive and tied agents. A number of particular rules are added to the foregoing, relating to three aspects:

a) The qualifications of persons working in the mediation business, for which purpose the Law requires that half the members of the management body responsible for insurance mediation and those persons responsible for technical management or a similar function shall demonstrate that they have passed a training course or aptitude test in financial matters and private insurance, which fulfils the requirements laid down by the Directorate General for Insurance and Pension Funds[10]. At the same time, persons who form part of the distribution network and who participate directly in insurance mediation shall receive sufficient continuous training, for which purpose credit institutions shall design and impart a specific training programme.

8. BOE of 18 July 2006. **9.** Exclusive insurance agents can be tied to two insurance undertakings provided that they have the authorisation of the first one and in the second one they act in relation to businesses, risks or contracts in which the authorising undertaking does not operate. **10.** As for other agents, this requirement only applies to tied ones; exclusive ones are only required generally to have the knowledge necessary to do their work.

b) In addition to the general reporting obligations applicable to all intermediaries, bancassurance operators are required to notify their clients that the advice given by them is supplied for the purpose of their taking out insurance, and not in respect of any other product that may be sold by the credit institution.

c) Bancassurance operators are also required to perform the activity with a certain degree of exclusivity. Thus, credit institutions may only place their distribution network at the disposal of one bancassurance operator and may not simultaneously be the operator and auxiliary of other insurance intermediaries. In any event, bancassurance operators may use, like any other agent, the services of external auxiliaries who, acting for their own account, shall collaborate in the distribution of insurance products on the terms agreed with the insurance undertaking in the agency agreement.

In all other aspects of their activity as bancassurance operators, credit institutions and their groups are subject to the same provisions as are generally established for other insurance intermediaries.

Order EHA/1439/2006 of 3 May 2006*[11] *regulating the declaration of movements of means of payment within the context of the prevention of money laundering

Order EHA/1439/2006, complementing the modification of the legal regime for capital movements and cross-border financial transactions initiated by Law 19/2003 of 4 July 2003, was published last year. This Order implements the regime applicable to declarations of movements of means of payment.

For the purposes of this chapter, it is only necessary to note that when regulating the declaration of movements of means of payment (banknotes, coins and banker's cheques in an amount of more than €10,000 in the case of cross-border movements and €100,000 in the case of movements within national territory), the Order envisages that the declaration may be made in advance at credit institutions, provided that the movements are at least partially subject to debit in accounts at the institution.

Having received the declaration, the credit institution shall verify that the form (there is only one and it is included as an annex to the Order) has been fully completed, after which it shall process the declaration and return it to the declarant, sending the information contained therein to the Executive Branch of the Commission for the Prevention of Money Laundering.

In addition, credit institutions shall notify the above-mentioned Executive Branch of any transactions in which they act that involve movements of means of payments subject to compulsory declaration. This is without prejudice to the general obligation to notify every transaction showing signs of being or that is definitely related to money laundering.

Order EHA/2619/2006 of 28 July 2006*[12]*, which implements certain obligations relating to the prevention of money laundering incumbent upon subject persons engaging in currency exchange or cross-border transfer management activities

This Order which, like the one mentioned above, is part of the process of updating the legal regime for capital movements and cross-border financial transactions, aims to harmonise and

11. BOE of 13 May 2006. **12.** BOE of 10 August 2006.

strengthen the law on the prevention of money laundering in relation to all subject persons who engage in currency exchange or cross-border transfer management activities.

The order applies to all persons subject to obligations in relation to the prevention of money laundering who engage in currency exchange or cross-border transfer management activities, with respect to transactions that are not subject to a debit or credit in the account of the customer at the entity.

Thus, for those currency exchange or cross-border management transfer transactions without any debit or credit in the customer's account, the order provides for the application of measures for customer identification and knowledge additional to those established generally when their amount, either individually or cumulatively over a calendar quarter, exceeds €3,000, in the case of cross-border transfers, or €6,000, in the case of currency exchanges.

When cross-border transfers are ordered from a distance by telephone or electronic or telematic means, the Order imposes certain precautions relating to customer identification, the provision of funds and the transaction documentation.

The Order requires documents to be retained for at least six years, with specific criteria established for the various types of documentation required by law.

Finally, the order gives subject persons precise and very detailed instructions for the establishment of appropriate internal control and communication procedures and bodies to detect, foresee and prevent the performance of money laundering related transactions. These instructions cover the measures that must be taken and the way in which their appropriateness is verified, based on the results that they should enable to be obtained.

ORDER EHA/1199/2006 of 25 April 2006*[13]*, which implements the provisions of the Regulations of Law 35/2003 of 4 November 2003 regulating collective investment institutions, in relation to hedge funds and funds of hedge funds

The purpose of this order, which is continued in Circular 1/2006 of 3 May 2006 of the National Securities Market Commission[14], is to implement the provisions of the regulations for collective investment institutions contained in Royal Decree 1309/2005 of 4 November 2005 in relation to hedge funds and funds of hedge funds.

For the purposes of this chapter, it is only necessary to mention the particular aspects that the above-mentioned Order and Circular introduce into the regime applicable to credit institutions, with regard to their activity as depositaries for such institutions.

In this respect, the Order provides that hedge fund depositories shall establish a system of control enabling them to ensure that the investment selection procedures implemented by the hedge fund management companies respect the laws in force from time to time.

In relation to these selection procedures, hedge fund management companies are obliged to include in their internal control procedures the qualitative, quantitative and operational criteria on which the assessment and analysis of investments for the funds they manage are based. These criteria shall have been agreed with the depository and shall have the approval of the Board of Directors of the manager and a person with sufficient powers at the depository.

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13. BOE of 26 April 2006. **14.** BOE of 17 May 2006.

The relations between the management companies and the financial intermediaries that provide financing and other services to hedge funds (prime brokers) are likewise subject to special vigilance by the depository. Thus, when a hedge fund's management company arranges a financial pledge agreement with a third-party whereunder ownership of the asset delivered as collateral is transferred to the latter, or the asset is pledged with a right of disposition in favour of the pledgee, this circumstance shall be reported to the depository. In addition, in accordance with the provisions of the Circular, the depository and the management company shall receive from the entity with which a financial pledge agreement has been entered into regular information on the assets subject to the pledge and the amount of the guaranteed financial obligations. The agreement shall regulate the procedure for the reconciliation of any differences in terms of valuation or of positions that should arise.

4 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA IN 2006

4.1 The participation of the Banco de España in international committees

International banking regulation and supervision committees and fora were once again very active last year. Convergence in regulation and supervision, and close co-operation among supervisors are considered essential to achieve the objective of a more globalised financial market in which financial stability is ensured. The work to implement the new prudential framework for bank solvency has simply highlighted these needs and the international fora have organised their work in consequence.

The Banco de España participates in all the banking regulation and supervision fora that are important from the viewpoint of our interests. Notable among them on account of their importance as issuers of principles and recommendations and of their level of activity are the Committee of European Banking Supervisors (CEBS) and the Basel Committee on Banking Supervision (BCBS), the former having a European scope and the latter being more international. The Bank also participates in intersectoral committees, both at the European level (Interim Working Committee on Financial Conglomerates (IWCFC)) and at the international level (Joint Forum (JF)). In addition, the Banco de España participates in the BSC of the Eurosystem.

Box 4.1 contains a description of the committees mentioned.

The Banco de España's commitment to the work of these international committees has been reflected in the draft Law on Solvency released for comment in December. It states that *"the Banco de España may adopt as its own and transmit to institutions and groups, guidelines, (…) approved by international bodies and committees active in banking regulation and supervision".* Also, as Table 1 shows, the Banco de España participates actively both in Supervisory Committees and in their diverse working groups, which enables it to influence preparation of their recommendations from the outset.

This significant presence in international groups not only involves regular participation in all meetings (in 2006 there were more than 150) but, above all, intensive work at the Banco de España, which enables greater and better co-ordination between national regulation and supervision policies and European initiatives in both spheres. In this respect, as mentioned in Chapter 2, the internal reorganisation that has taken place in the area of supervision is also conducive to closer co-operation between the operational departments responsible for the supervision of credit institutions, groups horizontal with the Directorate General Banking Supervision and the Division responsible for international co-ordination in supervision matters.

It should also be noted that since October 2006 the Banco de España has been an associate member of ASBA.

In 2006, the CEBS and the BCBS remained highly focused on the implementation of Pillars 1 and 2 of the Basel II Accord, while starting to consider new projects on their agendas.

Thus, having completed and published the basic tasks commenced in prior years (validation, the supervisory review process and co-operation between supervisors), the CEBS's efforts in Europe focused on developing guidelines for certain specific pillar 2 risks, creating and developing communication networks between supervisors and providing advice to the European Commission. It also commenced an in-depth reflection on the recommendations of the Francq

STRUCTURE OF INTERNATIONAL BANKING SUPERVISION COMMITTEES

BOX 4.1

The following is a very simple representation of the organisation in 2006 of the international banking supervision committees.

EUROPEAN UNION

CEBS
Committee of European Banking Supervisors

- **GdC** (Supervisory policy)
- **EGCR** (Capital)
- **EGFI** (Information, accounting and auditing)

Mandate	– To advise the Commission on banking matters – To promote co-operation and convergence of supervisory practices across the EU – To promote and review the common implementation and consistent application of Community legislation
Chairman	Danièle Nouy (Commission Bancaire. France)
Members	EU supervisors and central banks, including the European Central Bank
Banco de España	José María Roldán (Director General Banking Regulation) and Fernando Vargas (Associate Director General Banking Supervision)

EUROPEAN CENTRAL BANK

BSC
Committee of Eurosystem Banking Supervisors

- **WGMPA** (Macroprudential analysis)
- **WGDB** (Bank situation analysis)
- **WGCR** (Central credit registers)

Mandate	– Analyses matters relating to both banking and other sectors that affect the euro area/EU with an emphasis on financial stability – Analyses the impact of regulatory and supervisory developments on financial stability and on the economy's financing structure and conditions – Promotes co-operation and information exchange among central banks and supervisors on matters of common interest.
Members	Supervisors and central banks of the euro area and the EU and the European Central Bank.
Chairman	Edgar Meister (Bundesbank)
Banco de España	Jesús Saurina (Director of the Financial Stability Department) and Luis Javier Rodríguez (Head of the Supervision Technical Secretariat and Institutional Relations)

INTERNATIONAL

BCBS[1]
Basel Committee of Banking Supervisors

- **PDG** (Supervisory policy)
- **AIG** (Basel II implementation)
- **ILG** (Relations with other supervisors)
- **ATF** (Information, accounting and auditing)

Mandate	Promotes convergence in banking supervisory policies and practices through periodic meetings, the issuance of standards and information exchange among its members.
Members	Supervisors and central banks of Germany, Belgium, Canada, Spain, the United States, France, the Netherlands, Italy, Japan, Luxembourg, the United Kingdom, Sweden and Switzerland.
Chairman	Nout Wellink (De Netherlandsche Bank, the Netherlands). Appointed in mid-2006 to replace Jaime Caruana
Banco de España	José María Roldán and Fernando Vargas

As for co-ordination with other sectoral committees, both the CEBS and the BCBS are very active. The CEBS has signed a protocol on co-operation with the CEIOPS and the CESR[2] which provides for regular meetings and joint work plans. Also a new committee (IWCF) has been created this year, to seek convergence in the treatment of financial conglomerates). For its part, the BCBS co-ordinates with IOSCO and IAIS[3] through the Co-ordination Group and the Joint Forum.

1. Set up in 1974. It reports to the Financial Stability Forum. It is made up of four permanent working groups (Policy Development Group, Accord Implementation Group, International Liaison Group and the Accounting Task Force) and ad-hoc groups that are dissolved when their task is completed. **2.** Other Level 3 committees in the financial area: CESR (securities) and CEIOPS (insurance).

3. Sectoral insurance (IAIS) and securities (IOSCO) committees at the international level.

BANCO DE ESPAÑA PARTICIPATION IN INTERNATIONAL COMMITTEES TABLE 4.1

	2006	
	COMMITTEES AND GROUPS	BANCO DE ESPAÑA PARTICIPATION
BCBS	22	20
JOINT FORUM	4	4
CEBS	23	21
BSC	9	8
IWCFC	3	2
TOTAL	**61**	**55**

report[1]. These matters, along with liquidity risk and application of the third money laundering directive, will also account for a large part of the Committee's work in 2007.

In the international arena, the BCBS, like the CEBS, continued to work for smooth implementation of the Capital Accord. At the same time, the Core Principles for Effective Banking Supervision were revised in order to adapt them to current supervision practices and to strengthen certain aspects, such as sound management of both institutions and supervisors. Looking to the near future, the management of liquidity risk and the definition of capital will be priorities for the Committee, as they are for the CEBS.

Meanwhile, relations between the sectoral supervision committees, both in Europe and in the intercontinental arena, were intensified in response to the increasingly blurred line separating insurance, securities and banking transactions and to the identification of more financial conglomerates. This trend can be expected to strengthen in the future.

Also in the European context, but in the area of financial stability, the Bank participated in the Banking Supervision Committee (BSC) of the ESCB, which continued to work on the preparation of the semi-annual Financial Stability Review, and on publication of annual reports on the stability of the EU banking sector and on banking structures in the EU.

It also worked jointly with the Committee of European Banking Supervisors (CEBS) on identifying appropriate practices for the management of cross-border financial crises and participated in various financial crisis simulation exercises to acquire practical knowledge of the mechanisms in place in the EU. In this respect, it participated in the exercise organised at the EU level in April 2006 under the auspices of the Economic and Financial Committee and also in those carried out by the euro area central banks.

In 2006 the BSC also published a report on assessment of the new accounting standards from the standpoint of financial stability.

4.2 The work of the Committee of European Banking Supervisors

The work of the CEBS was structured around its three objectives:

In its task of advising the European Commission, the CEBS issued technical opinions in response to requests for advice from the European Commission on key subjects such as the

1. The Francq report was issued in February 2006 by the Financial Services Committee (its members represent ministers of finance and the current chairman is the Secretary of State for the Economy David Vegara). It gives a strategic view of how financial regulation and supervision should develop in the coming years and expresses objectives and specific measures to be adopted.

practices of the industry and of supervisors in relation to large exposures and on the current regulations and market trends in relation to capital. In 2007 the CEBS has continued to work on both subjects since further requests for advice have been made by the Commission on specific aspects of large exposures and on a quantitative analysis of the elements that make up capital.

The CEBS prepared two reports on review of the large exposure rules in the light of the new capital adequacy framework. The first one analyses the regulatory differences across Member States and the synergies or conflicts between them. The second one describes the large exposure management practices followed by the industry, as well as its opinion of the current regulatory framework. The CEBS is currently preparing concrete proposals to enhance these rules, in response to a further call for advice from the European Commission, which must be delivered by February 2008.

The CEBS also published two reports on own funds. The first one reviewed the current state of the rules on own funds and the supervisory practices in place in the Member States, concluding that although there is a high degree of similarity in the definition of the purpose of own funds, differences arise not only from the flexibility granted by the Directive, but also from the local market specificities and from differences in tax systems and supervisory practices. The second report analyses the capital instruments recently created by the industry, noting that there are differences across Member States in the application of the Sydney press release, that is to say in the recognition of certain hybrid instruments as Tier 1 capital. The group has continued to work in 2007 on a quantitative analysis of own funds and on revision of the legal framework for the eligibility of hybrid instruments.

For its part, the IWCFC published in January 2007 a comparison of the rules for the eligibility of capital instruments in application of the respective banking, securities and insurance directives.

Another call for advice on commodities derivatives was also received, which the CEBS has already answered, at the beginning of 2007, with the results of its survey of prudential practices.

In addition, the CEBS, together with CESR and CEIOPS, sent a letter to the Commission regarding the proposal to amend the procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector[2]. The aim of the amendment is to improve the legal certainty, clarity and transparency in the approval process for these operations in the financial sector and to avoid the ambiguous situation in which supervisors found themselves when applying Article 19 of the current Directive (16 of the previous one).

In relation to the consistent application of Community law and convergence in supervision policies, the CEBS completed its guidelines[3] for the implementation of the Capital Adequacy Directive ("CEBS guidelines on supervisory cooperation for cross-border banking and invest-

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2. Proposal to amend Directives 92/49/EEC, 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector. The final text is due to be adopted on 11 July 2007. **3.** The guidelines issued by the CEBS will be a key element in consistent application across the Member States of the new Capital Adequacy Directive. Both institutions and supervisors needed guidelines that, without being prescriptive, would serve as guidance from the standpoint of the proportionality principle. This facilitates the dialogue between supervisors and supervised institutions when supervisors' expectations in this area are set. The Banco de España has actively participated in the preparation of such guidelines, influencing their final design, and they will certainly be one the main sources of inspiration when it prepares its own recommendations.

ment firm groups" and "Validation"). Both sets of guidelines involve a significant advance in the rationalisation of the approval procedures for the advanced models of cross-border groups in which more than one European supervisor is involved.

It also completed its guidelines on "The Supervisory Review Process under Pillar 2", developing the areas of interest rate risk in the banking book, concentration risk and stress tests through technical guidance.

In the case of interest rate risk, apart from requiring institutions to manage this risk appropriately, the Directive requires that measures shall be taken by supervisors where an institution's economic value declines by 20% as a result of a "standard shock". In these guidelines the CEBS proposes a common definition of "standard shock" to be used by supervisors, which will certainly help to level the playing field in the application of this requirement. In addition these guidelines give guidance to institutions on how to identify, measure and manage this risk and to supervisors on how they should review this item.

In the case of concentration risk arising from excessive exposure to certain counterparties and to certain risk factors, the guidelines make a number of recommendations to institutions such as the use of internal limits on these concentrations or equivalent systems and the need to have written policies on the management of this risk and systems for assessing the capital necessary to cover it.

As for stress tests, these are required in various parts of the Directive. Their scope differs but their aim is always to obtain a view of risks that is more independent of the assumptions that underlie capital calculations. The guidelines address aspects like the frequency with which these tests should be performed, the type of scenario that should be envisaged, the quality of the data, etc.

The CEBS' work on the FINREP (relating to financial information) and COREP (relating to solvency) reporting frameworks continued to pursue the further rationalisation of reporting requirements in the EU. In 2006 updated versions of each were published.

The CEBS declared its intention to update periodically the guidelines for preparing financial statements (FINREP) and prudential returns (COREP) so as to take account of new developments in international accounting standards (IAS/IFRS) and in the reporting requirements derived from Directives 2006/48/EC and 2006/49/EC.

The CEBS published last December the version of FINREP for 2007. This new version includes changes of minor importance to resolve problems noted when the FINREP taxonomy and the national adaptations to it were being developed. Similarly, in October 2006, the CEBS published an updated version of the common framework for prudential returns. In preparing it, the CEBS secretariat was supported by the operational network entrusted with updating and maintaining it.

Since its creation in September 2006, the COREP operational network has been co-ordinated by the Banco de España. In addition, the Banco de España has co-ordinated the XBRL operational network.

In other areas, the CEBS completed its guidelines on "The recognition of external credit assessment institutions" which, in addition to providing guidance for assessing rating agencies, establishes a joint procedure for assessment by European supervisors which has already been put into practice for the recognition (informal until such time as the legislation comes into effect) of those agencies that have requested it.

After several years of discussion, guidelines on "Outsourcing" were also published. These consist of a set of principles based on the current practices of the industry and of supervisors, without overlooking international regulatory developments. The CEBS and CESR co-operated closely to make the guidelines consistent with the Markets in Financial Instruments Directive (MiFID).

It is also important to note the work on supervisory transparency commenced last year, whereby both the CEBS and all national supervisors are publishing on their respective websites information on how the Capital Adequacy Directive is being implemented.

To implement the recommendations included in the Franq report, the CEBS set up a Convergence Task Force entrusted with this task. The work of the task force has focused on analysing the mechanisms for fostering joint inspections, common training programmes, staff exchanges, mediation and peer review[4] among supervisors. In all these projects it has worked in conjunction with the CESR and CEIOPS and, in particular, for the mediation and peer review projects the mechanisms already implemented by the CESR are being analysed to adapt them to the specifications of banking supervision.

Regarding the aim of promoting co-operation and information exchange between supervisors, now that it has completed the package of guidelines, the CEBS has undertaken a clear change in its focus, moving from the design of the conceptual framework of supervision (represented by the issuance of guidelines) to concentrate on greater convergence in day-to-day supervisory practice. The most obvious sign of this change has been the creation of a group formed by the "operational" supervisors (both home and host) of a set of banking groups with a presence in various EU countries which, in turn, are supported by "operational" groups of specialists in credit and operational risk. The aim of this group, which works in close co-operation with the related banking groups, is to identify any issues that arise in the practical application of the Directive and the CEBS guidelines. The Banco de España is present in this group in its capacity as home-country supervisor of one of these banking groups.

Also, the CEBS has started to hold implementation seminars (four in 2006) to which it invites industry representatives. These seminars provide a forum in which to share experiences and discuss practical problems affecting both supervisors and supervised institutions.

Following is a list of the documents published by the CEBS in 2006:

Advice to the European Commission

May	Current supervisory practices on large exposures
June	Current rules on own funds and market trends in new capital instruments
August	Industry practices on large exposures
October	Joint letter with the CESR and CEIOPS regarding the proposal to amend the procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector.

4. Peer reviews of national supervisory practices by supervisors from other EU countries are intended to strengthen compliance with members' commitments to supervisory transparency at level 3.

Standards and guidelines

January	Guidelines	Common reporting framework (COREP) to be used in reporting the solvency ratio to supervisory authorities
January	Guidelines	Recognition of External Credit Assessment Institutions
January	Guidelines	Supervisory review process under Pillar 2
January	Guidelines	Supervisory co-operation for cross-border banking and investment firm groups
April	Guidelines	Validation
October	Technical guideline	Interest rate risk in the banking book.
October	Recast version of guidelines	Common Reporting (COREP) of the new solvency ratio
December	Guidelines	Outsourcing
December	Technical guideline	Concentration risk.
December	Technical guideline	Stress testing
December	Recast version of guidelines	Financial reporting (FINREP)

QIS 5

June		Results for Europe

4.3 Work of the Basel Committee on Banking Supervision

The Committee's work revolved around two broad matters: the implementation of Basel II and the review of the core principles for banking supervision.

Regarding Basel II, the BCBS focused its efforts on smoothing the process of implementation of this complex agreement. In view of the findings of the fifth Quantitative Impact Study (QIS 5), the BCBS decided not to change the quantitative parameters, thereby concluding the Basel II new framework[5]. In general, the QIS 5 yielded results in line with the incentives included in the framework to encourage credit institutions to adopt more advanced methods to calculate their capital requirements.

The BCBS also worked, through its implementation group (AIG) currently chaired by the Banco de España, to promote consistency in implementation though the exchange of information and experience between supervisors. This work includes most notably: 1) validation, operational risk and trading book studies, and 2) principles for effective home-host information sharing.

Noteworthy in the area of information exchange between supervisors is the work by the AIG in conjunction with the Core Principles Liaison Group[6] (CPLG) (currently the International Liaison Group (ILG)) which enabled the publication in June 2006 of a document setting out general principles for information exchange between home and host supervisors for effective implementation of Basel II. The document includes practical examples of the information to be provided by institutions and by home and host supervisors to facilitate the implementation process. Further to this work, in February 2007 the BCBS released for public comment a se-

5. The CEBS, which had played a primary role in conducting the QIS 5 at EU level, published in June 2006 the results of the study for Europe. **6.** Working group in which supervisors from 16 countries not belonging to the Committee participate.

ries of principles for home-host supervisory co-operation and allocation mechanisms in the context of Advanced Measurement Approaches (AMA).

From a more academic standpoint, the BCBS also worked also worked on certain matters on which the industry had requested clarification, such as the inclusion of vendor models in advanced internal models and the requirements for use tests. Also, important work was done on concentration risk.

Review of core principles for effective banking supervision (BCP). Following the publication of Basel II, this review accounted for a good part of the work of the BCBS in close consultation with the ILG (formerly the CPLG — Core Principles Liaison Group) and its final text was approved in an international meeting of banking supervisors (Mexico, October 2006). The "new principles" pay significantly more attention to appropriate risk management and to corporate governance practices. A new catch-all principle covering all matters common to the different risks was added, and improvements were made to the criteria for assessing interest rate, liquidity and operational risk and to those for money laundering, terrorist financing and preventing fraud. In addition, international and inter-sectoral trends and developments are reflected more fully, as is the need for closer co-operation and information exchange between the supervisory authorities of different countries and sectors. The review also highlights the importance of independence, accountability and transparency of the supervisory authorities.

In other areas, mention should be made of the Basel Committee's work on accounting matters, such as the use of fair value, the valuation of assets and corporate governance.

The Joint Forum carried out important work on business continuity (see table) giving useful insight into the wide range of practices used by institutions, on the regulatory and market differences across sectors and on liquidity risk management.

The documents published by the BCBS/Joint Forum in 2006 were:

October	BCBS	Document	Practices in the application of AMA
October	BCBS	Principles	Effective banking supervision
August	Joint Forum	Principles	Business continuity
June	BCBS	Guidelines	Sound credit risk assessment and valuation for loans
June	BCBS	Guidelines	Use of the fair value options for financial instruments by banks
June	BCBS	Principles	Home-host information sharing for effective Basel II implementation
May	BCBS	Press release	Calibration of Basel II framework
May	Joint Forum	Document	The management of liquidity risk in financial groups
May	Joint Forum	Document	Regulatory and market differences: issues and observations
February	BCBS	Guidelines	Corporate governance in banking organisations

4.4 Work on financial stability in the ECB

The Banco de España, via its participation in the Eurosystem's Banking Supervision Committee (BSC), continued working in 2006 on the preparation of the reports published by the ECB, such as the half-yearly Financial Stability Review, the yearly report on banking sector stability in the EU and the analysis of developments in European banking structures. Specific issues also addressed in 2006 included the impact of the new accounting standards on financial stability and the activity of hedge funds. Work also proceeded on the risk management practices of European banks.

Mention should also be made of the study in the area of cross-border financial crisis management that the BSC and CEBS carried out jointly on practices in information exchange and co-operation that should be followed by central banks and supervisors. The aim of this work was to enhance the operational effectiveness of the existing mechanisms and to determine the areas that can be improved.

4.5 ASBA

On 2 October 2006 the Assembly of the Association of Banking Supervisors of the Americas (ASBA by its Spanish acronym) approved the Banco de España's change in status within the Association from collaborating member to associate member, which will entail a greater involvement of the Banco de España in the activities of ASBA.

In 2006 the Banco de España again organised the seminar on validation of advanced credit risk models and the Basel II implementation process for Latin American supervisors. The supervisors of other countries is which Spanish banks have a presence were also invited to attend the seminar. The aim was to communicate the experience of the Spanish supervisory authority in this area and to promote an exchange of view on the best way of confronting the transition to Basel II.

ANNEX 1 SPANISH CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (DECEMBER 2006)

Spanish consolidated groups of credit institutions (December 2006)

Explanatory notes

Full consolidation method is applied except as otherwise indicated:

- (*) Proportionate consolidation method.
- (**) Equity method.
- (A) Indicates that the institution joined the CG in 2006.
- DI Deposit institutions.
- OCI Other credit institutions.

BANKS

SCH Group, Financial Conglomerate [Coordinator: Banco de España]

0049-Banco Santander Central Hispano, SA (Spain)	DI	
0011-Allfunds Bank, SA (*)	DI	
0030-Banco Español de Crédito, SA	DI	
0036-Santander Investment, SA	DI	
0038-Banesto Banco de Emisiones, SA	DI	
0073-Open Bank Santander Consumer, SA	DI	
0083-Banco Alicantino de Comercio, SA	DI	
0086-Banco Banif, SA	DI	
0091-Banco de Albacete, SA	DI	
0224-Santander Consumer Finance, SA	DI	
4757-Bansalease, SA, EFC	OCI	
4784-Transolver Finance, EFC, SA (*)	OCI	
4797-Santander de Leasing, SA, EFC	OCI	
8206-Hipotebansa, EFC, SA	OCI	
8236-Santander Consumer, EFC, SA	OCI	
8490-Santana Credit, EFC, SA	OCI	
8512-Union Créditos Inmobiliarios (*)	OCI	(A)
8906-Santander Factoring y Confirming	OCI	
8910-Banesto Factoring, SA, EFC	OCI	

Angola	Banco Totta de Angola, Sarl	DI	
Argentina	Banco Rio de La Plata	DI	
	Préstamos de Consumo, SA	DI	
Austria	Santander Consumer Leasing Austria Gmbh	OCI	
Bahamas	Santander Bank & Trust Ltd.	DI	
	Panamerican Bank (Bahamas)	DI	
	Santander Investment Bank (S.I.B.)	DI	
	Santander Merchant Bank	DI	
	Banco Santander Bahamas Internacional Ltd	DI	
Belgium	Santander Benelux, SA	DI	
Brazil	Banco Santander Banespa SA	DI	
	Santander Brasil Arrendamiento Mercan.	OCI	
	Santander Comp. Securitiz. Créditos Financier.	OCI	
	Santander Banespa Asset Management Ltda.	OCI	
Cayman Islands	Serfin International Bank & Trust	DI	
	Totta & Açores Financing, Limited	OCI	
Chile	Banco Santander Chile	DI	
	Santander Factoring	OCI	
	Santiago Leasing	OCI	
Colombia	Banco Santander Colombia, SA	DI	
Czech Republic	Santander Consumer Finance A.S.	OCI	
Germany	Santander Consumer Bank Aktiengesellschaft	DI	
	Santander Consumer Leasing Gmbh	OCI	
Hungary	Santander Consumer Finance Zrt.	OCI	
Ireland	Totta Ireland, Plc	DI	
Italy	FC Factor S.R.L.	OCI	
	Santander Consumer Bank SPA.	OCI	
	Unifin	OCI	(A)
Mexico	Banco Santander, SA, Institución de Br.	DI	
Netherlands	Santander Consumer Finance B.V.	DI	
Netherlands Antilles	Banco Caracas N.V.	DI	
Norway	Santander Consumer Bank	DI	
Panama	Banco Santander (Panama)	DI	
Paraguay	Banco de Asunción, SA	DI	
Poland	Santander Consumer Spólka Akcyjna	DI	
	Polskie Towarzystwofinansowe, SA	OCI	
Portugal	B.S.N. Portugal	DI	
	Banco Madesant	DI	
	Banco Santander Totta	DI	
	Interbanco, SA	DI	(A)
	Totta-Crédito Especializado, Ific, SA	OCI	
Puerto Rico	Bst International Bank, Inc.	DI	
	Banco Santander Puerto Rico	DI	
	Santander Overseas Bank Inc.	DI	
	Santander Mortgage Corp.	DI	
	Santander International Bank	DI	
	Santander Financial Services	OCI	
	Crefisa	OCI	
Switzerland	Banco Santander (Suisse), SA	DI	
UK	Abbey National Plc	DI	
	Abbey National Treasury Services PLC	DI	(A)
	Ca Premier Banking Limited	DI	(A)

				Buhal Leasing, Ltd.	OCI	
				Santander Consumer Finance (Uk) PLC	OCI	
				Abbey National Juneleasing (5) Ltd	OCI	(A)
				Abbey National March Leasing (4) Limited	OCI	(A)
				Abbey National Business Asset Leasing Ltd	OCI	(A)
				Abbey Card Serviceslimited	OCI	(A)
				Abbey Covered Bonds(Lm) Limited	OCI	(A)
			US	Banco Santander International Miami	DI	
				Totta & Açores Inc.- Newark	DI	
				Group Drive	DI	(A)
			Uruguay	Banco Santander Uruguay	DI	
				Rio Bank Internationalsaife	DI	
			Venezuela	Banco de Venezuela, S.A.C.A.	DI	
			Jersey	Abbey National International Limited	DI	(A)

Mapfre Group, *Consolidated proportionally with Caja Madrid-2038*

0063-Banco Ser. Fin. Caja Madrid-Mapfre (Spain)	DI					
0125-Bancofar, SA	DI		Mexico	Finanmadrid Mexico SA	OCI	
4837-Madrid Leasing Corporación, SA	OCI					
8793-Finanmadrid, SA, EFC	OCI					

Pastor Group, Mixed Group [reports to Banco de España]

0072-Banco Pastor, SA (Spain)	DI
8620-Pastor Servicios Financieros	OCI

Popular Group, Mixed Group [reports to Banco de España]

0075-Banco Popular Español, SA (Spain)	DI					
0004-Banco de Andalucía, SA	DI		France	Banco Popular France	DI	
0024-Banco de Crédito Balear, SA	DI		Portugal	Banco Popular Portugal	DI	
0082-Banco de Castilla, SA	DI			Heller Factoring Portuguesa	OCI	
0095-Banco de Vasconia, SA	DI					
0097-Banco de Galicia, SA	DI					
0216-Banco Popular Hipotecario, SA	DI					
0229-Bancopopular-e, SA	DI					
0233-Popular Banca Privada, SA	DI					
8816-Sdad. Conjunta Emisión G.M.P., EFC, SA (*)	OCI	(A)				
8903-Popular de Factoring, SA, EFC	OCI					

Sabadell Group, Mixed Group [reports to Banco de España]

0081-Banco de Sabadell, SA (Spain)	DI					
0185-Sabadell Banca Privada, SA	DI		Andorra	Banc Sabadell d'Andorra, SA	DI	
0228-Caceis Bank España, SA	DI	(A)	Bahamas	Banco Atlántico (Bahamas) Bank And Trust	DI	
8211-Bansabadell Financiación, EFC, SA	OCI		France	Banco Atlántico Mónaco S.A.M.	DI	
8821-Bansabadell Fincom, EFC, SA (*)	OCI					

Bankpyme Group, Financial Conglomerate, subject to additional supervisory requirements [Coordinator: Directorate General of Insurance]

Agrupacion Mutua del Comercio y de La Industria (Spain)	
0142-Bco. Pequeña y Med. Empresa	DI
4753-Edamleasing, EFC, SA	OCI
8734-Multiahorro, EFC, SA	OCI

BBVA Group, Financial Conglomerate [Coordinator: Banco de España]

0182-Banco Bilbao Vizcaya Argentaria, SA (Spain)	DI					
0009-Finanzia, Banco de Crédito, SA	DI		Argentina	BBVA Banco Francés, SA	DI	
0057-Banco Depositario BBVA, SA	DI			Psa Finance Argentina Compañía Financiera, SA (*)	OCI	
0113-Banco Industrial de Bilbao, SA	DI		Brazil	Banco Uno-e Brasil, SA	DI	
0121-Banco Occidental, SA	DI		Cayman Islands	Mercury Trust Limited	OCI	
0129-BBVA Banco de Financiación, SA	DI		Chile	Banco Bilbao Vizcaya Argentaria Chile, SA	DI	
0132-Banco de Promoción de Negocios	DI			Fórum Servicios Financieros, SA (*)	OCI	(A)
0227-Uno-e Bank, SA	DI			Gente BBVA, SA	OCI	(A)
1004-Banco de Crédito Local de España	DI		Colombia	BBVA Colombia, SA	DI	
8321-Iberdrola Serv. Finan., EFC, SA	OCI		Ireland	BBVA Ireland Public Limited Company	OCI	
8908-BBVA Factoring, EFC, SA	OCI		Italy	BBVA Finance SPA.	OCI	
				BBVA Finanzia, SPA	OCI	
			Mexico	BBVA Bancomer Servicios, SA	DI	
				BBVA Bancomer, SA de C.V.	DI	
				Hipotecaria Nacional, SA de C.V.	OCI	
			Netherlands Antilles	Banco Provincial Overseas N.V.	DI	
			Panama	Banco Bilbao Vizcaya Argentaria (Panama), SA	DI	
			Paraguay	BBVA Paraguay, SA	DI	

Peru	Banco Continental, SA	DI	
Portugal	Banco Bilbao Vizcaya Argentaria (Portugal), SA	DI	
	BBVA,Instituçao Financeira de Crédito, SA	OCI	
	Leasimo - Sociedade de Locaçao Financeira, SA	OCI	
Puerto Rico	Banco Bilbao Vizcaya Argentaria Puerto Rico	DI	
	BBVA International Investment Corporation	OCI	
Switzerland	BBVA Switzerland, SA (BBVA Switzerland)	DI	
US	BBVA Bancomer Usa	DI	
	Laredo National Bank	DI	
	Texas State Bank	DI	(A)
	Homeowners Loan Corporation	OCI	
	Valley Mortgage Company, Inc.	OCI	(A)
Uruguay	Banco Bilbao Vizcaya Argentaria Uruguay, SA	DI	
Venezuela	Banco Provincial SA - Banco Universal	DI	
Jersey	BBVA Privanza (Jersey), Ltd.	DI	

Deutsche Group

Deutsche Bank, AG (Germany)	DI
0019-Deutsche Bank, SAE.	DI
0205-Deutsche Bank Credit, SA	DI

Paribas Group

BNP Paribas (France)	DI
0058-BNP Paribas España, SA	DI
0225-Banco Cetelem, SA	DI
8798-Euro Crédito, EFC, SA	OCI

Barclays Group, Mixed Group [reports to Banco de España]

Barclays PLC (UK)	DI
0065-Barclays Bank, SA	DI
8905-Barclays Factoring, SA, EFC	OCI

Citibank Group

Citigroup Inc. (US)	DI
0122-Citibank España, SA	DI
8818-Citifin, SA, EFC	OCI

General Electric Group

General Electric Capital Corp. (US)	
0223-General Electric Capital Bank, SA	DI
8821-Bansabadell Fincom, EFC, SA (*)	OCI

UBS Group

UBS AG (Switzerland)	DI
0226-UBS España, SA	DI

OTHER GROUPS OF BANKS (only consolidated with other financial institutions not subject to the supervision of the Banco de España)

0042-Banco Guipuzcoano, SA	DI	
0061-Banca March, SA	DI	Parent: Familia March, Mixed Group [reports to Banco de España]
0078-Banca Pueyo, SA	DI	
0128-Bankinter, SA	DI	Mixed Group [reports to Banco de España]
0188-Banco Alcalá, SA	DI	
0198-Banco Cooperativo Español, SA	DI	
0211-EBN Banco de Negocios, SA	DI	
0232-Banco Inversis Net, SA	DI	
1000-Instituto de Crédito Oficial	EC	
0094-RBC Dexia Investor Services España	DI	Parent: RBC Dexia Investor Services Limited (UK)
0131-Banco Espirito Santo, SA	DI	Parent: Banco Espirito Santo Lisboa (Portugal) ED
0138-Bankoa, SA	DI	Parent CRCAM Pyrenées Gascogne (France) ED
0186-Banco de Finanzas e Inversiones	DI	Parent: Grupo Mediolanum SPA (Italy)
0200-Privat Bank, SA	DI	Parent: Banque Degroof, SA (Belgium) ED
0217-Banco Halifax Hispania, SA	DI	Parent: Hbos Plc (UK) ED

SAVINGS BANKS

Caja Cataluña Group, Mixed Group [reports to Banco de España]

2013-Caixa D'Estalvis de Catalunya	DI
4779-Leasing Catalunya, EFC, SA	OCI
8915-Factorcat, EFC, SA	OCI

M.P. Córdoba Group, Mixed Group [reports to Banco de España]

2024-Caja de Ahorros y M.P. de Córdoba	DI
8612-Comerciantes Reunidos del Sur, SA	OCI

Caja Madrid Group, Financial Conglomerate [Coordinator: Banco de España]

2038-Caja de Ahorros y M.P. de Madrid	DI			
0063-Banco Ser. Fin. Caja Madrid-Mapfre (*)	DI	Mexico	Finanmadrid Mexico, SA (*)	OCI
0099-Altae Banco, SA	DI			
0125-Bancofar, SA (*)	DI			
4837-Madrid Leasing Corporacion, SA (*)	OCI			
8793-Finanmadrid, SA, EFC (*)	OCI			

Cajastur Group, Mixed Group [reports to Banco de España]

2048-Caja de Ahorros de Asturias	DI
0115-Banco Liberta, SA	DI

Caja Baleares Group, Mixed Group [reports to Banco de España]

2051-Caja de Ahorros y M.P. de Baleares	DI
4838-Sa Nostra de Inversiones,EFC, SA	OCI

Caja Cantabria Group

2066-C. Ahorros de Santander y Cantabria	DI
4819-Bancantabria Inversiones, SA, EFC.	OCI

C. San Fernando Group

2071-C.A.P. S. Fernando de Sevilla y Jerez	DI
8596-Union Cto. Fin. Mob. Inm. Credifimo	OCI

Bancaja Group, Mixed Group [reports to Banco de España]

2077-Bancaja	DI	
0093-Banco de Valencia, SA	DI	
8825-Adquiera Servicios Financieros EFC,	OCI	(A)

Caixa Vigo Group

2080-Caixa Vigo, Ourense e Pontevedra	DI
0046-Banco Gallego, SA	DI

Ibercaja Group, Mixed Group [reports to Banco de España]

2085-Ibercaja	DI
4832-Ibercaja Leasing y Financiación	OCI

C. Mediterráneo Group, Mixed Group [reports to Banco de España]

2090-Caja de Ahorros del Mediterráneo	DI
8824-Camge Financiera, EFC, SA	OCI

Caja Galicia Group, Mixed Group [reports to Banco de España] (A)

2091-Caja de Ahorros de Galicia	DI
8240-Crediter SA, EFC	OCI

Kutxa Group, Mixed Group [reports to Banco de España]

2095-Bilbao Bizkaia Kutxa	DI			
4809-Adefisa Leasing, EFC, SA	OCI	France	Arca, SA	DI

La Caixa Group, Financial Conglomerate [Coordinator: Banco de España]

2100-C. Ahorros y Pensiones de Barcelona	DI			
0133-Banco de Europa, SA	DI	France	Recouvrements Dulud, SAS	OCI
8221-Corporacion Hipotecaria Mutual	OCI			
8776-Finconsum, EFC, SA	OCI			
8788-Financiacaixa 2, EFC, SA	OCI			

Caja Gipuzkoa Group, Mixed Group [reports to Banco de España]

2101-Caja Ahorros Gipuzkoa y S. Sebastián	DI
0059-Banco de Madrid, SA	DI
8811-Group Serv. Hip. On-Line, EFC, SA	OCI

Unicaja Group, Mixed Group [reports to Banco de España]

2103-Unicaja	DI
0184-Banco Europeo de Finanzas, SA	DI

OTHER GROUPS OF SAVINGS BANKS (only consolidated with other financial institutions not subject to the supervision of the Banco de España)

2000-Confed. Española SAVINGS BANKS	DI	
2010-M.P. y Caja Gral. Badajoz	DI	Mixed Group [reports to Banco de España]
2017-Círculo Católico Obreros de Burgos	DI	
2018-Caja de Ahorros Municipal de Burgos	DI	
2030-Caixa d'Estalvis de Girona	DI	Mixed Group [reports to Banco de España]
2031-Caja General de Ahorros de Granada	DI	Mixed Group [reports to Banco de España]
2032-Caja de Ahorro Prov. de Guadalajara	DI	
2037-Caja de Ahorros de La Rioja	DI	
2040-Caixa d'Estalvis Comarcal Manlleu	DI	
2041-Caixa d'Estalvis de Manresa	DI	Mixed Group [reports to Banco de España]
2042-Caixa d'Estalvis Laietana	DI	Mixed Group [reports to Banco de España]
2043-Caja de Ahorros de Murcia	DI	
2045-Caja de Ahorros y M.P. Ontinyent	DI	
2052-Caja Insular de Ahorros de Canarias	DI	
2054-Caja de Ahorros y M.P. de Navarra	DI	Mixed Group [reports to Banco de España]
2056-Colonya-Caixa d'Estalvis Pollensa	DI	
2059-Caixa d'Estalvis de Sabadell	DI	Financial Conglomerate, subject to additional supervisory requirements [Coordinator: Banco de España]
2065-Caja General de Ahorros de Canarias	DI	
2069-Caja Ahorros y Monte Piedad Segovia (**)	DI	
2073-Caixa d'Estalvis de Tarragona	DI	Mixed Group [reports to Banco de España]
2074-Caixa d'Estalvis de Terrassa	DI	Financial Conglomerate, subject to additional supervisory requirements [Coordinator: Banco de España]
2081-Caixa d'Estalvis del Penedès	DI	Mixed Group [reports to Banco de España]
2086-Caja Ahorros Inmaculada de Aragón	DI	Mixed Group [reports to Banco de España]
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2094-Caja de Ahorros y M.P. de Ávila	DI	
2096-Caja España de Inversiones	DI	Mixed Group [reports to Banco de España]
2097-Caja de Ahorros de Vitoria y Álava	DI	Mixed Group [reports to Banco de España]
2098-M.P. y C.A. de Huelva y Sevilla	DI	
2099-Caja Ahorros y M.P. de Extremadura	DI	
2104-Caja Ahorros de Salamanca y Soria	DI	Mixed Group [reports to Banco de España]
2105-Caja Ahorros de Castilla-La Mancha	DI	Mixed Group [reports to Banco de España]

CREDIT CO-OPERATIVES (only consolidated with other financial institutions not subject to the supervision of Banco de España)

3017-Caja R. de Soria, S.C.C.	DI	
3021-Caja R. de Aragón, S.C.C.	DI	
3025-Caixa C. dels Enginyers, S.C.C.	DI	
3035-Caja Laboral Popular, C.C.	DI	Mixed Group [reports to Banco de España]
3058-Caja R. Intermediterránea, S.C.C.	DI	Mixed Group [reports to Banco de España]
3062-Caja R. de Ciudad Real, S.C.C.	DI	
3067-Caja R. de Jaén, S.C.C.	DI	
3081-Caja R. de Toledo, S.C.C.	DI	
3084-Ipar Kutxa Rural, S.C.C.	DI	
3085-Caja R. de Zamora, C.C.	DI	
3171-Caixa dels Advocats-Caja Abogados	DI	
3172-Caja Caminos, S.C.C.	DI	
3183-Caja de Arquitectos S.C.C.	DI	
3187-Caja R. del Sur, S. Coop. Crédito (**)	DI	
3189-Caja R. Aragonesa y de los Pirineos	DI	

SPECIALISED CREDIT INSTITUTIONS (SCIs)

Cartuja Group

Cartuja Corporación (Spain)	
8817-Cartuja Financiera Andaluza, SA	OCI

ING Lease Group, Mixed Group [reports to Banco de España]

ING Groep N.V. (Netherlands)	OCI
4709-ING Lease (Spain), EFC, SA	OCI
8820-ING Real Estate Finance (España), EFC	OCI

Renault Group

Renault, SA (France)	
8345-Renault Financiaciones, SA, EFC	OCI
4726-Accordia España, SA, EFC	OCI

Carrefour Group

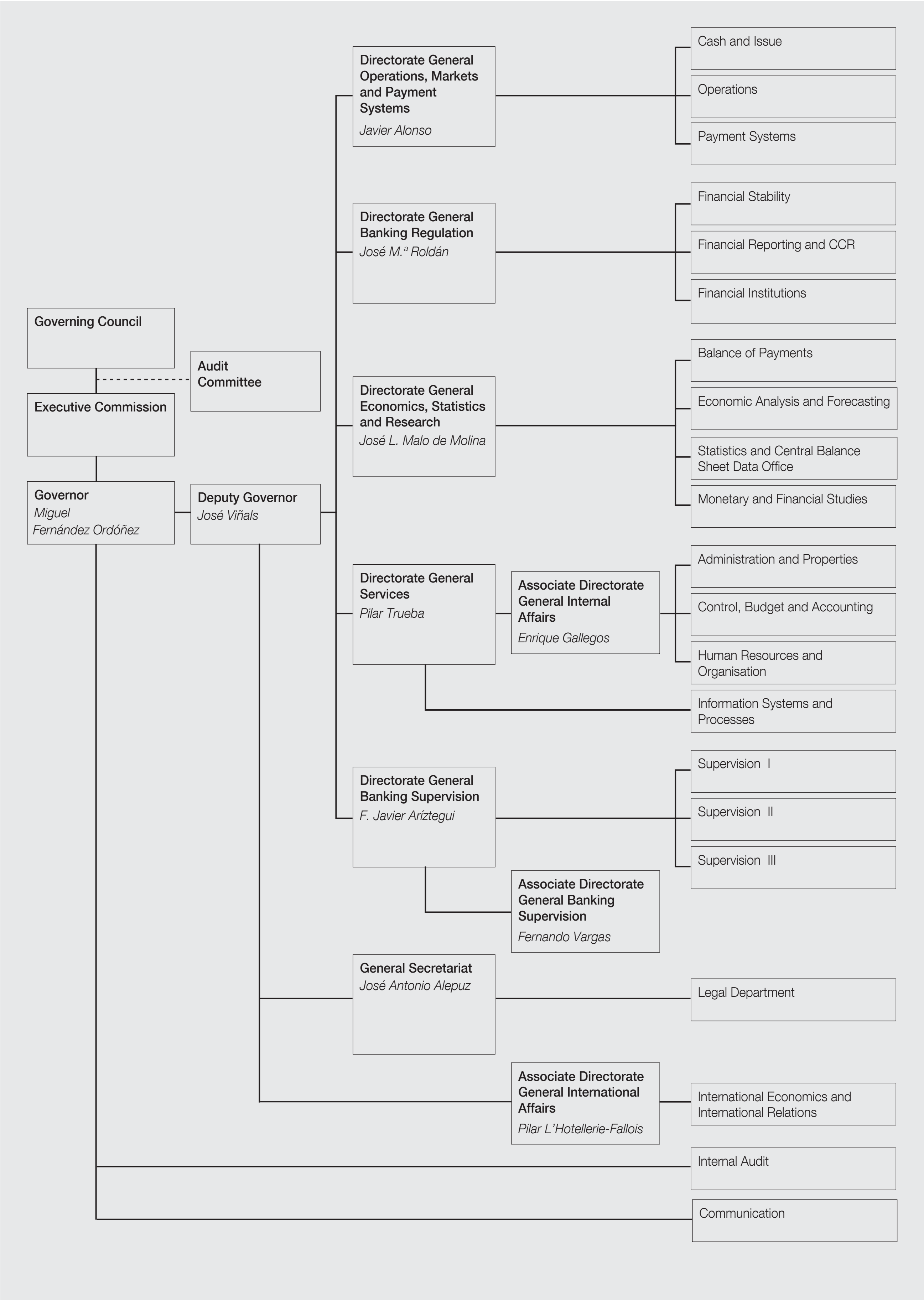
Carrefour, SA (France)	
8795-Servicios Financieros Carrefour, EFC, SA	OCI
8815-Finandia, EFC, SA	OCI

G.M.A.C. España Group

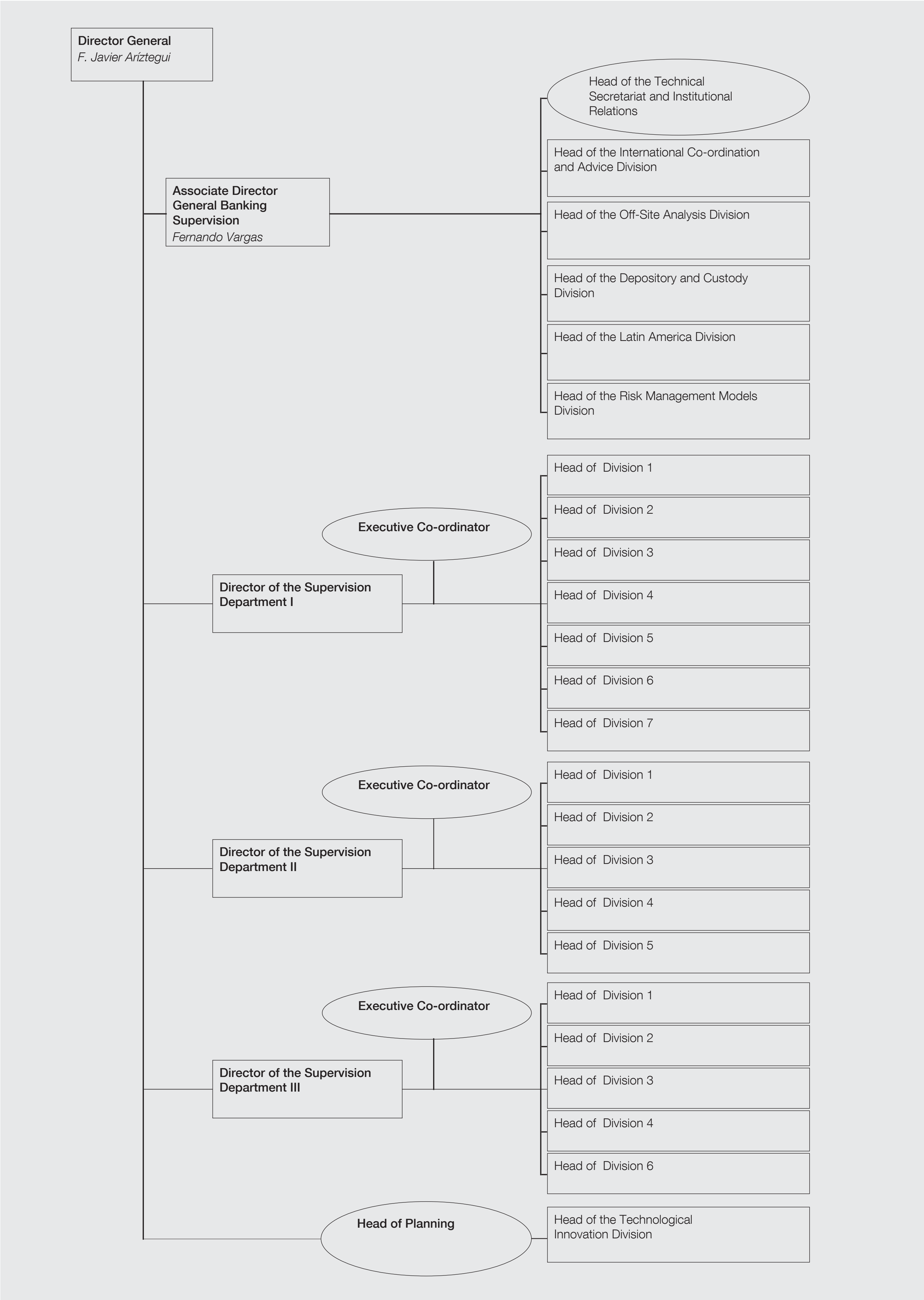
General Motors Corporation (US)		
8714-GMAC España, SAF, EFC	OCI	
8827-GMAC Residential Funding Corporation	OCI	

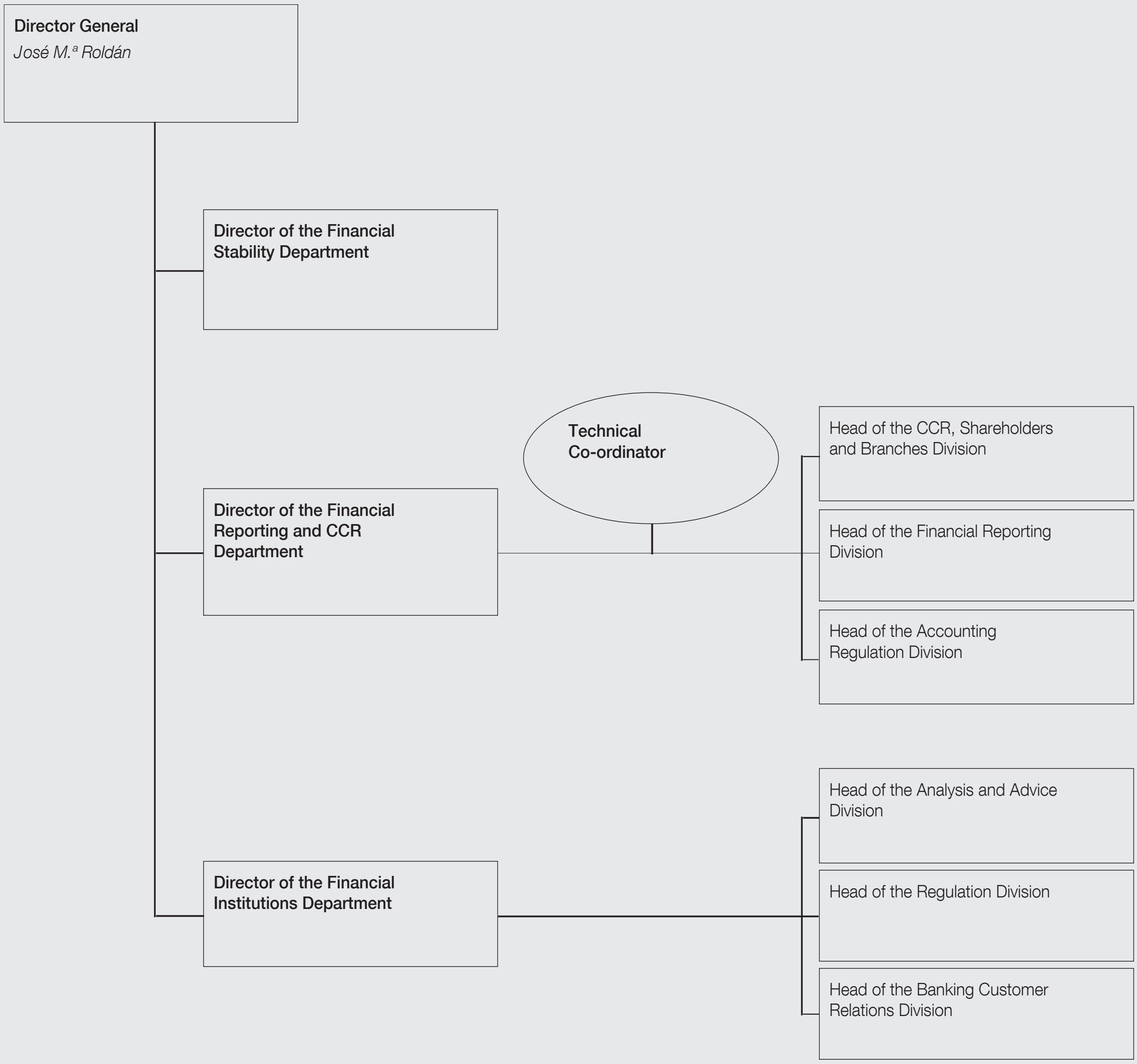
OTHER GROUPS OF SCIs (only consolidated with other financial institutions not subject to the supervision of the Banco de España)		
4713-Lico Leasing, SA, EFC	OCI	
8512-Unión Créditos Inmobiliarios	OCI	Proportionately consolidated with SCH-0049
8807-Arafin, EFC, SA	OCI	

GENERAL ORGANISATION CHART OF THE BANCO DE ESPAÑA (31/12/2006)



ORGANISATION CHART OF THE DIRECTORATE GENERAL BANKING SUPERVISION (31/12/2006)

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José M.ª Roldán
Director of the Financial Stability Department
Technical Co-ordinator
Director of the Financial Reporting and CCR Department
Head of the CCR, Shareholders and Branches Division
Head of the Financial Reporting Division
Head of the Accounting Regulation Division
Director of the Financial Institutions Department
Head of the Analysis and Advice Division
Head of the Regulation Division
Head of the Banking Customer Relations Division

SUPERVISION AND REGULATION STAFF IN 2006

ANNEX 2.4

Number

	DIRECTORATE GENERAL	
	BANKING SUPERVISION	BANKING REGULATION
Directors and other managers	34	25
Bank examiners	224	4
Senior analysts	12	17
IT auditors	41	–
Junior analysts	55	54
Adminsitrative staff	50	50
Total	**416**	**150**

SOURCE: Banco de España.

BANCO DE ESPAÑA PUBLICATIONS

Studies and reports

REGULAR

Annual Report (in Spanish and English)
Economic Bulletin (quarterly) (the Spanish version is monthly)
Financial Stability Report (in Spanish and English) (half-yearly)
Memoria del Servicio de Reclamaciones (annual)
Mercado de Deuda Pública (annual)
Report on Banking Supervision in Spain (in Spanish and English) (annual)
Research Memorandum (in Spanish and English) (annual)
The Spanish Balance of Payments and International Investment Position (in Spanish and English) (annual)

NON-PERIODICAL

Central Balance Sheet Data Office: commissioned studies
Notas de Estabilidad Financiera

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MISCELLANEOUS PUBLICATIONS[1]

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