REPORT ON BANKING SUPERVISION IN SPAIN

2010

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	Association of Supervisors of Banks of the Americas
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
BOE	Official State Gazette
BSC	Banking Supervision Committee of the ESCB
CAAP	Capital Adequacy Assessment Process
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
CESR	Committee of European Securities Regulators
CET1	Common equity tier 1
CGs	Consolidated groups of CIs; unless indicated otherwise, CGs include individual credit institutions not belonging to any consolidated group
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
EBA	European Banking Authority
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
FAFA	Fund for the Acquisition of Financial Assets
FCs	Financial conglomerates
FASB	Financial Accounting Standards Board
FESCO	Forum of European Securities Commissions
FROB	Fondo de Reestructuración Ordenada Bancaria (Fund for the Orderly Restructuring of the Banking Sector)
FSB	Financial Stability Board
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
IFRSs	International Financial Reporting Standards
ILG	International Liaison Group (formerly CPLG)
IMF	International Monetary Fund
IOSCO	International Organisation of Securities Commissions

IPO	Initial Public Offering
IPS	Institutional protection scheme
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 on 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
OJEU	Official Journal of the European Union
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)
SSG	Senior Supervisors Group
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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Internal Audit Department

04.04.2011

Report envisaged in Law 44/2002 on Financial System Reform Measures

2010

1. Introduction

The Second Additional Provision of Law 44/2002 of 22 November 2002 on Financial System Reform Measures established, in consonance 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 2011 Internal Audit Plan of the Banco de España, approved by the Governor on 20 December 2010 and notified to the Executive Commission on 11 January 2011, 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. 2010 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 and procedures 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, and via resolutions of 30 June 2006 and 18 July 2008, the procedural rules for proposals on matters within the competence of the Directorate General of Banking Regulation. Similarly, via a resolution of 18 December 2009, the Executive Commission approved the regime governing the delegation of powers, which was published in the Official State Gazette of 5 January

2010 and has consequently been in force for practically the whole of the time period covered by this report.

The examination was performed by stratified sampling in nine strata or types of decision taken by the Directorate General of Banking Supervision and in 12 strata or types of decision taken by the Directorate General of Banking Regulation. Different sampling fractions (100%, 30%, 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 2010 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, 4 April 2011
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 CREDIT INSTITUTIONS UNDER BANCO DE ESPAÑA SUPERVISION

1 STRUCTURE AND EVOLUTION OF CREDIT INSTITUTIONS UNDER BANCO DE ESPAÑA SUPERVISION[1]

1.1 Types of credit institution

The credit institutions (CIs) registered at the Banco de España (BE) at end-2010 numbered 339, 14 fewer than in 2009 since significant changes had taken place in nearly all categories. These changes were considerable in the savings bank group (see Table 1.1 and Box 1.1).

There was a net increase of seven banks: six Spanish banks and one subsidiary of a foreign bank. The changes in Spanish banks related in full to the savings banks restructuring process which began in the year. Specifically, they included the creation of five banks which head the related institutional protection schemes (IPSs) of savings banks and the registration of BBK Bank, the recipient of CajaSur's banking business.

A non-EU subsidiary, Banco Pichincha España, was registered in the foreign banks group, while there was no net change in branches due to the three additions and three deregistrations,[2] all of which were EU banks.

At end-2010 the registered savings banks amounted to 36, having decreased by ten in the year as a result of seven merger processes and the transfer of Caja Castilla-La Mancha's banking activity to Banco Castilla-La Mancha. A total of 16 institutions participated in the seven above-mentioned mergers: two processes were takeovers (Caixa Girona was taken over by la Caixa and Caja Guadalajara was taken over by Cajasol) and the remainder (Nova Caixa Galicia; Catalunya Caixa; Unnim; Caja España de Inversiones, Salamanca y Soria; and Unicaja-Caja Jaén) were mergers of the 12 savings banks involved.

22 savings banks joined together to form the five banks that head the IPSs: Banco Financiero y de Ahorros (seven institutions), BMN (four institutions), Banca Cívica (four institutions, one of which is Cajasol following the takeover of Caja Guadalajara), Banco Grupo Cajatres (three institutions) and Banco Base (four institutions). CajaSur was transferred to BBK.

Consequently, at the end of 2010 as a result of all the above-mentioned processes, the savings banks were encompassed in 19 financial groups,[3] 27 fewer than a year earlier.

The number of registered credit cooperatives decreased by one due to the deregistration of Caixa dels Advocats, which was taken over by Caja Aragonesa y de los Pirineos. At year-end, Caixa R. de Balears was taken over by Cajamar, although this decrease was not registered in the BE register until the beginning of 2011 and, consequently, it was not reflected in Table 1.1.

In the cooperatives group more institutions became part of IPSs. Three institutions joined the IPS, already in existence in 2009, led by Cajamar Caja Rural and a new IPS was cre-

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1 This chapter should be read in conjunction with Annex 2 "Activity, results and solvency of credit institutions" at the end of this Report and with Annex 3 "Financial and statistical information on credit institutions", which are only included in the online edition.

2 The new institutions were: AKF Bank, Orey Financial and Industrial Commercial Bank China Luxembourg; and the deregistrations were: ING Bank N.V. and Newedge Group, due to closure and Banco Privado Português, due to the withdrawal of authorisation.

3 This figure includes, in addition to CECA, the Cajasur group which was assigned to BBK. This group's banking activity was transferred to and merged into the BBK group at the beginning of 2011.

REGISTERED CREDIT INSTITUTIONS, CONSOLIDATED GROUPS AND MIXED GROUPS

Year-end data

TABLE 1.1

Number

	2007	2008	2009	2010
CREDIT INSTITUTIONS REGISTERED IN SPAIN (a)	358	361	353	339
Deposit institutions	282	285	283	279
Banks	151	156	154	161
Domestic	53	49	47	53
Of which: heads of IPSs of savings banks	—	—	—	5
Foreign	98	107	107	108
Branches	80	89	89	89
Subsidiaries	18	18	18	19
Savings banks	46	46	46	36
Of which: savings banks participating in IPSs	—	—	—	22
Credit cooperatives	85	83	83	82
Of which: heads of IPSs of cooperatives	—	—	1	2
Of which: cooperatives participating in IPSs	—	—	2	18
Specialised credit institutions	76	75	69	59
Electronic money institutions	—	1	1	1
MEMORANDUM ITEMS:				
Mergers and acquisitions (b)	7 (14)	4 (10)	8 (15)	12 (23)
Between banks	3 (6)	2 (7)	4 (8)	—
Between saving banks	1 (2)	—	—	7 (16)
Between cooperatives	1 (2)	—	—	1 (2)
Between SCIs	—	1 (2)	—	1 (2)
SCIs acquired by/merged with deposit institutions	2 (4)	1 (1)	4 (7)	3 (3)
CONSOLIDATED GROUPS EXISTING AT YEAR-END (c)	102	100	99	71
Parent credit institution	89	88	88	62
Spanish banks and ICO	15	17	17	21
Of which: heads of IPSs of savings banks	—	—	—	5
Savings banks	46	46	46	14
Credit cooperatives	18	15	14	15
Of which: heads of IPSs of cooperatives	—	—	1	2
Specialised credit institutions	1	1	1	1
Foreign CIs	9	9	10	11
Other consolidated groups	13	12	11	9
Spanish parent	6	6	5	4
Foreign parent	7	6	6	5
MIXED GROUPS AND FINANCIAL CONGLOMERATES	42	42	44	30
Supervised by Banco de España	41	41	43	29
Supervised by DGS including CIs	1	1	1	1
MEMORANDUM ITEM:				
Bank offices abroad	9,493	10,661	11,159	11,589

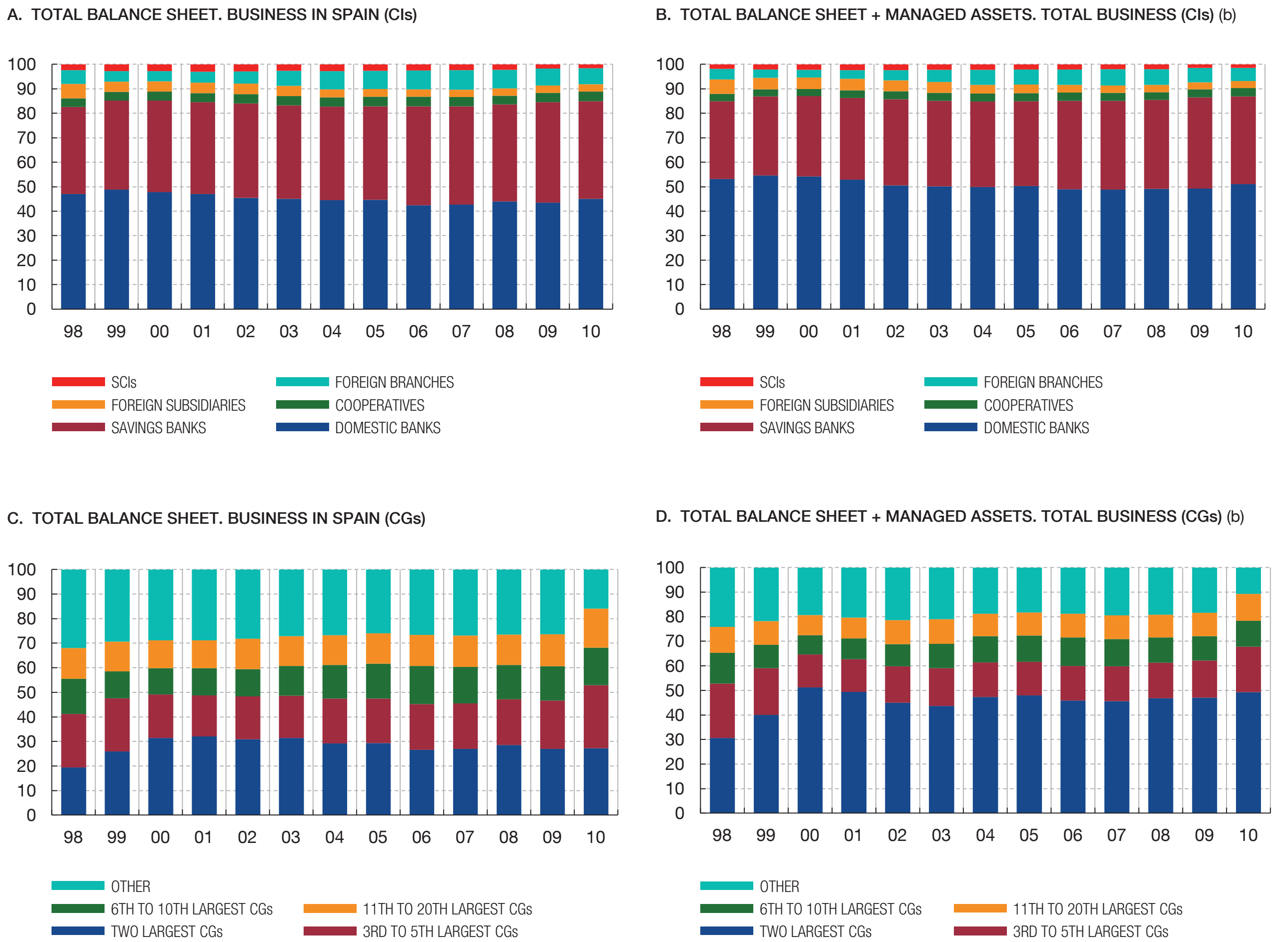
SOURCE: Banco de España. Data available at 4 April 2011.

a The number of registered CIs includes ICO in the domestic banks category. However, in the rest of the tables of this Report, both ICO and the only electronic money institution are excluded, unless stated otherwise.

b The figures in brackets are the number of institutions which have merged or been acquired.

c For the sole purpose of this table, a consolidated group (CG) is defined as a group which includes, in addition to the parent (or failing this the reporting institution), one or more fully or proportionally consolidated financial institutions; accordingly, individual CIs not forming part of consolidated groups are excluded. Unless indicated otherwise, in the rest of the tables of this Report CGs include individual credit institutions not belonging to any consolidated group. The CG classification is based on the nature and nationality of the parent (ultimate holder). The data still include the ISP of Banco Base and do not take into account its break-up at the close of 2011 Q1.

MARKET SHARE OF CIs AND OF THEIR CONSOLIDATED GROUPS (a) CHART 1.1



SOURCE: Banco de España. Data available at 4 April 2011.

a Year-end data relating to registered credit institutions and consolidated groups existing at each date. The criteria used to segment CGs by size are: balance sheet total for business in Spain and balance sheet total for total business plus managed assets at each year-end (it should be recalled that the data referring to CGs include individual CIs not belonging to any consolidated group).
b Assets managed both by institutions themselves and by third parties.

ated, Grupo Cajas Rurales del Mediterráneo, which brings together 14 institutions and is headed by Caja Rural del Mediterráneo.[4]

At the close of 2010 there were 59 registered specialised credit institutions (SCIs), their numbers having experienced a net decrease of ten in the year, caused by six deregistrations and four takeovers. Of the latter, three SCIs were merged into their parent banks (Banco Santander took over Bansalease and Hipotebansa, and BMW Bank absorbed BMW Financial Services) and Unión Financiara Asturiana (an SCI) took over Financiera Oviedo (another SCI).

The changes in the market shares of the different types of credit institutions in the total balance sheet of business in Spain (see Chart 1.1.A) in 2010 were as follows: Spanish banks gained 1.5 percentage points (pp) and cooperatives 0.1 pp at the expense of the

4 See the breakdown of institutions in Annex 6 “Spanish consolidated groups of credit institutions” which is included in the online edition of the Report.

market share of savings banks and branches of foreign banks which slipped 1.1 pp and 0.5 pp, respectively, since the share of subsidiaries of foreign banks and SCIs remained virtually unchanged.

Turning to total business, the most significant changes in market share measured in terms of the total balance sheet plus assets managed by CIs (see Chart 1.1.B), were recorded in the Spanish banks group, which increased its share by almost 2 pp, and in savings banks and foreign branches, whose shares dropped 1.5 pp and 0.5 pp, respectively. At-end 2010, the share of Spanish banks exceeded 51 %, its highest level in recent years.

The market share of consolidated groups (CGs) by size (see Charts 1.1.C and 1.1.D) varied significantly, and market concentration increased in terms of business in Spain and of managed assets plus total business to the detriment of "other institutions" or smaller CGs, whose weight fell back by 10.5 pp and 7.8 pp, respectively, in 2010. The five largest CGs recorded the highest increase in market share of approximately 6 pp in both cases.

1.2 Operating resources

The number of active CIs[5] in 2010 stood at 332, posting a decrease of 13 in the year. At the same time, the number of operational offices fell by 2.8 % to 43,303 at year-end.

Throughout 2010 1,230 branches in the active CIs operational network were closed which meant that the density of offices per inhabitant decreased for the second consecutive year to 11.2 per 10,000 inhabitants over 16 years of age.

The change in size of office network for Spanish banks followed a different pattern to that of the other groups. For instance, while the other groups followed the downward trend that began mid-2008, Spanish banks increased their operational offices by 380, which represents 2.8 % growth of their network and is accounted for by the transfer of the branch network of Caja Castilla-La Mancha to the bank that has inherited its activity. Net of this effect, it is estimated that the operational network of Spanish banks decreased by 175 branches, down 1.3 % (a lower pace of decline than in 2009), and that of savings banks fell back by 3.9 %.

In the foreign banks group, while the size of the subsidiaries' network did not change, that of foreign branches shrank by 2.6 % with the closure of five offices.

At end-2010 the savings banks' network included 22,750 branches, down 6.2 % on the previous year. Although, if the above-mentioned effect of the transfer of offices to Banco Castilla-La Mancha is excluded, it is estimated that the savings banks' operational network decreased by 3.9 %, with 947 fewer offices than a year earlier.

The network of SCIs shrank more quickly in 2010, by 21.2 %. This was the highest reduction in relative terms across all CIs, with the closure of 76 offices. The smallest decrease in operational network was in the cooperatives group with the elimination of 24 branches (0.5 %).

As for consolidated groups' bank offices abroad, in contrast to developments in the network in Spain, the number of branches rose by 3.9 % to 11,589.

The above-mentioned shrinkage of the operational networks of Spanish CIs was accompanied by a reduction in the number of serving employees to 263,392 at year-end, down

5 Of the total institutions registered, only those effectively carrying on operations at the end of 2010 are considered here; that is to say, those institutions which are registered but inactive are excluded.

2.1 % on the previous year. The decline in serving employees was slightly sharper among those assigned to the office network (2.8 %), who account for 72.8 % of total employees. The total number of hours worked posted a decrease of 5 %, which was considerably steeper than the reduction in headcount.

If the effect of CCLM becoming Banco CCLM is disregarded, banks shed a total of 1,075 jobs (1 %) and in 2010 savings banks stepped up the staff reductions which began in 2009, resulting in a total of 4,228 fewer employees (–3.2 %).

In percentage terms, the steepest staff cuts affected employees assigned to the office network of SCIs which dropped by 17.9 %. Lastly, serving employees of credit cooperatives fell by 1 %.

As a result of the changes in the size of the office network and of the staff assigned to it, the ratio of employees per operational office remained unchanged for total CIs (4.4), savings banks (4.4) and credit cooperatives (3.2), while it rose by two-tenths in SICs (5.5), decreased by one-tenth in banks (4.9) and posted declines both for Spanish banks and for foreign subsidiaries and branches.

The number of CIs' agents increased in 2010 by 2.4 % to 5,289. The most significant increases were in foreign subsidiaries, foreign branches and credit cooperatives, whose growth rates exceeded 8 %. The largest reduction was in savings banks (28 %); this decrease slackens to 5.6 % net of the effect of transferring the activity of Caja Castilla-La Mancha to a bank.

For the second consecutive year, the stock of automated teller machines (ATMs) shrank by 696 or 1.2 %. The deposit institutions which increased, albeit only slightly, the number of ATMs were credit cooperatives (0.6 %) and Spanish banks (0.1 %), net of the transfer of CCLM. Consequently, the ratio of ATMs per 10,000 inhabitants over 16 years of age decreased to 15.4, with an annual decrease of 0.2.

By contrast, point-of-sale (POS) terminals for total CIs expanded further to 1.48 million, at a similar pace to the previous year. The overall increase was 2.6 %.

The total number of credit and debit cards in circulation decreased by 2.6 million (2.7 %) to 93.8 million. The decrease was significant for credit cooperatives and SCIs, which posted declines of 4.9 % and 7.2 %, respectively. Those issued by savings banks fell by 4.4 % and increased by 1.8 % for banks (excluding the effect of the transfer of CCLM these rates would be -3.1 % and 0.6 %, respectively). The number of cards per inhabitant over 16 years of age decreased by one-tenth to 2.4 cards.

1.3 Consolidated groups

As at the end of 2010, there were 71 consolidated groups,[6] 28 fewer than a year earlier. Among the changes recorded during the year, which are detailed below, the most significant related to the savings bank restructuring process.

In the case of parent banks, five banks set up during the year to head savings bank IPSs were registered (Banco Grupo Cajatres, Banco Mare Nostrum, Banco Financiero y de Ahorros, Banca Cívica and Banco Base), while Banco Guipuzcoano was deregistered, due

6 In accordance with Table 1.1, consolidated groups are defined as groups that include, in addition to the parent (or reporting institution), one or more other fully or proportionally consolidated financial institutions.

to its integration into the Sabadell group. There were 14 groups with a savings bank parent at end-2010, 32 fewer than at end-2009, owing to the creation of the five aforementioned IPSs, seven mergers, which affected 16 institutions, and the business transfer from Caja Castilla-La Mancha to the bank with the same name.

Among the credit cooperatives, one consolidated group was registered, that of Caja Rural del Mediterráneo, which joined an IPS as the head of 13 participating cooperatives.

There was no change in the groups that have SCIs as their parents, while Banco Pichincha España was added to groups with foreign CI parents.

Lastly, among groups whose parents are not credit institutions, Arafin EFC was deregistered from those with a Spanish parent, owing to the change in its corporate purpose, while Gmac España EFC was deregistered from those with a foreign parent.

In 2010, mixed groups (MGs) and financial conglomerates (FCs) numbered 30, one of which was supervised by the Directorate General of Insurance (Bilbao Hipotecaria EFC). At end-2010 there were three financial conglomerates (Santander, BBVA and la Caixa), there having been no changes during the year.

Over the last two years, the Spanish banking system has been undergoing intense restructuring, basically focused on the savings bank sector.

The reasons behind the need for this reform can be summarised as follows:

– From a structural point of view, the absence of a share capital created weaknesses for savings banks, limiting their ability to raise capital and hampering the possibility of introducing ownership and governance systems fully adapted to international best practices. There were no external investors on their governing bodies, which particularly constrained the possibility of market discipline being exercised properly.

  These weaknesses, which had not involved significant practical difficulties while the savings banks followed their traditional business model, became important when, in some cases, their credit policies took a more ambitious turn and they resorted for funding to the much less stable wholesale markets. With the onset of the international financial crisis, it became evident that markets were beginning to demand higher and better quality capital and more conservative financial structures from financial agents.

– As has been pointed out in numerous publications, the business model of certain savings banks from 2000 to 2007 focused on high credit growth, with rising exposure to the real estate development and construction sector, which is characterised by a strong cyclical component. In order to meet the operational and competitive requirements of this strategy, which was pursued at a large number of institutions, overhead expenses rose substantially and branch networks increased notably. In certain cases, the expansion involved relaxing credit standards and neglecting sector concentration risks.

  Furthermore, the traditional sources of funding were not sufficient to finance this strong business growth, resulting from higher demand for credit, and, consequently, wholesale funding (for example, the securitisation of mortgage loans) began to be used more often.

The coming together of these factors –strong business growth, heavy reliance on wholesale funding, laxer risk standards and legal status limitations– was the reason for the need to reform the savings bank sector, which became increasingly pressing with the onset of the economic recession from end-2008.

This process has taken place under the impact of three crises which coincided with the different manifestations of the economic downturn: the international financial crisis, the Spanish economic crisis and the sovereign debt crisis.

The first crisis is the *international financial market crisis* which began during summer 2007. It originated in the US subprime mortgage market and involved a sharp drop in liquidity especially on the wholesale markets most closely related to toxic products (securitisation and credit derivatives markets). This illiquidity harmed Spanish institutions, which saw how their sources of funding gradually dried up. This situation became especially acute following the bankruptcy of Lehman Brothers.

Initially, Spanish institutions were relatively safe –but not immune– from the crisis: they had no exposure to products related to these US real estate assets, although the deterioration of liquidity conditions had a significant effect on the business strategy pursued in recent years. Faced with this situation, the Spanish authorities adopted several remedial measures:

– On one hand, they tried to improve the financing of the banking system through the Fund for the Acquisition of Financial Assets and the programmes providing guarantees for bank issues of bonds and notes. Similarly, the new policy of supplying unlimited liquidity, implemented by the European Central Bank from autumn 2008, helped to achieve this objective.

  However, the temporary nature of this funding support subsequently prompted the banking system to launch new strategies, offering high yields to attract deposits, which ultimately squeezed margins in the income statement through higher financial costs. The positive side is that an improvement has been seen in recent quarters in the financing of lending through deposits which, to a certain degree, lessens reliance on wholesale markets.

– On the other, several plans to merge institutions began to be promoted and the possible new instruments to encourage the restructuring of the savings bank sector began to be analysed.

At the end of 2008 the Spanish economy, which had already begun a process of adjustment of the imbalances built up during the upswing, went into recession with six consecutive quarters of declines in GDP. Thus, at the beginning of 2009 *the Spanish economic crisis intensified.* This crisis unfolded in parallel with the international crisis and was characterised by a fall in production and, especially, employment (unemployment was slightly above 20 %) as well as by a severe adjustment in the real estate sector. It is also important to recall that the imbalances which had built up included the high levels of indebtedness in the private sector.

The impact of this crisis was an exponential rise in doubtful assets and loan-loss provisions at credit institutions, with the corresponding effect on income statements due to the increase in provisions and the effect on margins of the decrease in profitable assets. Additionally, it clearly underlined the above-mentioned problems of over-expansion and of the build-up of real estate risks in part of the credit system.

At that time, the need to restructure the banking system, focused essentially on savings banks, became more evident.

In order to undertake such a process, the Government approved the creation of the Fund for the Orderly Restructuring of the Banking Sector (FROB), which was ratified by Parliament in July 2009. The FROB can act in two ways:

– Strengthening the mechanisms for supervisory intervention of troubled institutions with future viability problems, by making such mechanisms swifter and easier to enforce.

– Downsizing the sector through the merger and concentration of viable institutions, permitting a reduction in capacity (either through the number of branches and central services or operating expenses) and an increase in the average size of the resulting institutions. This might reasonably be expected to improve their ability to tap new sources of financing, their operating efficiency and their risk management and monitoring.

In order to achieve both objectives, the FROB was given ample financial resources (€9 billion of capital and a borrowing limit of €90 billion, guaranteed by the Treasury) enabling it to provide sufficient financial aid to institutions or groups of institutions and to send a clear message to markets about the public authorities' determination to resolutely tackle the necessary restructuring of the system.

In practice, almost all of the FROB's actions in this phase involved support for merger and concentration processes led by savings banks and stronger management teams. These actions took the form of €11.6 billion of aid granted or committed to nine different merger plans. Finally, one of these processes, instrumented through Banco Base, did not prosper and the aid envisaged was not disbursed. This process split into a new merger plan for three savings banks, on the one hand, and one independent savings bank, on the other. Aid was requested for these two plans through the new framework approved in 2011, as shown below. Consequently, the definitive disbursements amounted to €10.1 billion.

Only in one case did the FROB[1] provide aid for the restructuring of an institution with viability problems (CajaSur). The final amount of this aid was €392 million.

In short, the merger and concentration processes have reduced the number of institutions in the savings bank sector from 45 to 18, which has increased the average size of institutions by approximately one and a half times. Another highly important issue is that these processes have given rise to a current of opinion among most of these institutions' main interest groups that the reforms need to be implemented and networks and costs adjusted. It should be underlined that the accounting methods governing the business combinations resulting from the above-mentioned processes made it possible to write down a further €22 billion of loans and foreclosed assets of institutions participating in the processes against reserves. If we add to this figure the €58 billion of write-downs made by the banking system in the three-year period from 2008 to 2010, which were charged to the income statement, and the €16 billion drawn down from the general provisions, the Spanish banking system's total balance-sheet write-downs in the above-mentioned three-year period were equivalent to 9% of GDP.

Strains on financial markets heightened from the beginning of 2010, initially centred on the sovereign debt of certain euro area countries, although distrust later spread to a large part of this market. This marked the onset of the *so-called sovereign debt crisis,* which commenced with the Greek crisis in spring 2010 and continued with the episodes of Ireland (end-2010) and Portugal (in 2011). It should be noted, however, that this latest episode has affected Spain to a much lesser degree, since it has decoupled from the three countries involved.

In the case of the *Greek crisis,* investors' doubts focused on the sustainability and reliability of public finances in Europe, which triggered a significant rise in risk premia and bigger financing difficulties for the European banking system, especially for banks in those countries in which investors perceived greater signs of vulnerability. Faced with this loss of confidence, which also affected institutions in Spain, the Spanish authorities decided to boost the restructuring of the sector and stressed, in particular, that the merger process should be concluded in the shortest period possible, as permitted by corporate and mercantile legislation.

Furthermore, the Banco de España decided to change its regulations on loan-loss provisions. The central planks of the reform were:

– The shortening of the periods for recognising losses on doubtful assets to a maximum of 12 months, unifying the various time frames in existence.

– The inclusion of an objective criterion for the write-down of foreclosed assets which includes the recognition of a minimum impairment based on the time elapsed from the acquisition of the asset, in addition to that which might be disclosed by virtue of compulsory, regulated, up-to-date appraisals.

– The incorporation of real estate collateral into the calculation of the loan-loss provision, with discrimination on the basis of the quality of the collateral and the application of regulated reductions to the appraisal value and certain additional caveats.

– The introduction of new qualitative risk management criteria which must be incorporated by institutions into their lending policies.

Another important initiative was the active participation of the Spanish banking system in "stress tests" coordinated at European level by the Committee of European Banking Supervisors and published at the end of July 2010. Spain's participation was highly

1 In the case of Caja Castilla-La Mancha the restructuring was in the form of aid granted by the Savings Banks Deposit Guarantee Fund.

notable, since it was the country with the highest number of institutions analysed (which represented more than 90 % of the system compared with the 50 % envisaged), and a much greater level of detail was provided than in other European countries. This set of initiatives was completed with the major legislative reform of July 2010, included in Royal Decree-Law 11/2010 on the reform of the savings banks. The most salient aspects of this Royal Decree-Law are as follows:

- It opened up alternatives, from the standpoint of legal status, for savings banks to operate as commercial banks, since they can agree to transfer their financial business to a newly created bank, retaining their status as a credit institution or becoming special foundations.

- It clarified the requirements which must be complied with by institutional protection schemes (IPSs) for the purposes of solvency regulations.

- It required greater professionalisation in the management of savings banks.

Although the implementation of these measures partially eased the strains experienced by the Spanish banking system on the markets, the banking crisis in Ireland diluted their beneficial effect from October. In 2010 Q4, the Irish banking system recognised the existence of significant losses which compromised the solvency of its major banks and, secondarily, its public debt due to the specific guarantee given by the Irish government to bank liabilities. The recognition of these losses also sparked notable scepticism about the results of the stress tests in July, triggering greater market uncertainty.

The Spanish authorities' reaction centred on consolidating and accelerating the restructuring which had already been agreed. The Banco de España encouraged savings banks belonging to an IPS to transfer their financial business to the core credit institution and to make deeper adjustments to overhead expenses.

Also, the Banco de España, in November 2010, decided to increase institutions' transparency, by requiring them to detail their exposures to the real estate development and construction sector, and the situation and projections of their financial structure, in order to give investors access to more information on which to base their assessment of the situation of each institution.

Lastly, in early March 2011, Parliament approved Royal Decree-Law 2/2011, whose purpose was to increase solvency in the Spanish banking system through higher capital requirements.

This new Royal Decree-Law firstly establishes a new "core capital" ratio, further to solvency obligations already in force, with the following characteristics:

- The ratio is satisfied with "core capital", a concept based on the "common equity Tier 1" of Basel III (under the definition which will apply when it begins to be implemented in 2013), which includes only higher quality capital instruments. The concept of core capital does not include hybrid instruments, but it does include preference shares subscribed by the FROB and, transitionally, the debt that must be converted into shares before 2014, which has a series of characteristics ensuring its stability and high loss-absorbing capacity.

- A core capital ratio of 8 % of risk-weighted assets, which stands at 10 % for institutions, irrespective of legal status, with higher prudential risk in the following form:

  - Their reliance on wholesale funding exceeds 20 %.

  - Less than 20 % of their capital is held by third-party investors.

  Furthermore, on the basis of the stress tests which may be performed, the Banco de España may increase the ratio required from specific institutions.

- The regulation also envisages that those institutions not meeting this ratio initially will have to submit a strategy and an implementation timetable, which must be approved by the Banco de España. These will be followed by recapitalisation plans in those cases in which use of FROB funds is envisaged.

Royal Decree-Law 2/2011 also included a reform of the regulations governing the FROB. The amendments introduced were aimed at improving the Fund's ability to act through various channels:

- The types of financial instruments that the Fund can subscribe to, to support the recapitalisation of viable institutions, are limited to ordinary shares or capital contributions to credit cooperatives (the possibility of financial support comprising preference shares to encourage merger processes remains, but only in the case of credit cooperatives).

- The institution applying for the aid must submit a recapitalisation plan, to be approved by the Banco de España, comprising a business plan and a set of specific commitments which must be verified subsequently.

- The institution's economic value and, consequently, the subscription price of the aid given by the FROB will be determined by a report of independent experts, although the definitive or reference value, as the case may be, will be taken to be that set in recent market transactions, if any.

- The FROB's contributions will be temporary, and for a maximum of five years. Directors must be appointed to the board of the bank created by the transformation of the savings bank, with a number of votes equivalent to the equity holding. Furthermore, a prerequisite for aid to savings banks is the transfer of the banking business to a bank within three months.

At the cut-off date for this Report on Banking Supervision (30 April 2011), the following objectives of Royal Decree-Law 2/2011 had been achieved:

- On 11 March 2011 the Banco de España published the results of its calculation of the core capital ratios of all Spanish credit institutions. In short, it identified 12 institutions (four banks and eight savings banks) with a core capital shortfall amounting to €15.2 billion (finally, following the break-up of the initial Banco Base IPS, the number of institutions with a shortfall rose to 13 and the two institutions or groups resulting from this break-up have submitted their strategy separately, which is based on estimated capital requirements of €2.8 billion for CAM and a total of €519 million for the three other institutions)[2].

- On 14 April 2011 the Banco de España approved the strategies and timetables submitted by the 13 institutions or groups. To sum up:

    - Two subsidiary banks of foreign institutions have been recapitalised by their parent.

    - Another two banks have issued instruments which qualify as core capital.

    - Four groups of savings banks have proposed as their priority option an IPO or raising capital from investors and, should it not be possible to implement the plan as envisaged, resorting to the FROB, in accordance with the legal provisions.

    - One savings bank has shown its preference to merge with another more capitalised institution and, as an alternative, resorting to the FROB.

    - Lastly, the other four savings banks have expressed their preference for the FROB to take a stake in their capital, in order to reach the required capitalisation level, without ruling out the possibility of raising part of the capital needed from private investors.

- Those institutions which considered resorting to the FROB as their primary source of funds submitted their specific plans for recapitalisation to the Banco de España prior to the deadline of 28 April 2011.

Meanwhile, the FROB has formally undertaken, to all the institutions whose priority or subsidiary strategy involves resorting to its aid, to contribute the funds required so that all institutions in the Spanish banking system meet the new core capital ratio.

Consequently, all the steps are being taken to complete the process of reinforcing the solvency of the financial system in the terms and within the deadlines envisaged by Royal Decree-Law 2/2011. As a further step within the envisaged timetable, the recapitalisation plans submitted by the institutions are currently being analysed. This process must be concluded before 30 September 2011 with the implementation of all the measures included in the compliance strategies. The deadline may be extended by three months by the Banco de España, where so required for sufficiently justified operational reasons, or by up to six months in the case of IPOs.

The strategy implemented to restructure the savings bank sector has involved the following: the restructuring of institutions' balance sheets; the merger of savings banks to create bigger and more efficient participants; the changing of legal status to facilitate access to capital markets and to improve governance; and, lastly, the recapitalisation of the sector. All of these steps are being taken, furthermore, with heightened transparency so that depositors, investors and analysts know on an informed basis about each institution's situation.

Savings banks represent 37 % of the Spanish banking system's assets. As a result of the restructuring process described above, the breakdown of this 37 % is as follows: nine savings banks, representing 13 % of the whole system's assets, satisfactorily meet the new capital requirements, although in certain cases they are voluntarily becoming commercial banks to engage in their financial activity or are exploring new integration possibilities. Four savings banks or groups in the form of IPSs, representing 15 % of total assets, are planning to indirectly pursue their business through commercial banks and aspire to meet the capital requirements by raising capital from third parties, without the need to use public funds. The remaining five savings banks representing 9 % of all the banking system's assets will foreseeably have to resort to aid from the FROB, which means that they will have to change their legal form in order to perform financial activity through commercial banks and the FROB will take stakes in their capital.

2 Following the break-up of the Banco Base IPS, commitments to pay up €1.5 billion of convertible preference shares lapsed.

This chapter is structured as follows. The first section describes the supervisory activity during 2010, indicating the supervised institutions, the main supervisory actions in the year, the details of the requirements and recommendations letters sent to institutions as a result of such actions and the staff of the Directorate General Banking Supervision. The second section summarises the consequences of the exercise of sanctioning powers and states the number of proceedings initiated and resolved for each type of infringement. The third section refers to the Banco de España's other responsibilities complementing its supervisory functions (e.g. those relating to regulations governing the transparency of banking transactions or to the keeping of official registers). The last section of this chapter briefly discusses the recommendations made on the drafting of internal capital adequacy assessment reports and the strengthening of transparency in the relation to the assets of CIs.

2.1 Supervisory activity

At 31 December 2010, a total of 482 institutions of various kinds were supervised by the Banco de España, of which 339 were CIs.[1] As explained in the document entitled "The Banco de España Supervisory Model",[2] the Banco de España exercises a process of on-going supervision of these institutions.

The essential aim of the Banco de España supervisory process is to determine and keep updated each institution's supervisory risk profile, taking the appropriate measures to correct it when necessary. This process is based on the attainment of an up-to-date and in-depth knowledge of each supervised institution, including its business outlook and future viability.

To this end, the Directorate General Banking Supervision has 22 operational inspection divisions and seven cross-sectional or support divisions formed by bank examiners, senior analysts, IT auditors, junior analysts and administrative staff (see Table A.1.4), each under the leadership of the head of division. Every operational division has assigned to it certain CIs which are subject to an intensive programme of supervisory actions consisting of on-site inspection, off-site analysis and, where so required because of the size and complexity of the banking group supervised, on-site continuous monitoring.

The number of supervisory actions in 2010 totalled 179, of which 39 were in progress at 31 December. These actions basically consisted of traditional on-site visits and actions conducted as part of on-site continuous monitoring.

During the year, such on-site continuous monitoring, which involves a permanent presence at the institution, extended to 15 groups of CIs as against 10 in 2009. This system is especially intense in the two main banking groups, to which more than 50 persons were assigned solely to perform this function.

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1 This figure refers to the number of institutions in the official registers of institutions at 31.12.10. However, in the case of savings banks, as a consequence of the integration processes, this figure has been reduced in practice to 18 institutions or groups, plus the Spanish Confederation of Savings Banks (CECA). See Section 1.1 for more information on types of institutions and changes in their numbers.

2 Available at http://www.bde.es/webbde/en/supervision/funciones/Banco_de_Espana_supervisory_model_clean.pdf.

ON-SITE SUPERVISORY ACTIVITY **TABLE 2.1**

Number

	On-site supervisory actions							
	Completed				Under way			
	2007	2008	2009	2010	2007	2008	2009	2010
Credit Institutions	125	98	114	136	44	37	21	39
Banks	63	52	82	79	12	20	7	28
Savings banks	17	19	16	51	18	10	10	5
Credit cooperatives	18	8	1	2	4	0	1	6
Foreign branches	6	7	4	2	1	1	1	0
EU credit institutions	6	2	2	1	1	1	1	0
Specialised credit institutions	21	12	11	2	9	6	2	0
Other institutions	22	20	15	4	11	11	3	0
Appraisal companies	8	8	8	1	7	8	1	0
Mutual guarantee companies	5	1	0	0	1	0	0	0
Currency-exchange bureaux and money transfer agencies	9	11	7	3	3	3	2	0
TOTAL	147	118	129	140	55	48	24	39

SOURCE: Banco de España.

Another 329 jobs were also performed in relation to CIs, including:

- Specific monitoring actions, apart from those mentioned above, such as, for example, studies of claims arising from troubled assets.

- Examination of internal capital adequacy assessment reports prepared by institutions and the supervisory process arising from such examination.

- The most important actions arising from relations with national and international supervisors and bodies in the case of groups of CIs with a presence in Spain and other countries.

- The EU stress tests.

In addition, the Banco de España conducted the various administrative procedures subject to prior authorisation relating to supervised institutions: loans to senior officers, the taking of qualifying holdings in Spanish institutions, acquisitions of qualifying holdings or of control abroad, etc.

Against this background, letters were sent to supervised institutions containing 192 requirements relating to matters such as: credit risk (loan approval criteria and credit risk classification and provisioning), management and internal control, own funds and solvency, and other matters (transparency vis-à-vis customers, deficiencies in reporting to the Banco de España's Central Credit Register, etc.). As usual, credit risk was the main area of recommendations, with 108 requirements, or 56 % of the total.

On 22 May 2010 the Banco de España resolved to replace the directors of CajaSur and to appoint the Fund for the Orderly Restructuring of the Banking Sector (FROB) as the institution's provisional administrator, as a consequence of its viability problems. This action was

SUPERVISORY ACTIVITY TABLE 2.2

Number

	Letters sent to institutions			
	2007	2008	2009	2010
Credit institutions	97	63	47	38
Banks	31	21	23	16
Savings banks	17	19	9	14
Credit cooperatives	22	8	0	4
Foreign branches	11	2	3	2
EU credit institutions	7	1	1	1
Non-EU credit institutions	4	1	2	1
Specialised credit institutions	16	13	12	2
Other institutions	18	14	11	4
Appraisal companies	7	5	0	1
Mutual guarantee companies	4	1	7	0
Currency-exchange bureaux and money transfer agencies	7	8	4	3
TOTAL	115	77	58	42

SOURCE: Banco de España.

conducted within the new framework established by Royal Decree-Law 9/2009 and was resolved in just 55 days with its adjudication through a competitive process to Bilbao Bizkaia Kutxa (BBK). This was the only precautionary "intervention" measure that needed to be adopted during 2010. The process of resolution of the crisis of Caja Castilla-La Mancha (CCM), that commenced in 2009, was also concluded in 2010, with its assets and liabilities being integrated into Cajastur. Unlike the action in relation to CajaSur, the approach to the handling of the crisis of this institution was traditional and involved the participation of the Savings Bank Deposit Guarantee Fund.

Two of the subjects that have been most relevant externally have been the savings bank integration processes and the stress tests to which the banking system has been submitted.

The savings bank integration processes have been of two kinds: firstly, traditional mergers and, secondly, agreements to create institutional protection schemes (IPSs), a formula that is fully equivalent, in its essential effects, to a traditional merger.

In 2010 the Banco de España participated in the stress tests[3] conducted under the mandate from the EU's ECOFIN Council and coordinated by the Committee of European Banking Supervisors (CEBS) in cooperation with the European Central Bank (ECB). However, the Banco de España decided to increase the transparency of the exercise beyond the minimum level required under its European commitments (50 % of the banking sector), including in the sample all savings banks and all listed banks (27 institutions in all), which represented practically 100 % of the total assets of Spanish banks and savings banks. Further, the Banco de España supplied additional detailed information on the situation of the sector, in particular in relation to real-estate lending. The exercise confirmed that the Spanish banking system is solid: in the stressed benchmark scenario no institution failed to meet the target set in the exercise (6 % Tier 1 ratio) while, in the adverse stressed sce-

3 A stress test assesses the extent to which institutions are capable of withstanding an extraordinarily adverse macroeconomic scenario during a specific time period.

SUBJECT MATTER OF LETTERS SENT TO SUPERVISED INSTITUTIONS TABLE 2.3

Number

	2007	2008	2009	2010
Credit risk	231	177	127	108
Accounting for credit risk, borrower weakness and higher coverage requirements	164	130	95	79
Quality of credit risk controls (origination, monitoring and other procedures)	67	47	32	29
Management and internal control	147	79	52	36
Management and internal control in general	120	59	44	25
Capital market activities	27	20	8	11
Capital and solvency	41	23	15	8
Solvency ratio	41	23	15	8
Other regulations	162	78	84	40
Failure to comply with rules on transparency and customer relations	35	19	16	3
Deficiencies in information reported to the CCR	30	13	12	7
Requirements for authorisation of non-credit institutions	14	15	11	4
Other	83	31	45	26
TOTAL	581	357	278	192

SOURCE: Banco de España.

nario (with a very low probability of occurrence) only four groups of savings banks failed to meet the target.

The increase in the number of institutions subjected to the stress tests was not the only transparency measure taken by the Banco de España. Against a background of concern regarding the solvency of our system and following the international recommendations included in the CEBS's "Principles for disclosures in times of stress",[4] the Banco de España has required CIs to make greater efforts in transparency towards the market by providing more information on the financing of construction and property development, lending for house purchase and assets acquired in payment of debts, as well as their funding needs and strategies (see Section 2.4.2).

In relation to the internal models of the eight Spanish groups of CIs authorised to use internal ratings based (IRB) methods to calculate regulatory capital for credit risk, the processes for authorising new portfolios have continued in accordance with the successive application plan presented to the Banco de España by these groups, which includes the approval of exposures at subsidiaries abroad in close coordination with local supervisors. In addition, the monitoring of the models already approved has been strengthened, especially with regard to the modifications that the institutions are introducing. A key element in the monitoring of the models is the review of the internal control framework that institutions have to ensure that the approved models are maintained and used appropriately. With regard to the processes to validate internal models to calculate the regulatory capital for operational risk, in 2010 the conditions for approval and the results of the operational risk model approved for a Spanish group of CIs were monitored.

The Banco de España continued to work actively in the area of international supervisory cooperation, through, inter alia, "colleges of supervisors". The Banco de España hosted

4 See Principles for disclosures in times of stress (Lessons learnt from the financial crisis), April 2010.

the meetings of the colleges of the two Spanish international banking groups and participated, in its capacity as host country supervisor, in six meetings of colleges of banking groups with foreign parents.

In 2010 five cooperation agreements of the kind provided for in Article 131 of Directive 2006/48/EC, relating to the supervision of European groups of credit institutions with subsidiaries in Spain, and a bilateral cooperation agreement with an EU country (Rumania) were signed. In addition, the cooperation agreement between EU financial supervisors, central banks and ministries of economic affairs and finance for cross-border financial stability signed in 2008 was extended to the European Economic Area. Finally, at the beginning of 2011, a cooperation agreement was signed with the supervisory agency of Andorra.

2.2 Exercise of the sanctioning power

The sanctioning power exercised over the financial institutions whose control and inspection are the responsibility of the Banco de España is the final step in its supervisory function. It is intended to act as a means of ensuring compliance with the organisational and disciplinary regulations applicable to institutions operating in the financial sector. And indeed, as established in the preamble to the Law on Discipline and Intervention of Credit Institutions, the effectiveness of these regulations depends on whether the supervisory authorities of financial institutions have sufficient coercive powers.

The exercise of this sanctioning power is directed at all institutions and markets subject to supervision by the Banco de España, which includes not only credit institutions and any other financial institutions subject to its control and inspection, but also their directors and managers, who can be sanctioned for very serious or serious infringements when these are attributable to wilful misconduct or negligence. Also, sanctions can be imposed on the owners of significant holdings in credit institutions and on Spanish nationals that control a credit institution of another EC Member State.

Finally, the Banco de España's sanctioning powers extend also to the individuals and entities not included among the aforementioned supervised parties that seek to enter the financial market without meeting the conditions of access, whether it be through the exercise of activities legally restricted to duly registered credit institutions or currency-exchange and money-transfer bureaux or through the use of generic names restricted to credit institutions or of any other that may be confused with them.

In this regard, the Banco de España has competence to bring and conduct disciplinary proceedings against the aforementioned parties, the imposition of sanctions being governed by the rules set forth in Article 18 of the Law on Discipline and Intervention of Credit Institutions. Under this law, the Banco de España has competence to impose sanctions for serious and minor offences, and the Minister for Economic Affairs and Finance, upon the proposal of the Banco de España, has competence to impose sanctions for very serious offences, except for that of withdrawal of authorisation to operate as a credit institution, in respect of which competence lies with the Council of Ministers. Exceptionally, in the cases of currency-exchange and money-transfer bureaux and of intruders in the financial sector, competence for the imposition of sanctions, whatever their seriousness, lies with the Banco de España.

2.2.1 PROCEEDINGS INITIATED IN 2010

In 2010, in view of the matters disclosed during on-site inspections by the Banco de España and of other circumstances, the governing bodies of the Banco de España decided to initiate disciplinary proceedings against seven supervised institutions and 50 of their directors and managers.

PROCEEDINGS INITIATED BY THE BANCO DE ESPAÑA

TABLE 2.4

Number

Institutions	2007	2008	2009	2010
Banks	1 (a)	—	—	—
Savings banks	—	—	1	1
SCIs	—	—	1	—
Branches of EU foreign credit institutions	—	—	—	—
Owners of significant holdings in credit institutions	—	1	—	1
Appraisal companies	2	3	2	—
Currency-exchange bureaux and money transfer agencies	6	6	3	1
Use of names or pursuit of activities reserved for credit institutions	—	1	2	1
Unauthorised currency-exchange bureaux	—	1	—	3
Appraisal company revocations	—	—	—	—
Currency-exchange bureaux revocations	1	3	1	2
Non-compilance with ECB minimum reserve requirements	2	2	—	1
TOTAL	12	17	10	10

SOURCE: Banco de España.

a Agreement on lifting suspension.

More specifically, the Executive Commission decided to initiate proceedings against a credit institution (a savings bank), a currency-exchange and money-transfer bureau and other companies that were engaging without the correct authorisation either in activities restricted to credit institutions (in one case), or in the purchase and sale of foreign currency and the arrangement of cross-border money transfers (in another three cases). Finally, a disciplinary proceeding was initiated against a foreign foundation for breach of the rules on qualifying holdings, and a proceeding initiated in 2009 was extended to the director of a currency-exchange bureau.

In addition, although they are not strictly sanctioning proceedings, mention may be made, as shown in Table 2-C04, of the initiation and execution of proceedings against two companies to revoke the authorisation to carry on the professional activity of purchase and sale of foreign currency.

To the foregoing that it should be added that, pursuant to Article 19 of the Statute of the European System of Central Banks, the Governing Council of the European Central Bank is empowered to impose a certain level of minimum reserves on credit institutions. Failure to meet this obligation is punishable within the framework of a proceeding conducted by the Banco de España. One of the proceedings initiated in 2010 was of this nature

Having described the proceedings initiated in 2010, it should be pointed out that, with respect to previous years, the number of proceedings initiated has not changed significantly, either in the case of those against supervised institutions or those against directors or managers (in the latter case, seven more were initiated than in 2009).

2.2.2 PROCEEDINGS RESOLVED IN 2010

Together with the data on the number of proceedings initiated in 2010, reference should also be made to those resolved in that period. In this respect, the competent bodies resolved in 2010 disciplinary proceedings against supervised institutions and 25 members of their boards of directors and management, 22 of whom were sanctioned. In these reso-

PROCEEDINGS RESOLVED, BY TYPE OF INFRINGEMENT

TABLE 2.5

Number

	Number of proceedings	Sanctioning procedures							Non-sanctioning proceedings	
		Against supervised institutions				Intruders		ECB	Revocation	
		Infringement			Proceeding dismissed	Name/ activity reserved for credit institutions	Unauthorised curr. exch. bureaux	Minimum reserve requirements	Apraisal companies	Curr. exch. bureaux
		Very serious	Serious	Minor						
Against institutions										
2007	14	12	24	7	—	—	2	1	—	1
2008	16	12	26	6	1	1	—	3	—	3
2009	13	9	24	18	1	—	1	—	—	1
2010	9	4	6	2	—	3	1	1	—	1
Against particular directors of institutions or owners of qualifying holdings										
2007	46	27	91	—	3	—	—	—	—	—
2008	43	26	87	—	8	1	—	—	—	—
2009	45	25	85	—	1	—	—	—	—	—
2010	25	38	28	—	11	—	—	—	—	—

SOURCE: Banco de España.

lutions, (i) four sanctions were imposed on institutions and 38 on their directors or managers for the commission of very serious infringements; (ii) for the commission of serious infringements, six sanctions were imposed on institutions and 28 on directors and finally, (iii) for the commission of minor infringements, two sanctions were imposed, on institutions only, since Spanish law does not provide for the imposition of sanctions on directors for the commission of minor infringements. Also, one sanction was imposed on a legal entity for engaging in the activity of arranging cross-border money transfers without the necessary authorisation and three were imposed on three companies for engaging in activities legally restricted to credit institutions, without having obtained the necessary authorisation or being duly registered.

Finally, the Banco de España conducted a proceeding for non-compliance with the minimum reserve ratio established by the European Central Bank.

Along with the information on sanctioning activity in the strict sense, we also report here the resolution in 2010 of a proceeding 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.

2.2.3 INFRINGEMENTS BY TYPE OF OFFENDING INSTITUTION

The analysis, by type of institution, of the nature of the various infringements warranting the imposition of sanctions during the year is of particular interest.

a. Credit institutions

Notable among the proceedings resolved is one against a savings bank and 20 members of its board of directors and management, in which this credit institution was found to have committed three infringements, two of which were classified as very serious and the third as serious. As regards the very serious infringements, (i) deficiencies were found in its organisational structure, in its internal control mechanisms and in its administrative and accounting procedures, and such deficiencies were found to have jeopardised the viability and solvency of the institution, for which reason sanctions were imposed on the savings bank and on 17 of the members of its board of directors and management subject to the proceedings, since they were considered responsible for this situation; also (ii) the institution was found to have failed for at least six months to meet 80 % of the capital requirements made, so that the relevant sanction was imposed on the institution, and 16 of the 20 directors and managers subject to the proceedings were considered responsible for this infringement. Finally, the savings bank was considered to have committed a serious infringement by failing to comply with the rules in force regarding the limits on exposures, as a result of which a sanction was imposed on the institution. Of its directors and managers, 16 were considered responsible for this conduct and the relevant sanction was imposed on them.

b. Appraisal companies

In 2010, sanctions were imposed on an appraisal company and its three directors, for the commission of various infringements. Specifically, four sanctions were imposed for very serious infringements (one on the company and the other three on each of its directors), since the company's appraisal certificates and reports were found to lack veracity and to fail to match the data and evidence arising from the valuation activity performed. Also, four sanctions were imposed for serious infringements (one on the company and the other three on each of its directors) arising from organisational deficiencies of an administrative and technical kind and relating to personnel in the internal control procedures that guarantee the correct performance of appraisals. And finally, one sanction was imposed for the commission of one minor infringement, owing to non-compliance with the applicable rules on civil liability insurance.

c. Currency-exchange and money-transfer bureaux

Against currency-exchange and money-transfer bureaux, one proceeding was conducted and resolved in 2010 against a bureau and its two directors and managers. In this proceeding the bureau was found to have committed a very serious infringement, consisting of fundamental irregularities in its accounting records that prevented the entity's net worth and financial position from being known, for which sanctions were imposed on the bureau and on the two directors subject to the proceeding. Also, the bureau was found to have committed three serious infringements arising from its failure to perform various obligations, these being the obligations to have a minimum level of capital, to duly provide information to the supervisory authority and, finally, to perform only those operations it is authorised to perform, for which three sanctions were imposed. The directors of the bureau were considered likewise responsible for these infringements and a total of three sanctions were imposed on each. Finally, a sanction was imposed on the bureau for a minor infringement consisting of a breach of the rules regulating the recording of its transactions.

d. Unauthorised currency-exchange bureaux

In 2010 a proceeding was initiated and resolved against a company, which was sanctioned for performing the activity of cross-border money transfers professionally with the public without having obtained the necessary authorisation from the Banco de España or having been duly registered.

e. Pursuit of activities restricted to supervised institutions

Finally, the Banco de España's sanctioning activity also covers those individuals or legal entities which, without having obtained the required authorisation or having been duly registered, pursue activities restricted to supervised institutions. Three such proceedings were resolved in 2010, against three companies for carrying out cross-border money transfers without having obtained the required authorisation, with the imposition of fines. The companies were also sent a requirements letter instructing them to cease the unauthorised activity and noting that, if they failed to do so, they could be sanctioned again.

2.2.4 SANCTIONS AND CONCLUSION

Within the range of sanctions available under the sectoral regulations, those imposed in 2009 consisted mainly of fines, of which13 were imposed on entities and 66 on directors or managers. However, in certain cases, in view of the conduct of the offending entity or officer, the sanction imposed was a public reprimand (with publication in the Spanish Official State Gazette). Such sanctions on entities were generally accompanied by fines and, on occasions, the disqualification of directors or managers.

As a conclusion to the foregoing, it can be said that in 2010 the Banco de España continued to exercise its sanctioning power broadly within the parameters and trends of previous years, as regards the persons against whom the proceedings were conducted and resolved and their subject-matter. Also, as in previous years, in the cases in which very serious or serious infringements were found to have been committed, not only the institutions were sanctioned, but also the directors and managers whenever their guilt or negligence in the commission of those infringements was proven.

2.3 Other supervisory activities of the Banco de España

The Banco de España is also entrusted with overseeing other aspects of the activity of CIs. The following is a brief review of those functions along with comments on the most notable aspects of their performance in 2010.

2.3.1 TRANSPARENCY AND INFORMATION FOR BANK CUSTOMERS

The Banco de España, in accordance with the provisions of the Order of 12 December 1989 on interest rates and fees, rules of behaviour, information to customers and advertising of credit institutions, is responsible for checking and registering the brochure to be drawn up by institutions setting out their fee and commission charges (prices of bank services), chargeable expenses and valuation conditions, as well as the maximum charges applicable, the item to which they relate and the terms of their application. By law, such verification activity consists in checking that the brochure expresses, clearly and in an orderly fashion, maximum prices and the terms of their application. Such checking does not include securities transactions since these are the competence of the CNMV.

However, on 8 July 2010, Order EHA/1608/2010 of 14 June 2010 on transparency of conditions and information requirements applicable to payment services came into force. This Order completes the transposition into Spanish law of the Payment Services Directive, initiated with Law 16/2009 of 13 November 2009 on payment services. Among other changes, it establishes that the transparency of such services will be regulated by the provisions of this Order and not by those established in the Order of 12 December 1989.

As a result, institutions are no longer required to include payment service fees in their charges brochures, although the Banco de España has offered them the possibility of continuing to publish them on their websites, provided that it is explained that they are not verified by the Banco de España. Most institutions have accepted the Banco de España's offer and have started to carry out the necessary processes to adapt their charges brochures to the new situation.

The above-mentioned Order also removes the obligation to include transaction valuation conditions in the brochure, since they are regulated directly by Law 16/2009 on payment services.

The number of proposals processed during the year was 833, against 964 in the previous year, so that the downward trend of recent years continued. A significant proportion of the proposals corresponded to the adaptation of charges brochures to the legislation mentioned above.

ADVERTISING OF BANKING SERVICES AND PRODUCTS

BOX 2.1

On 29 June 2010, Order EHA/1718/2010 of 11 June 2010 on regulation and control of the advertising of banking services and products was published in the Official State Gazette. This Order came into force a day later.

The enactment of this Order involves a significant modification of the rules regulating the advertising of banking products and services in Spain, since it removes the need for the prior authorisation from the Banco de España envisaged in Chapter III of the Order of 12 December 1989 on interest rates and fees, rules of behaviour, information to customers and advertising of credit institutions, without prejudice to the same powers that regional (autonomous) governments may retain over certain credit institutions.

The singularity of this prior authorisation regime within the EU, its incompleteness insofar as it only affected banking transactions, but not securities market investment transactions or insurance transactions, and the fact that it significantly slows down the supply of products and services demanded by the financial sector and of securities, made it advisable to change this regime.

However, the removal of prior administrative control is accompanied by several measures aiming to ensure that the advertising of credit institutions (and of payment institutions, to whom it also applies) is not misleading.

Thus, the Order (whose content is, at the same time, consistent with Order EHA/1717/2010 of 11 June 2010 on the regulation and control of the advertising of investment services and products, which the Ministry for Economic Affairs and Finance has processed in parallel) replaces the prior authorisation regime with a system to control advertising based upon two elements:

- a preventive one, based on the creation of specific criteria for financial advertising to guide its clarity and honesty, and requiring certain internal procedures and controls that are conducive to such aims;

- and another one that enables any inappropriate conduct to be corrected, for which purpose the Banco de España may require cessation or rectification of advertising that fails to comply with the provisions of the Order or with those established by the Banco de España to implement the Order.

These aspects are addressed in the above-mentioned Order 1718/2010 and in the Circular of the Banco de España 6/2010 of 28 September 2010.

First, a number of general principles and specific criteria are established that must be respected by the advertising of credit and payment institutions, to ensure that such advertising is clear, sufficient, objective and not misleading.

The second question addressed relates to the internal procedures and controls and the commercial communication policy of credit institutions, with a view to achieving the above mentioned objectives

Thus, among the internal procedures and controls that may be required in accordance with Article 30 bis of Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions, institutions must include those necessary to protect the legitimate interests of their customers and to manage the risks to which they are or may be exposed as a result of their advertising.

For this purpose, institutions must have a commercial communication policy that includes appropriate criteria and procedures to ensure that the institution complies with the rules, principles and general criteria established in the legislation applicable to them.

Taking this into account, and with the aim, inter alia, of encouraging institutions to join some duly approved advertising self-regulation body, credit institutions not associated with any approved advertising self-regulation system, or whose advertising is not subject to prior authorisation by a regional (autonomous) government (like savings banks and many credit cooperatives), must submit to the Banco de España their commercial communication policy and the alternative internal controls they have to minimise the risks relating to inappropriate advertising.

And in relation to the correction of any inappropriate conduct, the Banco de España is understood to have powers to require the cessation or rectification of any advertising that does not comply with the legislation regulating banking products and services or that is in breach of the provisions of the Order or the Circular, and may require any warnings it considers necessary in relation to the advertised product or service to be included in the advertising.

Without prejudice to these powers to require the rectification or cessation of advertising, institutions, along with their directors and managers, that infringe the obligations envisaged in this legislation will be liable to administrative sanctions pursuant to the provisions of Title I of Law 26/1988 of 29 July 1988.

Another competence relates to the control of the advertising of credit institutions, whose form of exercise has been transformed during 2010 (see box). Thus, in the first half of 2010 when the regime of prior authorisation of advertising campaigns by the Banco de España was still in force, 3,696 authorisation applications were processed.

Also related to transparency is the function of verifying the customer protection rules regulating the activity of the customer service departments and ombudsmen of CIs,[5] except for those of savings banks and local or regional credit cooperatives, in which case the verification is carried out by the competent body of the autonomous region in which the institution's registered office is located . In any case,the Banco de España must be

5 The requirements of which were laid down by Order ECO/734/2004 of 11 March 2004.

notified of the appointment of the head of the department and, where applicable, of the ombudsman.

As mentioned in last year's report, the task of initial verification of these rules was practically completed in 2006. Hence, as in 2007, 2008 and 2009, the work in 2010 consisted in checking the rules of institutions newly registered in that year and the changes proposed by the institutions to existing rules.

Finally, with the aim of providing information and guidance to non-business customers of credit institutions, the Banco de España created a new portal on its website in 2005, called "Portal del Cliente Bancario".

In 2010, the number of viewings of the portal was 2,329,523, 12.9 % fewer than in 2009. However, the number of visitors increased by 1.6 % with respect to 2009, to 510,679.

The most visited sections were those relating to simulators, banking products, interest rates, the glossary, the Central Credit Register and frequently asked questions.

The number of queries received through the portal's "contact us" facility was 2,471, somewhat fewer than in 2009 (2,838). Telephone inquires also decreased in comparison with 2009, from 2,664 to 2,570.

2.3.2 OFFICIAL REGISTERS AND INSTITUTIONAL INFORMATION

The Banco de España is responsible, under Spanish law, for keeping various public registers with different purposes. Not only must CIs and other financial intermediaries and auxiliaries subject to supervision be recorded in these registers, but also certain elements of their corporate governance and organisational structure. These registers are as follows:

a. Register of Institutions

Diverse institutions operating on Spain's financial markets must be recorded in the Register of Institutions before they commence activities. The purpose of this register is twofold: first, it seeks to implement the "vetted access" principle governing the presence of those institutions in the market; and second, it aims to publicise adequately the fact that those institutions are subject to supervision by the Banco de España or by the competent authority in their respective home countries.[6]

Table 2.6 gives the number of institutions registered in this register,[7] both Spanish and foreign, including those that operate in Spain under the freedom to provide services.

In relation to this register, the decline in 2010 in the number of registered savings banks, from 46 to 36, as a consequence of the integration and restructuring taking place in the sector, is especially noteworthy. In parallel with this process there has been an increase in the number of banks which, in net terms, have increased by seven units to 71. Five of these banks are the central institutions of five Institutional Protection Schemes (IPSs), in which a total of up to 22 savings banks have been integrated. Another of the new banks has been set up to enable the transfer of the financial business of a savings bank, such transfer in another case taking place through an existing bank.

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6 This register and the register of agents described below are available to the public and can be consulted by either traditional means or on the Banco de España's website (banking supervision section). 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 using different criteria.

7 For more details of the institutions that have to be entered in this register, see Section 2.3.6. of the 2006 Report on Banking Supervision in Spain.

OFFICIAL REGISTERS OF INSTITUTIONS TABLE 2.6

Year-end data (a)

Number

	2007	2008	2009	2010
Institutions with an establishment	558	561	550	538
Credit institutions (b)	358	361	353	339
Representative offices	57	55	55	54
Mutual guarantee companies	24	24	23	24
Reguarantee companies	1	1	1	1
Currency-exchange bureaux and money transfer agencies (c)	59	62	63	61
Payment institutions	—	—	—	2
Agent networks of EU payment institutions	—	—	—	1
Appraisal companies	57	56	54	55
Controlling companies of credit institutions	2	2	1	1
Credit institutions operating without establishment	433	480	517	556
Of which: EU CIs operating without an establishment	428	475	492	506
Of which: financial subsidiaries of EU CIs	2	2	2	2
Of which: payment institutions (d)	—	—	20	45

SOURCE: Banco de España.

a The number of institutions also includes those that are non-operational and in the process of deregistering.
b Including electronic money entities and ICO.
c Not including foreign currency purchasing establishments.
d In application of Directive 2007/64/EC and of Law 16/2009 on payment services.

Contrasting with these changes is the stability in the register of credit cooperatives, in which there was just one deregistration in 2010, due to a merger. The reason for this stability has been that the integration between credit cooperatives is taking place through two institutional protection schemes, in which the central institution is one of the participating cooperatives.

Also noteworthy is the decline in the number of registered SCIs, by ten units, from 69 to 59. In half of these cases this was a consequence of the restructuring of international financial groups.

As regards the types of registered institutions, in 2010, following completion of the transposition into Spanish law of EU law on payment services, the first two Spanish payment institutions (PIs) were registered, as well as the first EU PI agent network. These agent networks are treated in a similar way to branches insofar as they are one way of exercising the right of establishment.

EU institutions operating without an establishment registered in this register continued their customary growth, both on the side of CIs, which increased by 14 to 506, and PIs, whose numbers doubled to 45.

b. Register of Senior Officers

The reason for this register, in which information is entered on the directors and senior managers of the institutions supervised by the Banco de España, is to manage and supply up-to-date personal and professional information on the main officers responsible for the activity of such institutions. This is done with the dual purpose of, firstly, acting as an ancillary tool for the Banco de España and other agencies in checking the requirements that have to be accredited by the senior officers of financial institutions; and, secondly, providing a means of monitoring the restrictions and incompatibilities applicable to such officers in banks and credit cooperatives, which have to be verified by the Banco de España.

As at end-2010, the number of senior officers in this register[8] was 4,755, a slight reduction of 3 %, in line with the smaller number of registered institutions and a certain simplification of their boards of directors. Thus, the largest declines in proportional terms occurred in the number of senior officers registered for savings banks and SCIs, which contracted by 12 % and 9 % to 1,069 and 327, respectively. Although the number of registered women declined for the first time (by somewhat more than 1 %), the percentage decline was larger among male senior officers (almost 4 %). Thus, the number of female senior officers as at end-2010, 538, was a higher proportion (13 %) relative to male senior officers (3,640). For their part, legal person senior officers accounted for slightly more than 9 % of the total.

With the entry into force of the Circular of the Banco de España 1/2009 of 18 December 2009, there were various changes in this register in 2010. The obligation and extent of the registration of the senior officers of savings banks, the branches of foreign EU CI's and the subsidiary financial institutions of the branches of foreign EU CIs, which until then were only regulated indirectly and are now expressly required for the sole purposes of permitting the performance of the supervisory functions entrusted to the Banco de España, have been clarified. Also, the forms used to notify senior officers have been unified and those persons considered similar to general managers have been specified, for the purposes of their registration in this register. In addition, a process of complete verification and updating was carried out during 2010.

c. Information on shareholders

The Banco de España also receives confidential information on the shareholders of banks and SCIs and on the members of credit cooperatives[9]. This information is vital for the basic supervisory tasks of the Banco de España, in which it is essential to know the shareholder structure of the institutions under its supervision, and for checking compliance with the law on qualifying holdings, a task entrusted to the Banco de España.

There were no significant changes in this register in 2010, apart from those relating to the aforementioned decrease in the number of supervised institutions entered in the register of institutions kept by the Banco de España. Thus, the number of registered shareholders of banks fell by barely 2 % to stand at 532, while that of SCIs fell by almost 12 %, to 157.

Nonetheless, it should be pointed out that, in the case of the registered members of credit cooperatives, Table A.4.2 in Annex 4 of the digital edition published on the Banco de España's website shows a notable increase from 364 to 518. This increase is merely due to a change in the computer program used to obtain this information. Until 2010, all holdings of less than 0.25 % in the share capital of cooperatives were aggregated, in order to eliminate information that, from the prudential point of view, is not relevant. However, with the publication of the Circular of the Banco de España 1/2009 of 18 December 2009, re-

8 All the statistical information in this section other than that relating to the number of registered institutions is included in Annex 4.2. In that annex, the information relating to the Register of Senior Officers is based on identity without regard to the number of posts that each may hold, i.e. 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.

9 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 equal to or more than 0.25 % in the case of commercial banks, 1 % in credit cooperatives and 2.5 % in SCIs.

ferred to above, and taking into account that most of those holdings corresponded to cross holdings between credit cooperatives, this aggregation was discontinued.

d. Reporting of agents

CIs operating in Spain and, since the beginning of 2002, also 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 typical of their activity.[10] In addition, they must report to the Banco de España the list of foreign CIs with which they have entered into agency agreements or agreements to provide financial services to customers.

In 2010, the changes in this register returned to the patterns seen in the years prior to 2009, which saw a sharp decrease in the number of agents registered as a consequence of the restructuring of the Spanish banking business of the subsidiary of a foreign bank.[11] Thus, the total number of agents of CIs increased moderately in 2010, by 2.5 %, to stand at 5,289, the most notable change being the shift in agents from savings banks to commercial banks, owing to the transfer of business from the dissolved savings bank Caja de Ahorros de Castilla-La Mancha to the new commercial bank Banco de Castilla La-Mancha, since the agents of this savings bank amounted to 23 % of the total number of agents of savings banks. This further increased the preponderance among agents of CIs of agents of banks who, numbering 4,830, account for more than 91 % of the total.

For their part, the number of agents reported by currency-exchange bureaux authorised to make cross-border money transfers continued the upward trend of previous years, with an increase of almost 11 %, which has raised their number to 18,734.

The most important change in this register from a qualitative viewpoint has been the registration of the first agents of Spanish PIs who, like those of the branches of foreign PIs and those belonging to the agent networks of EU PIs, must also be included in it. As at end-2010, 83 agents of Spanish PIs had been registered.[12]

e. Special Register of Articles of Association

The Banco de España also keeps an up-to-date register of the articles of association of supervised institutions to ensure continuity in the exercise of prudential supervision of them and to monitor the changes in those articles of association, which are sometimes subject to administrative authorisation by the Ministry for Economic Affairs and Finance or the corresponding body of the regional (autonomous) government, following a report from the Banco de España.

In 2010 the number of applications analysed and reported on by the Banco de España doubled to 50, basically as a consequence of the integration processes mentioned above. At the same time, the number of amendments registered increased by somewhat more than 18 %, to 168.

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10 From 2011, as a result of the entry into force of Banco de España Circular 4/2010 of 30 July 2010, CIs must also report those natural or legal persons whom they have appointed to perform regularly, on a professional basis and in the name of and on behalf of the institution, activities to promote and market transactions or services typical of the activity of a credit institution, including the investment and ancillary services referred to by Article 63 of the Securities Market Law.

11 See Section 2.3.2 (d) of the 2009 Report on Banking Supervision in Spain.

12 The Banco de España Circular 4/2010 of 30 July 2010 extended the reporting obligations of CIs to those natural or legal persons who they would have appointed to promote and market, in their name and on their behalf, on a professional basis and regularly, operations or services that constitute the typical activity of a CI. However, this reporting must be carried out twice a year, the first time with respect to the situation as at December 2010, so that it remains outside the time period covered by this report.

2.3.3 OTHER AUTHORISED ELIGIBLE CAPITAL FOR SOLVENCY PURPOSES

In order to ensure that CIs comply with the solvency requirements to which they are subject, the Banco de España verifies the eligibility as own funds of certain financial instruments issued by CIs, by their special purpose vehicles or by other subsidiaries, in accordance with applicable law.[13]

The items eligible as own funds include subordinated debt and preference shares, which have features of equity instruments, in that they will remain on the institution's balance sheet for an indefinite period of time and the returns on them depend on the issuer's solvency and on the existence of sufficient profits.

The issues verified by the Banco de España for eligibility as own funds declined significantly in 2010, to a total amount of €6.5 billion. This figure is around 75 % lower than that for 2009, but almost double the figure for 2008, when the international financial crisis broke.

There are two reasons that may explain this decline: first, Spanish CIs carried out less debt substitution in 2010 than in 2009, when they capitalised heavily on the particularly low prices of the securities issued by them to make profits that were set aside as provisions or reserves;[14] second, the issuance activity of operating subsidiaries of Spanish CIs subject to specific own fund requirements in the country in which they are authorised to operate was lower in 2010, with only one issue, with an equivalent value of barely €750 million (45 % less than in 2009), being recognised as eligible own funds.

It should also be noted that Table 2.7 does not include six issues of preference shares convertible into shares or non-voting equity units which, for a total amount of €8.4 billion and within the framework of the same number of savings bank restructuring processes, were subscribed for by the FROB last year.

As regards the financial characteristics of the issues made, it is not possible to find a predominant type of issue in 2010.

In terms of the nature of the issuer, although commercial banks carried out the largest number of issues, the total amount issued by savings banks was higher, accounting for almost 60 % of total issuance. From the standpoint of investors, those issues aimed at retail investors predominated among issues that were not intended to be exchanged for or converted into other existing securities, but represented barely 60 % of the total amount.

Meanwhile, fixed and variable interest rates occurred as often as each other and frequently existed simultaneously in the same issues, with the variable rates applying after a certain number of years (in most cases five). Variable interest rates stood at around 4 % and were based on EURIBOR, with spreads of more than one percentage point. Fixed rates ranged from 6 % to 8 %.

Only in relation to original maturities was there some uniformity, which mostly stood at ten years, and in the nature of the securities issued, with subordinated debt accounting for 85 % of both the total number of issues and the total amount issued. In fact, the two issues of shares or preference shares shown in Table 2.7 correspond to issues of bonds that are mandatorily convertible into shares of the issuer, which means that, for the purposes of own funds, they can be treated in a similar way to preference shares.

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13 Law 13/1985 of 25 May 1985 on investment ratios, own funds and reporting requirements of financial intermediaries, and implementing legislation.

14 See Section 2.3.3 of the 2009 Report on Banking Supervision in Spain.

ELIGIBLE INSTRUMENTS ISSUED BY SPANISH CIs AND VERIFIED BY THE BANCO DE ESPAÑA — TABLE 2.7

Yearly data

€m

	Number				Amount			
	2007	2008	2009	2010	2007	2008	2009	2010
TOTAL	60	36	75	14	21,592	3,747	26,314	6,465
Subordinated debt	45	32	42	12	11,962	2,597	7,938	5,497
Fixed-term	41	27	39	11	10,458	2,497	7,865	5,477
Banks	29	14	15	6	9,189	1,259	2,541	1,492
Savings banks	9	9	18	4	1,224	1,233	5,092	3,983
Credit cooperatives	3	1	1	1	45	2	3	2
SCIs	—	3	5	—	—	3	229	—
Of which: loans	4	7	11	1	420	678	409	1
No agreed maturity	—	3	—	—	—	19	—	—
Credit cooperatives	—	1	—	—	—	3	—	—
SCIs	—	2	—	—	—	16	—	—
Of which: loans	—	2	—	—	—	16	—	—
Undated	4	2	3	1	1,504	81	73	20
Banks	1	—	3	—	1,019	—	73	—
Savings banks	3	—	—	—	485	—	—	—
SCIs	—	2	—	1	—	81	—	20
Preference shares	15	4	33	2	9,630	1,150	18,376	968
Banks	7	1	15	2	9,239	1,000	9,426	968
Savings banks	7	3	18	—	389	150	8,950	—

SOURCE: Banco de España.

2.4 Supervisory policies

2.4.1 RECOMMENDATIONS FOR THE PREPARATION OF INTERNAL CAPITAL ADEQUACY ASSESSMENT REPORTS

a. Introduction

In March 2010 the Banco de España received for the second time the internal capital adequacy assessment report (“capital report”) which, since the implementation of Basel II, credit institutions have to prepare every year. To prepare this report, CIs have as a reference the Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP),[15] published initially in June 2008 and subsequently revised on two occasions, in March 2009 and in January 2011. These revisions seek to keep the Guidelines up-to-date and consistent with the European regulatory framework (including the guidelines issued by the CEBS-EBA[16]), and also to make improvements by including and rectifying matters as needed, in accordance with the experience acquired over the years.

The objective of the ICAAP is that institutions ensure there is a balance between their risk profile and the capital available to them. For this purpose, in the capital report institutions explain their internal assessment of the risk inherent in their activity, set out their corporate and internal governance and describe how they manage, measure and control their risks. Finally, they establish their own funds target, which must be compatible with their risk profile, and set out the capital planning, including stress testing, which will enable them to meet that target.

15 Available at: http://www.bde.es/webbde/en/supervision/regulacion/solvencia/ICAAP_guidelines_26_01_11.pdf. See also the 2007 Report on Banking Supervision in Spain.

16 The European Banking Authority (EBA), created by Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010, took over as from 01.01.2011 all existing and ongoing tasks of the CEBS.

The Banco de España's detailed knowledge of this process helps it to assess the solvency of institutions, and, therefore, the review and assessment of the ICAAP is an essential part of the supervisory process. This is explained in "The Banco de España Supervisory Model"[17] and, more specifically, in the "Guidelines on the Capital Review Process (CRP)", published in February 2010.[18]

The above-mentioned three documents set the framework of the Banco de España supervisory process, the objective of which is not only to ensure that CIs have the necessary capital to cover the risks derived from their business, but also to encourage them to develop and adopt more suitable risk management and control mechanisms.

b. Guidelines on the Capital Review Process

The objective of the capital review process (CRP) or, as it is more commonly known, the supervisory review and evaluation process (SREP) is to allow the Banco de España to confirm that there is an adequate relationship between the risk profile of each credit institution and the own funds effectively held by it. The main source of information used by the CRP for this purpose is the yearly internal capital adequacy assessment report ("capital report"), i.e. the report in which each institution gives an account of its internal capital adequacy assessment process (ICAAP). This information is supplemented by the own funds return of each institution and other relevant information available to the Banco de España, including that derived from its supervisory actions.

Although the review of the ICAAP is ongoing and forms part of the general supervisory process, it has two separate milestones: a) the yearly off-site reviews to check that the capital report is complete and reasonable and is consistent with the institution's own funds return and other relevant information available to the Banco de España, and b) specific reviews in greater depth and with a broader scope, carried out in on-site inspections. The objective in this case is to confirm that the information contained in the capital report is adequate and accurate, to review and evaluate the methodological aspects of the ICAAP and to identify possible deficiencies and weaknesses.

Further, to increase consistency between the reviews carried out by the various operational inspection groups, certain areas of the capital report are cross-reviewed by groups at the same level, so as to ensure that the analysis of significant aspects of it, such as for example the own funds target, the evaluation of internal governance, the evaluation of certain risks, etc. is carried out as uniformly as possible.

In the case of institutions subject to on-site continuous monitoring, every year an action plan is prepared for the coordinated review of the various sections of the ICAAP.

The yearly review of the capital report focuses particularly on the following sections: a) own funds target; b) capital planning, including the degree of fulfilment of prior years' projections (which is an indicator of the reliability of those projections), stress scenarios and contingency plans; c) consistency between the institution's internal assessment in its capital report and the scores assigned in the Banco de España risk matrix; and d) action plan for the future and, where applicable, degree of fulfilment of past action plans.

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17 Available at: http://www.bde.es/webbde/en/supervision/funciones/funciones.html . See also the 2008 Report on Banking Supervision in Spain.

18 Available at: http://www.bde.es/webbde/en/supervision/regulacion/prc.pdf.

In light of the conclusions drawn from this review and if considered necessary, the weaknesses found are explained to and discussed with the institutions in question, so they can be remedied as soon as possible.

c. Changes in the 2011 ICAAP guidelines

The experience gained from the review of the 2008 and 2009 capital reports showed that it was advisable to make further changes to the ICAAP guidelines to clarify and improve certain aspects of it and to reinforce various criteria communicated to institutions. These changes reflect the main areas of supervisory attention in the recent past and formalise some of the recommendations made by the Banco de España in response to inquiries from institutions or their associations:

a) Risk profile of institutions

It was clarified that, when they value their risks, institutions must refer to the inherent, and not the residual, risk. As explained in the "The Banco de España Supervisory Model", inherent risk is the risk intrinsic to the institution´s various activities and business areas, without considering the control systems.

It was also clarified that, to value their risks, institutions have to use the definitions and scale of scores used by the Banco de España in its supervisory review process, in order to foster a common language and facilitate analysis of whether the institution's perception of risk coincides with that of the Banco de España. That is to say, institutions have to use the definitions and scale of scores (high, medium-high, medium-low and low) of the risk matrix explained in the "The Banco de España Supervisory Model".

b) Own-funds target

The ICAAP guidelines define the own-funds target as that which the institution "considers necessary to maintain both at present and in the future period (...) in keeping with the risks inherent in the institution's activity, the economic environment in which it operates, the governance and risk management and control systems, the strategic business plan, the quality of the capital available (...) and the actual possibilities of obtaining more capital if needed."[19]

The current crisis has made it apparent that only core capital is useful in practice for withstanding losses on a going concern basis and, for this reason, the future rules (Basel III) put all their emphasis on it. In view of this, the Banco de España began, for the purposes of Pillar 2, to focus on core capital and finally included in the ICAAP guidelines the requirement that institutions express their capital target in terms of core capital.

The modified ICAAP guidelines specify that the definition of core capital to be used is that of "common equity tier 1" established by the Basel Committee,[20] including the related implementation criteria set out in EU and Spanish legislation. However, given that the concept of "common equity tier 1" (CET1) will only become compulsory gradually from January 2013, until then the defini-

19 Some institutions indicate in their capital report ratios that they act as a threshold for the application of corrective measures ("trigger ratios") instead of true targets to be met and maintained in the long term ("target ratios").

20 See the Basel Committee document entitled "Basel III: A global regulatory framework for more resilient banks and banking systems".

tion of core capital used will be that given in Article 2 of Royal Decree-Law 2/2011 of 18 February for reinforcing the Spanish financial system, which is very similar to the definition of CET1 applicable in 2013.

c) Assessment of capital needs for credit concentration and structural interest rate risk

The Banco de España included in the ICAAP guidelines the respective simplified options for assessing the capital needs for credit concentration risk and for on-balance-sheet structural interest rate risk in order to help less complex institutions analyse these risks and, at the same time, to establish objective criteria for comparing the level of inherent risk faced by institutions in relation to these two risks.

The simplified option for calculating capital needs for individual concentration risk was recalibrated in order to fine-tune the multipliers (the simplified methodology for estimating capital needs for sectoral concentration risk is also being revised).

The simplified option for calculating the capital needs for on-balance-sheet structural interest rate has also been modified: rules have been set on the maximum duration and percentage of volatility of non-interest-earning sight deposits in order to harmonise the criteria of the different institutions.

d) Capital planning and stress tests

The objective here is to establish a more structured and detailed capital planning framework in both normal conditions (ordinary planning) and stressed conditions (stress scenarios) so as to make these tests more uniform from one institution to another, thereby simplifying the Banco de España's task of reviewing them.

For this purpose, as a result of numerous working meetings with institutions and their associations,[21] the simplified option for stress tests was eliminated, institutions are requested to provide more details on their capital planning and on the stress tests conducted in the ICAAP, and some matters have been modified or clarified. The main changes are as follows:

– Institutions will include each year in their capital report what are known as the "baseline planning scenario" and the "macro stress scenario". In both scenarios, and for the different tests comprised in the planning, they will provide information on the macroeconomic variables used. Based on these variables, institutions will show the changes in their core capital ratio and, in addition, the envisaged amount of the main balance sheet items (including loans to the public and private sectors, private sector deposits, doubtful loans and receivables and loan loss provisions), a representative breakdown of risk-weighted assets, net interest income, gross income, net operating income and profit before tax.

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21 And also to make the recommendations of the ICAAP guidelines in this section compatible with the recent changes to the CEBS "Guidelines on Stress Testing".

– The “macro stress scenario” will consider a significant fall in economic activity and assume simultaneous adverse changes in at least GDP, interest rates, employment and house prices. For this purpose, the recommendations and predictions of the EBA, and, where applicable, the ECB, will be followed, except where the institution considers, and provides evidence, that they are not appropriate.

– The stress test results will be set out in the ICAAP summary return (return ICAAP 01) disregarding alternative capital items and active management strategies to mitigate their effects, i.e. they will be stated gross of mitigation. Where applicable, the effects of the mitigation produced by alternative capital items or any other means will be stated separately in the ICAAP, so their effect can be evaluated.

With these changes the Banco de España trusts that institutions will continue to improve their internal capital assessment procedures and devote efforts to a process which is key to the Banco de España’s supervisory review.

2.4.2 TRANSPARENCY OF CREDIT INSTITUTIONS

The financial crisis which broke out in mid-2007 showed that a key factor in market confidence is the disclosure by credit institutions of appropriate high-quality information which meets the needs of financial information users. And this greater need for transparency has been evident in numerous areas of activity and even in the governance of institutions.

Thus, quite early in the piece, the Financial Stability Forum (all the functions of which were taken over by the Financial Stability Board in 2009) issued a report on 7 April 2008 entitled *Enhancing Market and Institutional Resilience* which identified several areas where market transparency had to be improved, including that of disclosure of information on risks and on structured products and securitisation processes and markets, and that of the valuation models and procedures used by institutions.

As the financial crisis deepened and gave way to an economic crisis in numerous countries it became still more evident that it was necessary to reinforce the transparency of institutions in all areas related to their activity in order to maintain market confidence. Although there are numerous documents and reports of international fora in this respect, special mention should be made of the document published in April 2010 by the Committee of European Banking Supervisors (CEBS) addressed to all EU credit institutions, entitled *Principles for disclosures in times of stress (Lessons learnt from the financial crisis).*

This document[22] contains sixteen principles on information disclosure which reflect the lessons to be learnt from the financial crisis and help institutions to improve the quality of the information they publish. These principles address general matters, although they also touch on specific aspects of the content and presentation of information, as can be seen from the summary included in Box 2.2.

It is precisely in the area of the information to be disclosed in times of stress where the Banco de España decided to impose greater market transparency requirements on institutions at the end of 2010 in regard to construction and real estate development loans, house purchase loans, assets acquired in satisfaction of debt and funding needs and strategies.

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22 In March 2011 the Banco de España reminded institutions in writing of the importance and timeliness of this CEBS document.

PRINCIPLES FOR DISCLOSURES IN TIMES OF STRESS (LESSONS LEARNT FROM THE FINANCIAL CRISIS) BOX 2.2

I GENERAL PRINCIPLES

1 Financial institutions should provide timely and up to date information.

2 Financial institutions should provide disclosures on areas of uncertainty.

3 Financial institutions should provide comprehensive and meaningful information that fully describes their financial situation.

4 Disclosures should allow comparisons over time and between institutions.

5 Financial institutions should seek to early adopt new disclosure regulations.

6 Financial institutions should specify whether and to what extent information has been reviewed or verified by external auditors.

II CONTENT

7 Financial institutions should provide sufficient information on the business model underlying the activities under stress and their significance. Disclosures should cover:

– background information on the business model underlying the activities under stress (to put the disclosures into context) with a description of the degree of involvement of an institution in such activities;

– an explanation of how activities contribute to an institution's value creation process;

– a discussion of the impact a stressed situation has had on the institution's strategy and objectives, including changes in business orientation or policies.

8 Financial institutions should provide clear and accurate information regarding the impacts the activities under stress have on results and on risk exposures. Disclosures should cover:

– the level of exposures related to the activities under stress and the precise nature of the risks involved;

– detailed information on losses;

– the nature of the protection implemented or acquired to cover the risk and the quantitative impact of risk mitigation;

– some narrative comments on possible developments in the situation.

9 Financial institutions should provide information regarding impacts on the institution's financial position. Disclosures should cover:

– the impact of the activities in question on the level of capital and on the resulting solvency ratio; and

– the impact on the institution's liquidity position.

10 Financial institutions should provide information on the management of the risks involved in activities under stress. Disclosures should cover:

– a description of relevant risk management practices, including associated governance arrangements where necessary; and

– a description of any measures taken to enhance risk management processes.

11 Financial institutions should provide detailed information with regard to critical accounting issues. Disclosures should cover:

– an adequate description of the accounting policies that are of particular relevance for the activities in question;

– details of relevant changes, if any; and

– detailed information where significant judgement has been applied.

III PRESENTATIONAL ISSUES

12 Financial institutions should ensure that disclosures regarding activities under stress can be easily located.

13 Financial institutions should provide information at an appropriate level of granularity.

14 Financial institutions should strike an appropriate balance between quantitative information and narrative information.

15 Financial institutions should continue to develop an educational approach.

16 Financial institutions should clearly specify when not exposed to particular activities under stress where this information is likely to be decision-useful for users.

These requirements, insofar as construction and real estate development loans are concerned, focus on the reporting of detailed quantitative information on these loans, along with an indication of what part is doubtful or sub-standard, by what amount the loan exceeds the collateral received and what specific provisions have been set aside for these loans. Also, it is requested that the policies and strategies established by institutions to cater for troubled loans in this sector, both in the short term and in the medium and long term, be made public.

Furthermore, institutions are requested to publish information on total loans to households for house purchase, specifying what part is secured by mortgage collateral and what is not and indicating the amount considered to be doubtful. Also, for this total and for the part thereof that is doubtful, institutions are required to publish a breakdown by interval of the LTV ratio, i.e. the proportion of the outstanding debt to the value of the collateral.

As regards assets acquired in satisfaction of debt, the information to be published includes a breakdown of the real estate assets on institutions' balance sheets (or of the ownership interests in or loans to unconsolidated firms holding such assets) arising from loans to construction and real estate development firms or from mortgage loans to households for house purchase, indicating in both cases the coverage by specific provisions.

Lastly, institutions have to include an assessment of their funding needs on the markets, as well as the short-, medium- and long-term strategies pursued in this respect.

All this information making up the new transparency requirements has to be disclosed by consolidated groups of credit institutions and by individual credit institutions not forming part of any group, and included, along with the appropriate explications, under a specific heading in the 2010 financial statements. However, certain institutions involved in merger or integration processes have been asked to disclose this information earlier.

Finally, and also somewhat related to these disclosure requirements, mention should also be made of the recurring disclosures in credit institutions' financial statements introduced by Banco de España Circular 7/2010 of 30 November 2010 developing certain aspects of the mortgage market. In effect, the various areas in which higher-level regulations[23] empower the Banco de España to issue implementing provisions include certain transparency-related matters which go directly to the heart of some of the concerns awakened by the nature and origin of the financial crisis referred to above.

The realisation that these concerns originated in US mortgage loans led numerous international fora to question whether, at a more general and broader level, mortgage lending standards were relaxed during the expansionary phase of the economic cycle and to what extent this may have affected the quality of institutions' mortgage portfolios and the quality of the mortgage markets themselves. In this respect, the various international studies and reports calling for greater transparency also in this area include most notably the recommendation by the Joint Forum in its report of January 2010 entitled *Review of the Differentiated Nature and Scope of Financial Regulation - Key Issues and Recommendations* that countries should have disclosure systems to disseminate information on the health of their mortgage market, including mortgage loan origination practices, encompassing all mortgage market participants.

The culmination of the Spanish mortgage market reform by means of Royal Decree 716/2009 and the development of various aspects of that reform via the aforementioned Circular 7/2010 draw on these sources when it comes to establishing further disclosure requirements regarding mortgage market transactions. Thus the Circular includes detailed rules on the essential data to be included in the special accounting register which, pursuant to Article 21 of the aforementioned Royal Decree, have to be included in the financial statements of institutions issuing mortgage covered or other bonds, thus providing the

23 Royal Decree 716/2009 of 24 April 2009 developing certain aspects of Law 2/1981 of 25 May 1981 on mortgage market regulation and other mortgage and financial system rules.

users of financial information with breakdowns and comparative figures of asset and liability transactions relating to the mortgage market.

Also, this Circular specifies the minimum content of the financial statement disclosure setting out the express representation of the Board of Directors or equivalent body of the credit institution with regard to the existence of express policies and procedures concerning their activities on the mortgage market. This note must indicate whether these policies and procedures include criteria on matters such as the ratio of the loan amount to the appraisal value of the mortgaged real estate asset (the aforementioned LTV ratio), the influence exerted by other collateral or guarantees supplementary to the mortgage collateral, the selection of appraisal companies, the relationship between the borrower's debt and revenue, or the verification of the information furnished by the borrower and of the borrower's solvency.

Note that some of these areas in which greater transparency is required of credit institutions are closely related to certain matters regarding credit risk management policies and methodology introduced by Banco de España Circular 3/2010 of 20 June 2010 amending Annex IX of Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats. These matters, which supplement the good practices contained in the aforementioned Annex IX which the Banco de España considers essential for credit risk management to be deemed prudent and robust, include most notably criteria relating to the proper evaluation of cash flows generated by the borrower and the role to be played by collateral in the analysis of loan origination and management.

3 REGULATORY CHANGES IN PRUDENTIAL SUPERVISION

This chapter describes the most significant legal changes made, from a prudential supervision standpoint, in 2010 in the regulation of the activity of CIs and other financial intermediaries and auxiliaries subject to supervision by the Banco de España. It deals with organisational and disciplinary rules, omitting other regulatory changes of a more technical nature that only affect the internal organisation of institutions or their operations. It also omits rules which refer to the mere exercise of competences by supervisory authorities. The changes are grouped by subject matter.

Although this chapter has traditionally described community and national provisions separately, that distinction has not been drawn this year since the only significant community rule was Directive 2010/76/EU.[1] Based on this Directive's objectives and subject matter, it has been included in section 3.1 below which covers the solvency of CIs. In this respect, it should be recalled that the Basel III Accord published in December 2010 by the Basel Committee on Banking Supervision to strengthen the capital requirements of CIs has not had any regulatory implications in 2010 in the EU or in Spain.

3.1 Solvency of credit institutions

3.1.1 AMENDMENTS TO COMMUNITY LAW

As mentioned above, the only significant regulatory change at EU-level was Directive 2010/76/EU and it was the first amendment to Directive 2006/48/EC[2] following the financial crisis. The basic objective of this Directive is to improve the treatment of certain aspects in the area of the solvency of CIs which had performed worse during the crisis.

Thus, within the framework of the Financial Stability Board Principles for Sound Compensation Practices and as part of the internal corporate governance requirements for CIs according to the solvency regulations,[3] under the Directive CIs must establish and maintain suitable remuneration policies which are compatible with the effective management of the risks to which they are exposed in their business.

In these policies, the performance-based components of remuneration should be aligned with long-term results (between three and five years), should take into account the outstanding risks associated with performance and actual payment should be spread over the business cycle of each institution (40 % to 60 % of variable remuneration should be deferred over an appropriate period of time). These policies should be made public, including, albeit on an aggregate basis, the resulting amounts. The competent authorities, in order to correct shortcomings in remuneration policies, may impose on institutions qualitative measures (including, freezing the variable parts of remuneration), and quantitative measures (the possible requirement to hold additional own funds, for example).

Secondly, the Directive strengthens the capital requirements of CIs through the review of risk assessment methods and procedures, essentially, for market operations involving financial instruments. For instance, as for settlement risk, the same capital requirements are

1 Directive 2010/76/EU of the European Parliament and of the Council of 24 November 2010 (OJ L of 14 December 2010) amending Directives 2006/48/EC and 2006/49/EC as regards capital requirements for the trading book and for resecuritisations, and the supervisory review of remuneration policies.

2 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) (OJ L 30 June 2006). Directive 2010/76/EU is known as CRD 3.

3 See Section 2.4.1 Compensation policy of credit institutions in the 2009 Banking Supervision Report.

now required for the non-trading book as for the trading book. There are two main changes in relation to position risk. On one hand, a capital requirements calculation regime for specific risk, similar to that for the non-trading book, is set up for securitisations, which were treated in the trading book as fixed-income instruments until now. On the other, in relation to the use of internal models, new capital requirements are introduced for default risk, price risk in the correlation trading portfolio and incremental risk in case of defaults. As for credit risk, the Directive introduces the concept of resecuritisation (a securitisation where the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation position), and due diligence is required with regard to the underlying securitisations and the ultimate underlying assets.

Finally, the Directive enhances the transparency obligations of CIs, not only in relation to securitisation positions and remuneration policy as discussed above, but also in general in order to achieve full disclosure of institutions' risk profiles.

3.1.2 CHANGES IN SPANISH REGULATIONS ON OWN FUNDS

In order to transpose Directives 2009/27/EC[4] and 2009/83/EC[5], which address several technical issues of Directive 2006/48/EC, CBE 9/2010[6] was published in December. This Circular introduced several amendments to CBE 3/2008,[7] in relation to many aspects, also of a technical nature, including: the calculation of capital requirements for credit risk and mitigation of this risk; the treatment of securitisations and credit derivatives; the treatment of counterparty and trading book risk; the calculation of the floors in risk-weighted exposures for equities in the banking book; market disclosure obligations and liquidity risk.

Certain conditions are established for securitisations (based on the originator entity's overall share in the risk tranches), which must be fulfilled so as to presume that there has been a significant transfer of risk to third parties. If they are not fulfilled, the originator entity must show to the Banco de España, within the terms of the Circular, that the aforementioned transfer has taken place. Furthermore, capital requirements for liquidity facilities are strengthened.

The Circular introduces certain technical improvements arising from past experience which mainly relate to the criteria applicable to the exemption from individual requirements for subsidiary or parent entities of consolidatable groups of CIs, on one hand, and to the rules for weighting tangible assets received as dation in payment, on the other. Also, having regard to the criteria established in the guides issued by the CEBS, it eliminates the exemption of 1 % applied to date to the deduction of own shares. In order to avoid excessive fluctuations in eligible capital, following the practice of most EU countries, CIs now have the option of not including in their capital the changes in value of debt instruments that are recorded at fair value under available-for-sale financial assets.

That said, the main exceptional feature of Circular 9/2010 is that it includes as an annex "Guidelines supplementing the rules contained in the Circular" which establish a number

4 Commission Directive 2009/27/EC of 7 April 2009 amending certain Annexes to Directive 2006/49/EC of the European Parliament and of the Council as regards technical provisions concerning risk management (OJ L of 8 April 2009).

5 Commission Directive 2009/83/EC of 27 July 2009 amending certain Annexes to Directive 2006/48/EC of the European Parliament and of the Council as regards technical provisions concerning risk management (OJ L of 28 July 2009).

6 Banco de España Circular 9/2010 of 22 December 2010 to credit institutions amending Circular 3/2008 of 22 May to credit institutions on the determination and control of minimum own funds (BOE of 30 December 2010).

7 Banco de España Circular 3/2008 of 22 May 2008 to credit institutions on the determination and control of minimum own funds (BOE of 10 June 2008).

of provisions on liquidity risk, which replicate those in Directive 2009/111/EC,[8] tending to strengthen the organisation and internal control of institutions and risk management. This annex, which is legally non-binding and groundbreaking in the area of regulation, is justified because it is impossible to fully regulate these issues, which are considered essential for ensuring the soundness of CIs, until Directive 2009/111/EC has been transposed into Spanish law.

3.2 Legal regime of supervised institutions

3.2.1 INSTITUTIONAL PROTECTION SCHEMES AND THE OPERATION OF THE FROB

Royal Decree-Law 6/2010[9] urgently addressed the reform of certain aspects of the Spanish productive system in order to boost the growth of the Spanish economy along with job creation. As for the financial system, as part of a wide-ranging set of measures tending to strengthen the financial soundness of CIs, this Royal Decree-Law essentially covers two aspects.

Firstly, it clarifies the legal regime for institutional protection schemes (IPSs) to be considered consolidatable groups. Thus, the IPSs are defined as contractual agreements between CIs, whereby a central institution responsible for compliance with regulatory requirements on a consolidated basis, determines the policies, business strategies and risk management methods of participating institutions. This central institution may be one of the institutions composing the IPS or another CI which is an investee of all of them. The contractual agreement must contain a mutual commitment on the solvency of the constituent institutions of at least 40 % of regulatory capital at each CI. It must also include a mutual commitment on liquidity and envisage the pooling of at least 40 % of the profits of each institution. The agreement shall have a minimum term of ten years, plus at least two years' notice should an institution want to leave the IPS, and shall include a system of penalties for withdrawal from the IPS.

Subsequently, Royal Decree-Law 11/2010 (referred to in Section 3.2.2 below), added that prior to any of the constituent CIs leaving the IPS, the Banco de España will assess the individual viability of the institution intending to withdraw from the IPS and the viability of the IPS itself and that of the other institutions should said institution actually exit the scheme. This Royal Decree-Law clarified, additionally, that where the institutions composing the IPS are savings banks, the central institution must be a public limited company and at least 50 % of its shares must be owned by the constituent savings banks.

Secondly, Royal Decree-Law 6/2010 introduces several amendments to the FROB's operating regime, basically to reduce the periods for taking action to address weaknesses in the economic and financial situation of institutions which may affect their viability. Further, it adds as a new instance for the restructuring of a CI with the intervention of the FROB, the occurrence of circumstances which, in the Banco de España's judgement, are such that the institution will not foreseeably find a viable remedy without the FROB's support. It also specifies that the equity units and preference shares subscribed by the FROB will not have to be quoted on an organised secondary market and that this should not prejudice their eligibility as own funds.

8 Directive 2009/111/EC of the European Parliament and of the Council of 16 September 2009 amending Directives 2006/48/EC, 2006/49/EC and 2007/64/EC as regards banks affiliated to central institutions, certain own funds items, large exposures, supervisory arrangements, and crisis management. The transposition of this Directive, which is known as CRD 2, is currently before Parliament.

9 Royal Decree-Law 6/2010 of 9 April 2010 on measures to promote economic recovery and employment (BOE of 13 April 2010) validated by Parliamentary Resolution of 20 April 2010.

3.2.2 RESTRUCTURING OF SAVINGS BANKS AND WRITE-DOWNS

In the context of the international financial crisis Royal Decree-Law 11/2010,[10] made further progress towards the target of improving the financial soundness of savings banks, essentially in three ways: by making it easier for them to have access to core capital, by promoting the professionalisation of their governing bodies and adjusting their capacity, either through new forms of engaging in their financial activity or through merger and integration processes.

The improvement in access to core capital was mainly addressed through the reform of the legal regime for equity units to make them more attractive to potential investors. The central plank of the reform is granting voting rights to unit-holders, who will now have a number of votes at the General Assembly based on the ratio of their equity units to the total net equity of the savings bank (as previously, this ratio may not exceed 50 %). The unit-holders may, likewise, appoint members of the Board of Directors and of the Control Committee in accordance with the aforementioned ratio, and they will have rights to information and to challenge resolutions that are characteristic of the shareholders of public limited companies.

Additionally, the maximum limit on ownership of equity units (which previously stood at 5 % of all equity units issued) was abolished; however, holdings will be subject to the regime for significant holdings in CIs. Similarly, it is envisaged, on one hand, that if the equity units are offered to the public in general, listing in organised secondary markets is compulsory and, on the other, that if the issuer savings bank joins an IPS, the equity units may be acquired without any type of limitation by the central institution of the IPS.

In order to improve the professionalisation of the savings bank governing bodies, the Royal Decree-Law clarifies and gives greater importance to the requirements that must be fulfilled by their members, mainly as regards the commercial and professional integrity required, accredited experience, the appointment process and the incompatibilities regime (particularly with political posts). At the same time it introduces the necessary means to adapt the governing bodies of savings banks to cases in which financial activity is performed indirectly by a bank and to the new legal regime of the equity units. Furthermore, the representation of general government in the governing bodies is reduced to 40 % from the previous limit of 50 %. In addition, the groups that may be members of the governing bodies now include institutions which represent collective interests in the savings bank's territory or are well established there, up to a ceiling of 10 % of the voting rights in each body.

The supplementary measures to improve the management of savings banks are that the operating rules of the Compensation and Appointments Committee are reformed to include the function of ensuring that the requirements for directors, committee members and the general manager are complied with, and that the new Welfare Projects Committee is regulated in order to guarantee that the savings bank's welfare projects are performed properly. Also, savings banks must publish annually a corporate governance report similar to that published by savings banks which have issued marketable securities.

Lastly, Royal Decree-Law 11/2010 permits savings banks to indirectly engage in their financial activity via a bank to which they contribute their entire business, either on their own or together with other savings banks through a jointly controlled credit institution

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10 Royal Decree-Law 11/2010 of 9 July 2010 on the governing bodies and other aspects of the legal regime for savings banks (BOE of 13 July 2010) validated by Parliamentary Resolution of 21 July 2010.

within the framework of an ISP. If the savings banks reduce their holding to less than 50 % of the institution's voting rights, they must forfeit their credit institution status and become special foundations which focus on performing their welfare projects, through the management of their investment portfolio which essentially comprises shares of the credit institution.

3.2.3 REGIME GOVERNING QUALIFYING HOLDINGS IN CIs

Within the framework of the reform of the regime of qualifying holdings in Europe which was promoted by Directive 2007/44/CE,[11] Law 5/2009 and Royal Decree 1817/2009[12] clarified the procedures and evaluation criteria applicable for the prudential assessment of acquisitions of such holdings, at the same time as they empowered the Banco de España to prepare and publish a list of the information which, in the case of holdings in CIs, potential acquirers should provide in order to assess the effects of the proposed acquisition on the stability of the institution and of the markets in which it operates. CBE 5/2010[13] used this power and published the aforementioned list.

Since the European regulation on the regime governing qualifying holdings is identical for CIs, investment firms and insurance companies, and given that in Spain the regulatory framework for these institutions is similar, the preparation of the Circular was coordinated in full with the CNMV and the DGSPF (Directorate General of Insurance and Pension Funds), at the same time as it took into account the guides for prudential assessment of acquisitions and increases of qualifying holdings in the financial sector, prepared jointly by CEBS, CESR and CEIOPS. Furthermore, in application of the principle of proportionality, the Circular establishes different requirements for the information to be sent to the Banco de España based on whether the potential acquirer is a CI or another financial institution supervised by another EU authority and on the complexity or nature of the operation.

The information to be provided comprises two parts. The first part is general and includes the identification of the potential acquirer (its professional activity, net worth situation, any relevant links, etc.) and a description of the operation, its purpose and financing. The second part requires further information based on the level of the desired holding and, in particular, when the intention is to take control of the institution.

3.2.4 LEGAL REGIME FOR PAYMENT INSTITUTIONS

In implementation of Law 16/2009,[14] which transposed Directive 2007/64/EC[15] into Spanish law, Royal Decree 712/2010[16] defined the legal regime for payment institutions (PIs),

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11 Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 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 holdings in the financial sector (OJ L 21 September 2007).

12 Law 5/2009 of 29 June 2009 amending the Securities Market Law 24/1988 of 28 July 1988, Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions and the consolidated text of the Private Insurance Law, enacted in Legislative Royal Decree 6/2004 of 29 October 2004, for the reform of the regime for qualifying holdings in investment firms, credit institutions and insurance corporations (BOE of 30 June 2009) and Royal Decree 1817/2009 of 27 November 2009 amending Royal Decree 1245/1995 of 14 July 1995 on the creation of banks, cross-border activity and other matters relating to the legal regime of credit institutions and Royal Decree 692/1996 of 26 April 1996 on the legal regime of specialised credit institutions (BOE of 7 December 2009). See section 3.2.1.b of the 2009 Report on Banking Supervision in Spain.

13 Banco de España Circular 5/2010 of 28 September 2010 to credit institutions on the information that the potential acquirer must send in the notification referred to by Article 57.1 of Law 26/1988 of 29 July 1988 (BOE of 11 October 2010).

14 Law 16/2009 of 13 November 2009 on payment services (BOE of 14 November 2009).

15 Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (OJ L 5 December 2007).

16 Royal Decree 712/2010 of 28 May 2010 on the legal regime governing payment services and payment institutions (BOE of 29 May 2010).

which together with credit institutions are the only institutions authorised to provide payment services. Most of this legal regime is similar to that of other institutions supervised by the Banco de España although it has some characteristic features.

PIs are not required to have a specific legal form other than one governed by mercantile law, either due to the nature of their purpose or due to the way in which they were formed. Different minimum initial capital is envisaged ranging from €20,000 to €125,000 based on the payment services that the PIs intend to provide. In relation to minimum own funds, although the Royal Decree establishes a default calculation method, it envisages the possibility that the Banco de España, on its own initiative, after consulting the PI or at the PI's request, may authorise the use of one of the two alternative methods provided for in the Royal Decree.

Law 16/2009 established two methods for safeguarding the funds received from payment service users or through another payment service provider, the characteristics of which are implemented through the Royal Decree. The latter also defines the operational restrictions imposed on the payment accounts through which PIs provide their services in order to ensure that the funds received by the PIs from payment service users do not constitute cash deposits or other reimbursable funds. Thus, in addition to the prohibition of earning interest, comes the requirement that the opening of the payment account must be linked to the prior existence of a payment order or to the simultaneous processing of a payment order. Likewise, the payment account must be associated with a cash deposit account opened by its holder at a CI, to which the balance of the payment account will be transferred should there be no movement in it in the last year. Furthermore, payment accounts may only have a debit balance as a result of the provision of payment services initiated by the payee of such services and not as a result of operations initiated directly by the payer holding the payment account. In any event, these debit balances must be replenished within a maximum period of one month and they must not amount to more than €600 at any time.

In relation to the cross-border provision of payment services, the Royal Decree specifically gives the same treatment to EU agent networks of PIs as their branches. Furthermore, PI agents are not subject to the principle of exclusivity and, consequently, may act simultaneously as the agent of more than one PI.

Lastly, the Royal Decree defines the provisions specifically applicable to PIs whose corporate purpose is not solely the provision of payment services, which are referred to as hybrid PIs. Such provisions range from the authorisation to the supervision of hybrid PIs and include their accounting requirements and operating rules with the two-fold purpose of adapting the requirements which are characteristic of IPs to the pursuit of other eligible business activities and to achieve a sufficient level of separation between these activities and the responsibilities acquired in the provision of payment services.

3.3 Operational framework

3.3.1 DEPOSIT GUARANTEE FUND

Royal Decree 628/2010[17] completed the transposition into Spanish law of Directive 2009/14/EC,[18] which introduced several changes to deposit guarantee schemes in the EU.

17 Royal Decree 628/2010 of 14 May 2010 amending Royal Decree 2606/1996 of 20 December 1996 on credit institution deposit guarantee funds and Royal Decree 948/2001 of 3 August 2001 on investor compensation schemes (BOE of 3 June 2010).

18 Directive 2009/14/EC of the European Parliament and of the Council of 11 March 2009 amending Directive 94/19/EC on deposit-guarantee schemes as regards the coverage level and the payout delay (OJ L 13 March 2009).

These changes included raising the minimum coverage level to €100,000, which had already been implemented in Spain through Royal Decree 1642/2008[19] that has been repealed. Consequently, on this occasion only the period available to the Banco de España for declaring a CI incapable of paying its deposits was amended, by reducing it to five working days, along with the payout delay for guarantee funds which was also reduced to twenty working days and is extendible by ten working days on extraordinary grounds.

Similarly, the obligation to conduct stress tests and to cooperate with other Member States is introduced for deposit guarantee funds. The obligation for member institutions to provide their customers with information on the functioning of the deposit guarantee fund is strengthened. Additionally, the Royal Decree introduced several changes and technical improvements in order to reinforce the legal certainty of the regime applicable to guarantee funds.

3.3.2 ADVERTISING OF BANKING SERVICES AND PRODUCTS

The regulation and control of banking services and products was changed significantly in 2010 as a result of the publication of Ministerial Order EHA/1718/2010[20] and, subsequently, of CBE 6/2010[21] which implements it. This new regulation, also applicable to PIs as regards the advertising of payment services,[22] replaces the previous regime of prior authorisation by the Banco de España of the advertising of CIs referring to the cost or yield of their products of services, with a new regime which is more uniform with that of other Spanish and European financial institutions. See Box 2.1. “Advertising of banking services and products” in Section 2.3.1 of the previous chapter.

3.3.3 TRANSPARENCY OF PAYMENT SERVICES

Ministerial Order EHA/1608/2010[23] completed the transposition to Spanish legislation of European regulations on payment services and specified the general obligations of transparency and information for customers which are applicable to payment services in the case of “single” transactions and in that of transactions subject to framework contracts. Additionally, it established the special provisions applicable to payment instruments of small amount and the distance marketing of payment services.

Thus, the Ministerial Order details the information that the payment service provider must furnish to the payment service user both as the payer or, if appropriate, as the payee of the transaction. This information (basically, the maximum execution period and the detail of the expenses to be paid) must be provided in a form which is readily accessible for the user and, in the case of the payer, prior to the latter being contractually bound to the service payment provider. Furthermore, this information should be completed by the payment service provider, once the payment order has been received, indicating, inter alia, the amount of the order and the date on which it was received.

Where the provision of payment services is envisaged to be ongoing, the prior information obligations are transferred to the framework contract which will apply to them. In this case the information will refer to the general aspects that will regulate the provision of payment services, such as the form of consent for transactions, communication mechanisms, the form of modifying or terminating the contract, etc. Additionally, for each payment transaction made, the holder of the framework contract, either as payer or payee,

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19 See section 3.2.3 in the 2008 Banking Supervision in Spain Report.

20 Ministerial Order EHA/1718/2010 of 11 June 2010 on regulation and control of advertising for banking services and products (BOE of 29 June 2010). See section 2.3.1.

21 Banco de España Circular 6/2010 of 28 September 2010 to credit and payment institutions on the advertising of banking services and products (BOE of 11 October 2010).

22 Except as regards the obligation to have a commercial communication policy.

23 Ministerial Order EHA/1608/2010 of 14 June 2010 on transparency of conditions and information requirements for payment services (BOE of 18 June 2010).

shall be provided with information similar to that envisaged for single payment transactions.

In accordance with the changes introduced by the Ministerial Order, CIs are no longer obliged to include in their brochures of fee and commission charges, those relating to payment services and the valuation standards applicable to their lending and deposit transactions. Currency-exchange bureaux licensed to make cross-border money transfers are no longer subject to prepare and submit to the Banco de España the general conditions which will apply to the transfers they perform.

3.3.4 ACCOUNTING AND STATISTICAL REGIME OF CIs

The accounting regime of CIs was revised significantly in 2010 through three circulars: CBE 2/2010[24], CBE 3/2010[25] and CBE 8/2010.[26] Whereas the last two circulars are more closely linked to accounting techniques, the first one focuses on the submission of statistical information.

Thus, the fundamental aim of CBE 2/2010 was the modification of the euro area statistical requirements (EMU statements) envisaged in Circular 4/2004 in order to comply with the ECB's new statistical requirements.[27] These requirements mainly involve more detailed breakdowns for certain assets and liabilities and more information on loan securitisations and other loan transfers.

However, in order to reduce the excessive administrative burden which may be imposed by the increased reporting requirements on smaller institutions, the Circular envisages various exemptions for institutions whose total assets are below the threshold of €1.5 billion.

The Circular also makes minor changes to Circular 4/2004 to attend to other information needs, basically of a statistical nature, at the same time as it amplifies the information of the special accounting register of mortgage transactions.

These accounting changes are supplemented by those introduced by CBE 1/2010[28] concerning statistics on interest rates, also as a result of the new ECB requirements.[29] The purpose of these modifications is to provide more detailed breakdowns in the information supplied and new data about certain loans (in particular, those which are collateralised or non-collateralised, those extended to sole proprietors and those in the form of revolving loans, overdrafts and extended credit card credit).

3.3.5 MORTGAGE MARKET

CBE 7/2010,[30] which completed the mortgage market reform that began in 2007, was published at the end of 2010 in order to determine the more technical aspects of the aforementioned reform. Thus, the Circular sets the ratio that must be observed between the

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24 Banco de España Circular 2/2010 of 27 January 2010 to credit institutions amending Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats (BOE of 5 February 2010).

25 Banco de España Circular 3/2010 of 29 June 2010 to credit institutions amending Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats (BOE of 13 July 2010).

26 Banco de España Circular 8/2010 of 30 November 2010 to credit institutions amending Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats (BOE of 30 December 2010).

27 Published in Regulation (EC) No. 25/2009 of the European Central Bank of 19 December 2008 concerning the balance sheet of the monetary financial institutions sector (Recast) (ECB/2008/32) (OJ L of 20 January 2010).

28 Banco de España Circular 1/2010 of 27 January 2010 to credit institutions concerning statistics on interest rates applied to deposits and loans vis-à-vis households and non-financial corporations (BOE of 5 February 2010).

29 Published in Regulation (EC) 290/2009 of the European Central Bank of 31 March 2009 amending Regulation 63/2002 (ECB/2001/18) concerning statistics on interest rates applied by monetary financial institutions to deposits and loans vis-à-vis households and non-financial corporations (ECB/2009/7) (OJ L of 8 April 2009).

30 Banco de España Circular 7/2010 of 30 November 2010 to credit institutions which develops certain aspects of the mortgage market (BOE of 6 December 2010). See Section 2.4.2.

REVISION OF ANNEX IX ON ANALYSIS AND PROVISIONING OF RISKS OF CIRCULAR 4/2004 (BY CBE 3/2010) BOX 3.1

Although Circular 4/2004 marked a far-reaching change in the accounting regulation of credit institutions, the fact is that it did not introduce substantial modifications to the provisioning of credit risk. Thus, the practice continued in Annex IX of offering institutions sound guidelines which oriented them about minimum provisioning levels and which guaranteed the coverage of all estimated losses associated with the loan portfolio.

The revision of Circular 3/2010 approved by the Banco de España refined the methodology for estimating asset impairment to take into account the conditions under which credit risk develops and to reflect appropriately the actual asset impairment and its transmission to the market through the financial information published by institutions.

The revision was three-pronged:

i) As regards *credit policies, methods and procedures,* essential issues related to credit policies that the Banco de España expects to find together with common problems in the reviews of supervised institutions' financial information were addressed such as the insufficient generation of cash flow by borrowers, excessive reliance on the collateral provided and rather unrealistic financial restructuring plans.

ii) As for the *estimation of impairment losses on debt instruments,* the different schedules were merged into one single schedule, which guarantees the full provisioning of the credit risk once 12 months have elapsed from their classification as doubtful. When the collateral is real estate property, this provisioning is applied to the amount of the outstanding risk which exceeds the value of the collateral. In turn, the value of the collateral is calculated on the basis of the lower of cost per public deed or appraised value, and by applying certain haircuts to reflect both the heterogeneity of the collateral and the different possibilities of realising it.

iii) With respect to *real estate assets received in payment of debt,* and given the absence of specific provisions, a new section IV was added. Its purpose in this connection was clear: to promote solutions to recover rapidly the financing extended and to continue with institutions' regular activity.

Finally, this revision of Annex IX was not applied retrospectively, and its initial quantitative impact began to be recognised in the results for 2010 Q3.

amount of the mortgage loan and the appraised value of the real estate, for the purposes of issuing mortgage-backed securities which are also guaranteed by a CI. To the same end, it specifies the guidelines to be followed in order to check whether the guarantees granted over real estate located in other EU countries can be considered equivalent to those granted over real estate located in Spain.

Additionally, the Circular determines the essential data of the special accounting register of mortgage loans which must be included in the annual accounts of the issuer institution and specifies the minimum content of the note in the annual report in which the board of directors or equivalent body of the CI must expressly refer to the policies and procedures established in relation to its activities in the mortgage market.

3.3.6 AGENTS OF CIs

Due to the amendment introduced by Law 47/2007 in the regulation of agents of investment firms,[31] CBE 4/2010[32] revised the regulation on the agents of CIs for two purposes. Firstly, it introduced the obligation for CIs to report to the Banco de España, for their subsequent publication, the individuals or legal entities appointed, to undertake professionally, on a regular basis, and in the name of and for the account of the CIs, the promotion and marketing of operations and services inherent to their activity as a CI, including investment services.[33] This communication should be made as at each calendar half.

31 Law 47/2007 of 19 December 2007 amending the Securities Market Law 24/1988 of 28 July 1988 (BOE of 20 December 2007) expressly granted the status of agent to individuals appointed for the promotion and marketing of investment services.

32 Banco de España Circular 4/2010 of 30 July 2010 to credit institutions on agents of credit institutions and the agreements entered into for the regular provision of financial services (BOE of 4 August 2010).

33 The regulations in force to date (Banco de España Circular 6/2002 of 20 December 2002 to credit institutions relating to information on agents of credit institutions and agreements for regular provision of financial services, which has been repealed) only obliged CIs to report on individuals to whom they had granted powers of attorney so that the latter may regularly act on their behalf, vis-à-vis customers, in the negotiation and execution of operations that are typical of the business of credit institutions.

REVISION OF THE RULES ON BUSINESS COMBINATIONS AND CONSOLIDATION OF CIRCULAR 4/2004 (BY CBE 8/2010

BOX 3.2

The last phase of the IASB's project on rules on business combinations and consolidation culminated with the amendments to IAS 27 on consolidated and separate financial statements, and IFRS 3 on business combinations. When regulations (EC) 494/2009 and 495/2009 adopted those amendments for the European Union, it became necessary to adapt the Accounting Circular and, to do so, the Banco de España approved Circular 8/2010.

This Circular includes most notably the following changes:

i) As regards the *taking of control in stages:*

   a) Goodwill is calculated on the date on which control is obtained for all of the acquirer's investment in the acquiree.

   b) The equity interest acquired by the acquirer prior to the date of taking control must be measured at fair value as at said date and the changes recognised in profit or loss. Furthermore, any revaluations accumulated in equity must be recognised in profit or loss.

   c) The goodwill represents the goodwill acquired and that arising as a result of revaluations of previous equity interests.

ii) *Acquisition costs* must be recorded as expenses when incurred, instead of being capitalised.

iii) *Contingent liabilities and contingent consideration* are recognised in the balance sheet, such recognition not being conditional upon the probability of them occurring.

iv) *Transactions with non-controlling interests* are deemed to be transactions in own shares.

v) In the event of *loss of control* of a group entity, the equity items arising from its assets and liabilities are recognised in profit or loss, and the retained investment is recorded at fair value at the date of loss of control.

vi) Lastly, changes are made to the *information in the notes to financial statements,* which essentially increase its level of detail.

In any event, the rules on business combinations and consolidation adopted by the European Union in the initial stage had already served as aid in the drafting of the text of Circular 4/2004. Consequently, the amendments introduced by Circular 8/2008 focused on very specific issues. However, taking advantage of the opportunity offered by the adaptation, it was decided to reorganise the subject matter, and, for reasons of form rather than of substance, the rules affected were practically redrafted in full.

Secondly, the Circular specifies more clearly the agreements and agents subject to the reporting requirement, particularly in the case of those agents which belong to the commercial network of other supervised institutions, that are already subject to their own control and transparency regime. It clarifies, in addition, various matters relating to the appointment and control of agents, mainly referring to their professional skills, the scope of exclusivity in the agent relationship and the optional nature (as regards the organisational and disciplinary regulations) of the notarisation of the granting of powers.

3.3.7 PROVISION OF INVESTMENT SERVICES

Although the Ministerial Order EHA/1665/2010[34] was primarily aimed at investment firms, it also regulated many relevant aspects for the purposes of this chapter. On one hand, it transferred to the CNMV the verification and making public of standard contracts and fee and commission charges relating to transactions and services performed on the public debt book-entry market, which previously was a competence of the Banco de España. On the other, it changed the procedures for the submission of the fees/commissions relating to other investment services, so that the CIs providing these services must now send them directly to the CNMV, instead of submitting them, as they did previously, through the Banco de España.

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34 Ministerial Order EHA/1665/2010 of 11 June 2010 implementing Articles 71 and 76 of Royal Decree 217/2008 of 15 February 2008 on the legal regime of investment firms and of other investment services entities in respect of fees/commissions and standard contracts (BOE of 23 June 2010).

4 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA IN 2010

4 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA IN 2010

The global nature and scale of the financial sector, along with the rapid propagation of the effects of the crisis that began in the summer of 2007 to the financial system as a whole and to economic activity, highlighted the need for a coordinated approach at the global level to address the situation and, insofar as possible, avoid its repetition in future. The changing nature of the crisis, in which the focus of attention has shifted from exposures to certain structured products towards global imbalances and the sovereign crisis, as well as its complexity, has been setting an agenda that was dominated in the first few years by the need to analyse the causes, consequences and lessons of this situation, and also the search for effective solutions, while in 2009 and 2010 it had switched to the concrete design of such solutions and to initiating implementation of the agreed reforms.

These solutions are being developed in global and European fora of supervisors and regulators. As a result, the Banco de España has continued to work, all the harder, to consolidate its presence in these fora, to try to ensure that new legislation arising from the international agenda reflects, as closely as possible, the Banco de España's own priorities, its intention always being to reinforce and strengthen the domestic banking sector, as well as to contribute to levelling the competitive playing field at the national and international level.

For a better understanding of the origin and spirit of this work, it is worth considering the role played by the G20, the committee at the highest political level, which is leading the programme of financial regulation reform. Although this group had existed for some time, the decisive boost to these reforms came in November 2008, with the first summit of heads of state and government. In 2010, these summits were held in Toronto and Seoul, with Spain attending in both cases. A large part of the development and especially of the coordination of financial regulation reform is entrusted to the Financial Stability Board (FSB), the institution of reference at the international level, which unites the developments promoted by the existing regulatory fora, including, in the banking field, the Basel Committee on Banking Supervision (BCBS). In turn, the G20 is fundamental in giving political backing to the proposals made by the fora of regulators and supervisors.

In the international regulatory field, 2010 was marked by the reform made by the BCBS in relation to capital and liquidity, commonly known as Basel III (see Box 4.1). Also, in relation to revision of the prudential framework for financial institutions in response to the crisis, the work of the FSB that began in 2009 on the treatment of moral hazard arising from the existence of systemic institutions should be highlighted.

In the European Union, where the coordination of regulatory and supervisory policies is all the more necessary, the transformation of the Committee of European Banking Supervisors (CEBS) into the European Banking Authority (EBA) and the establishment of the European Systemic Risk Board or ESRB (Box 4.2) should be highlighted. From 1 January 2011, the EBA has a number of new powers, both in relation to banking regulation, where it will have the power to prepare binding legislation, and aspects of supervision, where it has been given the function of promoting supervisory convergence, as well as the role of providing binding mediation between supervisors.

Also notable at the EU level were the stress tests carried out at a significant number of European financial institutions, which were coordinated by the CEBS.

The following sections of this chapter describe the work of the international committees of regulators and supervisors in which the Banco de España actively participates, both at the global and at the European level. They also describe the work undertaken jointly by committees of bank, securities and insurance supervisors, as well as the financial stability work carried out at the ECB and by the Association of Supervisors of Banks of the Americas (ASBA).

Table 4.1 contains information on numbers of committees and their working groups and sub-groups and shows the number of meetings attended by representatives of the Banco de España in 2010.

Finally, the work of the Banco de España in support of international technical cooperation for banking regulation and supervision was no less important. This work involved receiving and attending to delegations of foreign supervisors and the participation of members of staff of the Banco de España as speakers at national and international seminars for supervisors from other countries.

4.1 Work of the Financial Stability Board

The FSB not only leads and coordinates the reform of financial regulation at the international level, but also monitors the consistency of implementation of these policies in the different member jurisdictions. The work promoted by the FSB in 2010 includes the following:

The treatment of the moral hazard represented by systemic institutions, which commenced in 2009, has been one of the priorities of the FSB in 2010 and in 2011 to date. The project has a number of different aspects: the identification of systemic institutions and their capacity to absorb losses; the framework for assessing the probability of insolvency and its impact on the system; the essential characteristics of resolution regimes, including the existence of recovery and resolution plans; improving the intensity and effectiveness of the supervision of this type of institution; and reducing the degree of interconnectedness between institutions by requiring OTC derivatives to be settled through central counterparty clearing houses. Notable in this area is the report presented to the G20 on reducing the moral hazard posed by systemically important financial institutions (SIFIs).

Another relevant document is the recommendations report entitled “Intensity and Effectiveness of SIFI Supervision”. Also, in relation to reform of the prudential framework of financial institutions in general, at the end of 2010 the FSB began to analyse the solutions that should be adopted for the shadow banking system.

Other areas of reform of international financial regulation that are being led or coordinated by the FSB include the strengthening and convergence of international accounting standards (scheduled to be completed by mid-2011), a reduction in the dependence on external credit ratings and reform of the OTC derivatives markets.

Also notable is the monitoring of the vulnerabilities in the financial system and their connection with developments in diverse macroeconomic variables in different countries. This is also used as the basis for various actions and analyses and for taking, where applicable, the necessary political decisions.

The FSB, through its standards implementation committee, also closely monitors the reforms made in response to the G20 recommendations, the consistency of their implementation in different jurisdictions, through peer reviews, the degree of adherence of different jurisdictions to international financial standards, cooperation and information exchange.

ACTIVITY OF SUPERVISORY COMMITTEES (a) **TABLE 4.1**

Number

	Meetings	Groups
Financial Stability Board (FSB)	30	8
Committee of European Banking Supervisors (CEBS)	94	35
Committee	4	1
Groupe de Contact (GdC)	44	10
Expert Group on Prudential Regulation (EGPR)	25	7
Expert Group on Financial Information (EGFI)	18	9
Other	3	8
3L3 Groups (b)	12	4
Banking Supervision Committee (BSC)	21	12
Committee	5	1
Working Group on Macroprudential Analysis (WGMA)	5	2
Working Group on Banking Developments (WGBD)	7	3
Other	4	5
Basel Committee on Banking Supervision (BCBS)	95	39
Committee	5	1
Policy Development Group (PDG)	47	15
Standards Implementation Group (SIG)	17	6
Accounting Task Force (ATF)	6	8
Other	20	5
Joint Forum	9	3
Association of Supervisors of Banks of the Americas (ASBA)	5	2
Senior Supervisors Group (SSG) (c)	2	2
TOTAL	268	105

SOURCE: Banco de España.

a The numbers for each committee include the individuals in the groups reporting to the committee and the committee members.
b Groups established jointly by the Level Three committees of supervisors (CEBS, CEIOPS and CESR).
c The Banco de España joined the SSG in March 2010.

With regard to the peer reviews, there are two major types. First, there are those relating to specific subjects (thematic reviews), of which, in 2010, one was published, on compensation practices, and two were commenced, one on risk disclosure practices and the other on mortgage underwriting and origination practices in response to recommendations made in the Joint Forum's "Review of the Differentiated Nature and Scope of Financial Regulation". Second, there are the reviews of FSB member countries, the first of which was published in September 2010, on Mexico, with work also being done in 2010 on reports on Spain and Italy, which were eventually published at the beginning of 2011.

Finally, two other reports published in 2010 should be mentioned: "Principles for Reducing Reliance on CRA Ratings" and "Implementing OTC Derivatives Market Reforms".

4.2 Work of the Basel Committee on Banking Supervision

Following the mandate to reform the banking sector given to it by the G20 in 2009, the BCBS, along with its oversight and supervision body (the GHOS, comprised of central bank governors and non-central bank heads of supervision), completed the design and calibration of its capital and liquidity reform package, commonly known as Basel III. This reform, which was supported by the FSB and by the G20 leaders, is due to come into force, subject to a transition period, at the beginning of 2013.

These measures are part of the BCBS's response to the lessons learned from the crisis and cover the following areas: enhancing the quality, consistency and transparency of the capital base, improving risk capture, introducing a leverage ratio as a measure to supplement Basel II, developing a number of measures to promote the build-up of capital buffers during cyclical upswings, as well as the establishment of two minimum liquidity ratios, a short-term one and another more long-term one (see Box 4.1 for further details).

The BCBS also worked on other measures in 2010, including the promotion of supervisory colleges and the commencement of work to develop a methodology for identifying systemic banks, this being its basic contribution to the FSB's work in this area. It also contributed to the analysis of the implications of the register of financial instruments, the criteria for which are currently being reviewed by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), as well as issues relating to the resolution of cross-border banks, and it published a report containing recommendations to improve the resolution of such banks in March.

The BCBS published other important documents in 2010, including: "Compensation Principles and Standards Assessment Methodology", "Good Practice Principles on Supervisory Colleges" and "Principles for Enhancing Corporate Governance".

4.3 Work of the Committee of European Banking Supervisors

A significant part of the work of the CEBS in 2010, especially towards the end of the year, involved preparing for its transformation into the European Banking Authority (EBA), and coordination with the two other new micro-prudential supervisory authorities, the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA), as well as with the European Systemic Risk Board (ESRB), which is charged with monitoring macro-prudential supervision in the European Union (see Box 4.2).

At the same time, the CEBS assumed a very important role within the framework of international initiatives to restore market confidence in banks. Notable here were the stress tests carried out in July on a large group of EU banks. These tests consisted of simulations of the capacity of these institutions to withstand situations of stress. The Banco de España actively participated in these tests and subjected practically the entire Spanish banking sector to them.

Also notable were the reports on trends, risk and vulnerabilities in the European banking sector, prepared by the CEBS on the basis of a wide-ranging questionnaire addressed to all EU supervisors. These reports are analysed by the Financial Stability Table of the EU's Economic and Financial Committee.

In 2010, the CEBS continued to conduct the quantitative impact study (QIS) that it commenced in 2009, which replicates the BCBS's study at the European level, in order to analyse the consequences of the proposed banking regulation reforms in relation to capital and liquidity. Also, the CEBS continued to produce its regular joint reports with the ECB's Banking Supervision Committee on the impact of the business cycle on the minimum capital requirements established by the new solvency rules.

The provision of technical advice to the European Commission continued to form a significant part of the work of the CEBS, and the contributions to the amendments currently being made to the solvency directives were again notable in 2010. Specifically, the third amendment of this directive was approved in 2010 which, as regards the remuneration

In December 2010 the Basel Committee on Banking Supervision (BCBS) published two documents called "Basel III: A global regulatory framework for more resilient banks and banking systems" and "Basel III: International framework for liquidity risk measurement, standards and monitoring". These documents include the new measures of capital and liquidity and their key features are described below.

The new measures modify the definition of regulatory capital in order to improve its quality, its consistency internationally and its transparency.

Regulatory capital will comprise two items: Tier 1 capital and Tier 2 capital. Tier 1 consists, in turn, of highest quality capital or Common Equity Tier 1 (CET1) and Additional Tier 1 (hybrid instruments and certain preference shares). A conceptual distinction is also drawn since Tier 1 will consist of loss-absorbing instruments when the entity is a going concern, whereas the items of Tier 2 capital will absorb losses when the bank is a gone-concern.

The highest quality capital (CET1) is the keystone of the reform. It comprises common shares (or their equivalent for entities that are not public limited companies) and retained earnings (reserves) to which certain adjustments are applied. These adjustments are applied at CET1 level in order to guarantee the quality of this capital, i.e. its full loss-absorbing capacity. Some of these adjustments are deductions which used to be applied at Tier 1 level or at Tier 1 and Tier 2 level. Their application at CET1 level therefore means that the capital rules are significantly tougher.

The reform also harmonises internationally the characteristics which must be fulfilled by financial instruments in order to be considered CET1, additional items of Tier 1 and items of Tier 2 and regulatory adjustments. This achieves consistent capital internationally and guarantees a level playing field in terms of competition.

Once these new rules are fully in force, banks must have an amount of CET1 which is equal to or higher than 4.5 % of the value of their risk-weighted assets and the amount of Tier 1 capital, as a whole, must be at least 6 % of the value of their risk-weighted assets. The banks must also hold an amount of regulatory capital (Tier 1 plus Tier 2) equal to or higher than 8 % of the value of their risk-weighted assets.

Furthermore, in January 2011, the BCBS published another document "Minimum requirements to ensure loss absorbency at the point of non-viability", which established the requirements that must be met by financial instruments included in the calculation of regulatory capital (additional Tier 1 and Tier 2 capital) to ensure that these instruments fully absorb losses like the highest quality capital at the point of non-viability of a bank.

The Basel III reform also improves the risk measurement of certain exposures. In addition to the measures relating to the trading book, securitisations and resecuritisations, which were published in July 2009 in the document "Enhancements to the Basel II framework", the December 2010 document toughens up the treatment of counterparty risk and modifies certain aspects relating to the use of external ratings.

The new measures also establish two capital buffers, the capital conservation buffer and the countercyclical buffer. The capital conservation buffer is designed to ensure that entities build up capital during the upswings in the cycle which can be used to absorb losses at times of stress. This buffer must be at least 2.5 % of risk-weighted assets and must comprise highest quality capital, namely CET1. Banks that fail to comply with the minimum level of the capital conservation buffer will be subject to restrictions on profit distribution until this minimum level is fully covered. The larger the amount of the capital buffer which remains to be built up, the greater are these restrictions. This buffer is designed as an additional requirement to the minimum requirement of CET1.

The countercyclical capital buffer will be deployed only when there is excessive credit growth in a specific jurisdiction and with the aim of curbing such growth. During periods of normal credit growth this buffer will be zero. When it is required, it will be in addition to the capital conservation buffer and it may reach 2.5 % of total risk-weighted assets.

The BCBS has established a timetable for phasing in these measures from 1 January 2013[1] until 1 January 2019.

Another of the measures agreed upon to strengthen the banking system is the introduction of a leverage ratio, with the aim of creating a simple, transparent, non-risk based measurement that supplements the risk based capital requirements. The basic features of its design are as follows: the numerator of the ratio is Tier 1 capital and the denominator is an exposure value which includes on-balance sheet exposures and off-balance sheet risks and contingent commitments;[2] derivatives are valued taking into account their potential future exposure and netting rules permitted in Basel II for derivatives and repos are accepted; the proposed calibration is 3 %. This design and calibration will be subject to a parallel run period until 2017, the purpose of which is to enable the performance of the ratio at different stages of the cycle, its impact on the various business models and its interaction with the risk-based capital requirements to be analysed. The final design and calibration of the ratio will be based on the results of this analysis. The ratio is designed with a view to it becoming a minimum requirement in January 2018. Public disclosure of the ratio and its components by banks will begin on 1 January 2015.

As for the regulation of liquidity, Basel III introduces rules providing for a short-term liquidity coverage ratio and a net stable funding

1 Except for the measures approved in July 2009, which will be introduced at end-2011.

2 The off-sheet balance sheet items are included by applying a conversion factor of 100 %, except for the contingent commitments, which can be cancelled unilaterally by the bank and receive a provisional weighting of 10 %.

ratio. The objective is to ensure that banks have sufficient liquidity buffers to withstand possible tensions in markets and a balance sheet structure which avoids over-reliance on short-term funding. The liquidity coverage ratio (LCR) obliges banks to maintain the higher of the following amounts covered by highly liquid assets: 100 % of net cash outflows under a stress scenario over a thirty day horizon or 25 % of total cash outflows. The proposal specifies which assets can be deemed suitable for this ratio and the minimum percentages that must be applied to inflows and outflows of funds so that they actually reflect the stress considered. The net stable fund ratio (NSFR) compels banks to cover with stable sources of liquidity, 100 % of the portion of the market value of assets which it is considered will not be realisable under conditions of stress. In both cases the stress scenario is reflected through various parameters which are applied to items of assets and liabilities. The LCR will be introduced in 2015 and the NSFR in 2018, following their respective observation periods and the review of their design.

policies for bank employees, involved giving legal status to principles and standards issued by the CEBS itself and by the FSB in 2009. This directive has also increased transparency in relation to risk disclosure under Pillar 3.

In order to contribute to cooperation and the convergence of supervisory practices the CEBS has published new guidelines and updated existing ones. In 2010 it published guidelines for the operational functioning of supervisory colleges and for the joint assessment and joint decision regarding the capital adequacy of cross-border banking groups, on remuneration policies, on capital (convergence of supervisory practices with regard to the instruments referred to in Article 57 of the Capital Requirements Directive), minimum retentions in securitisations, liquidity cost, the recognition of external credit assessment institutions, operational risk, concentration risk, stress testing under Pillar 2, disclosure, large exposures and risk management. Also, it updated the guidelines on supervisory disclosure. It should be noted here that the Banco de España is authorised to adopt CEBS guidelines as its own. In 2010 it adopted those relating to stress testing, management of concentration risk and operational risk mitigation.

4.4 Joint work by committees of bank, securities and insurance supervisors

The financial crisis has further highlighted the growing interconnectedness between sectors and countries. It should, therefore, come as no surprise that the volume of projects that are being analysed both at the world level in the Joint Forum and at the European level by supervisors of the three sectors [the level 3 committees (3L3) and the Conglomerates Committee] continued to grow significantly in 2010.

At the global level, the Joint Forum (international group of bank, securities and insurance supervisors, without ministers), following the publication in January of the report on the differentiated nature and scope of financial regulation in the banking, securities and insurance sectors, has focused on commencing the work of updating the principles of supervision of financial conglomerates published in 1999 and on preparing a report on the use of models for the banking and insurance sector (“Developments in Modelling Risk Aggregation”).

Analysis has also commenced of intra-group support and the incentives that exist in securitisations, both from the viewpoint of investors and issuers.

Lastly at the global level, mention should be made of the Banco de España’s incorporation into the Senior Supervisors Group in March 2010, to which supervisors from Germany, Canada, France, Italy, Japan, the Netherlands, Switzerland, the United Kingdom and the United States also belong. This group basically comprises bank supervisors, although some securities supervisors also participate in it. The group analyses, from an eminently

After more than one year of negotiations, at the beginning of September 2010, the Presidency of the Council and the European Parliament reached a political agreement to create a new European System of Financial Supervision (ESFS). This agreement was confirmed firstly by the ECOFIN and subsequently by Parliament that same month, and was adopted by the Council on 17 November 2010.[1]

The setting up of this new framework, with the creation of an integrated network of national and European supervisors, involved intense work during 2010, both on the related legislative process and the tasks required to ensure that it came into operation on 1 January 2011.

The structure of this new system, whose purpose is to guarantee the correct application of financial sector regulations, to preserve financial stability and to ensure confidence in the financial system, is based on two major pillars: the macro-prudential pillar in the form of the European Systemic Risk Board (ESRB); and the micro-prudential pillar comprising, together with national supervisors, the heads of the supervision of banks in the EU on a daily basis and three new micro-prudential European supervisory authorities (ESAs), one for each sector.[2]

On 16 December 2010 the rules creating the ESRB came into force. This independent body responsible for the macro-prudential oversight of the European Union's financial system which will contribute to preventing and mitigating systemic risks, and will assess potential threats to the system's stability. In the exercise of its functions it may issue warnings or recommendations of a general or a specific nature which may be addressed to the European Union, as a whole, to one or more Member States, to one or more of the ESAs, or to one or more of the national supervisory authorities. Since these recommendations are non-binding, several mechanisms have been devised to exert pressure so as to ensure that they are complied with. For instance, the recipients of these recommendations must communicate to the ESRB and to the Council, the actions taken in response and provide suitable justification if a measure has not been adopted. Similarly, in certain cases, specific recommendations may be published.

During the first five years it is in operation, the ESRB will be chaired by the President of the ECB and the Governor of the Bank of England has been appointed as first Vice-Chair. In the exercise of its functions, the ESRB will have: a) a General Board which will be the decision-making body and whose voting members will mainly be the Governors of national central banks; b) a Steering Committee which will assist in the decision-making process; c) a Secretariat provided by the ECB, which is responsible for the day-to-day business and will provide analytical, statistical, administrative and logistical support; and d) an Advisory Scientific Committee and an Advisory Technical Committee which will provide technical advice.

With a view to undertaking the work required for the ESRB to commence operations, in March 2010 the so-called "preparatory" Secretariat was created, under the direction of the ECB. The work performed by this Secretariat can be grouped into three main areas: a) development of the procedures to create the bodies of the ESRB; b) preparation of consultative papers on key concepts and on the future tasks of the ESRB; and c) development of the necessary infrastructure to provide the analytical, statistical and administrative support required. Likewise, contacts were established with the employees of the various central banks and high-level groups have been created with the level 3 committees to analyse the information required and the data to be exchanged with the new authorities.

On 1 January 2011 the legislation creating the three new micro-prudential supervisory authorities came into force. These three authorities have, with stronger powers, replaced the three level three committees and are called the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA).

This was the most complex part of the negotiations, due to the intention of the European Parliament to transfer responsibility for the supervision of systemic cross-border financial institutions to these new authorities. Following numerous trilogues (meetings between the Commission, the Council and the Parliament), it was decided that the responsibility for supervision should remain with national authorities but, in exchange, the new authorities' functions and powers in areas such as consumer protection, the determination and measurement of systemic risk, the strengthening of national deposit guarantee schemes and their role in the colleges of supervisors, were enhanced.

The main objectives of these new authorities include most notably: a) the drafting of a single European rule book through the development of directly applicable regulatory and implementing technical standards, the issuance of guidelines and recommendations to establish consistent effective supervisory practices and the adoption of recommendations to guarantee compliance with European regulations; b) the improvement of the quality and consistency of supervision through the development of a common supervisory culture and supervisory best practices; c) reinforcing the supervision of cross-border groups through the identification and follow-up of their risks and the strengthening of the colleges of supervisors; and d) the analysis of the system's vulnerabilities.

It is also important to point out their legally binding mediation role under the regulation which enables them to adopt decisions in certain cases where there in no agreement between the competent authorities and their capacity to take individual decisions aimed directly at financial institutions, as a last resort, in cases of infringement of European law, emergencies and disagreements between supervisors.

1 The background to and developments in this legislative process were analysed in previous editions of this Report (see Box 4.2 of the 2008 edition and Box 4.1 of the 2009 edition).
2 A Joint Committee, comprising these three authorities, has also been created as a forum in which they can cooperate and ensure cross-sectoral consistency on various issues.

In order to define the scope of these powers and ensure that the new authorities function adequately and efficiently, it was also necessary to amend sectoral legislation. This was achieved through the so-called omnibus directive, which amended the main directives affected. However, this task is not over and in the next few months we will see new amendments which will determine the scope of action of these new authorities.

In order to exercise their functions, these authorities will have: a) a Board of Supervisors, on which voting members will be the heads of the competent national supervisory authorities; b) a Management Board composed of the Chairperson of the Authority and six members of the Board of Supervisors to ensure that the Authority fulfils its duty and performs its functions, c) a Chairperson, who will represent the Authority full time and will be an independent professional; d) an Executive Director, who will also be independent and full-time, will be responsible for the management of the Authority and will prepare the work of the Management Board; and e) a Board of Appeal.

During 2010, the level three committees, at the same time as they performed their tasks and functions, undertook the preparatory work to set up the new authorities. Noteworthy in this respect are: a) the coordination between the level three committees and the European Commission; b) the preparation and implementation of the selection processes for the Chairpersons and Executive Directors, c) the creation of a new infrastructure for information; d) preparatory work for coordination with the ESRB, e) organisational and recruitment matters; f) drafting of budgets; etc.

This new framework will be reviewed within three years when the Commission will publish a general report on the experience acquired in the various areas of this new regulation and will assess the appropriateness of modifying the new European System of Financial Supervision. Additionally, the Commission will prepare annually a report on the suitability of transferring other supervisory competencies to these new authorities. Consequently, the next few years will be crucial for the new authorities and national authorities which will have to demonstrate that the newly established framework fulfils the expectations and purposes for which it was designed.

practical viewpoint, themes such as the counterparty risk associated with derivatives and the enhancement of technological infrastructures.

At the European level, the work of the 3L3 groups (CEBS, CEIOPS and CESR) continued. Notable in this respect were the review of the conglomerates directive conducted by the Joint Committee on Financial Conglomerates (JCFC) and its sub-groups, and the two reports on the analysis of inter-sectoral risks prepared for the Financial Stability Table of the Economic and Financial Committee.

The advice of the JCFC to the European Commission on the content of the revision of the conglomerates directive enabled the Commission to formalise its own proposal for a directive in 2010. Having been approved by the Council this proposal is being debated in Parliament. At the same time, in order to achieve greater convergence in the treatment of conglomerates, JCFC working groups began to work on the preparation of guidelines on other matters: treatment of holdings, intra-group transactions and risk concentration.

4.5 Financial stability work at the ECB

The Banco de España continued to participate actively in the work carried out by the ECB's Banking Supervision Committee (BSC). This committee has terminated its twelve years of existence as a consequence of the creation of the ESRB, with whose new Technical Consultative Committee its functions were going to overlap (see Box 4.2). Also, the Governing Council decided to set up a new committee, the Financial Stability Committee, which commenced operations at the beginning of 2011 and which will support the ECB's Governing Council in the performance of its financial stability functions.

As a member of the European System of Central Banks, the Banco de España participated in the preparation of the ECB's two half-yearly reports on financial stability and contributed to the analysis carried out with the same periodicity for the Financial Stability Table of the Economic and Financial Committee. Another two publications are also notable, the "Report on EU Banking Structures" and "Recent developments in supervisory structures in the EU Member States". Finally, mention should be made of the work carried out in close collaboration with the CEBS to analyse the impact of the new prudential requirements, which specifically covers the pro-cyclicality of the minimum capital requirements.

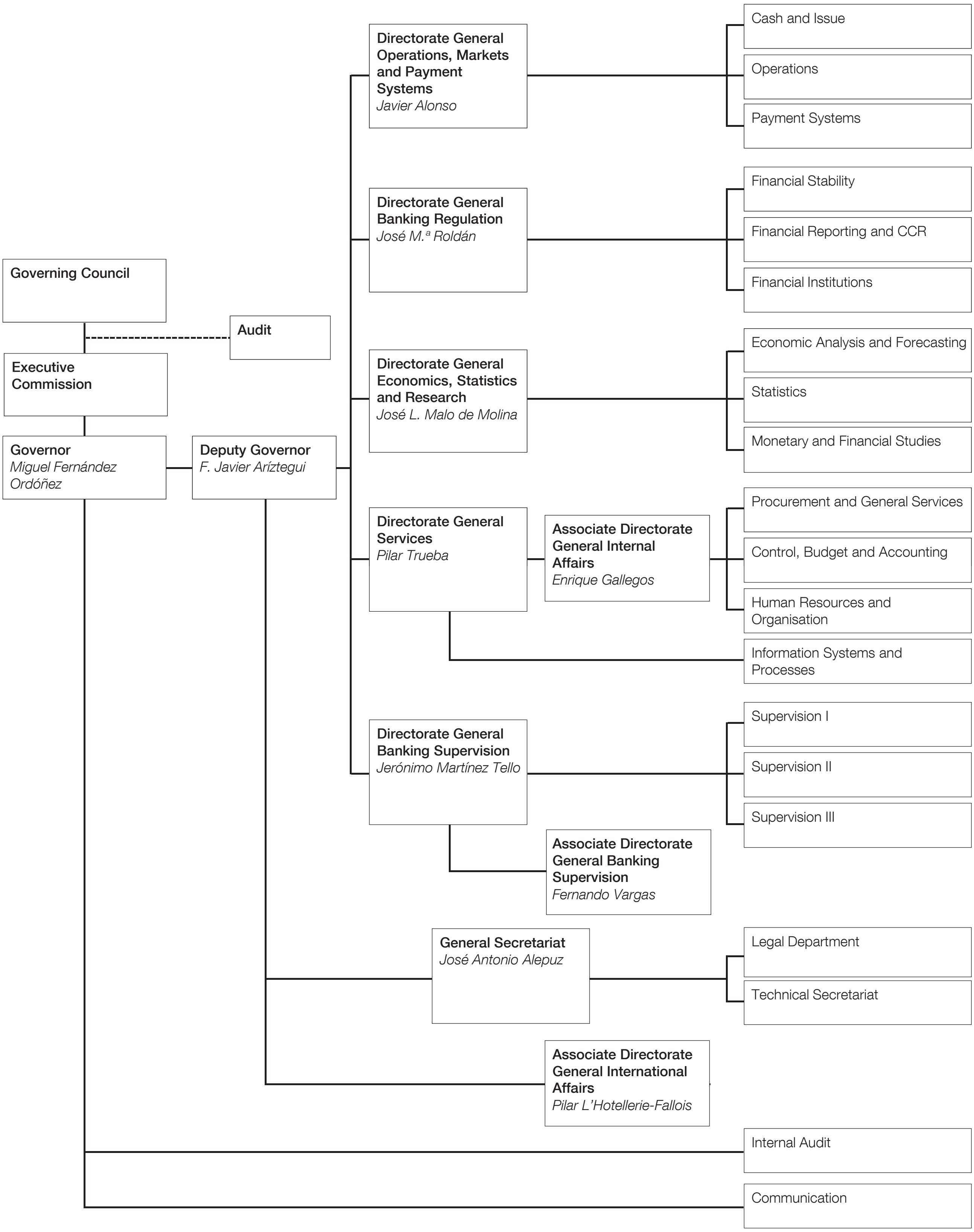
4.6 Work of the Association of Supervisors of Banks of the Americas (ASBA)

ASBA comprises the banking supervision and regulation bodies of 35 countries of the Americas and its main aims include promoting and maintaining close cooperation between the member countries, in order to facilitate cooperation between them and to promote banking supervision practices in the Americas in line with international standards. The Banco de España was a collaborator member of ASBA from its creation until 2006, when it became the only non-regional associate member, participating actively in the governing bodies of the Association, and in its training plans, working groups and other activities.

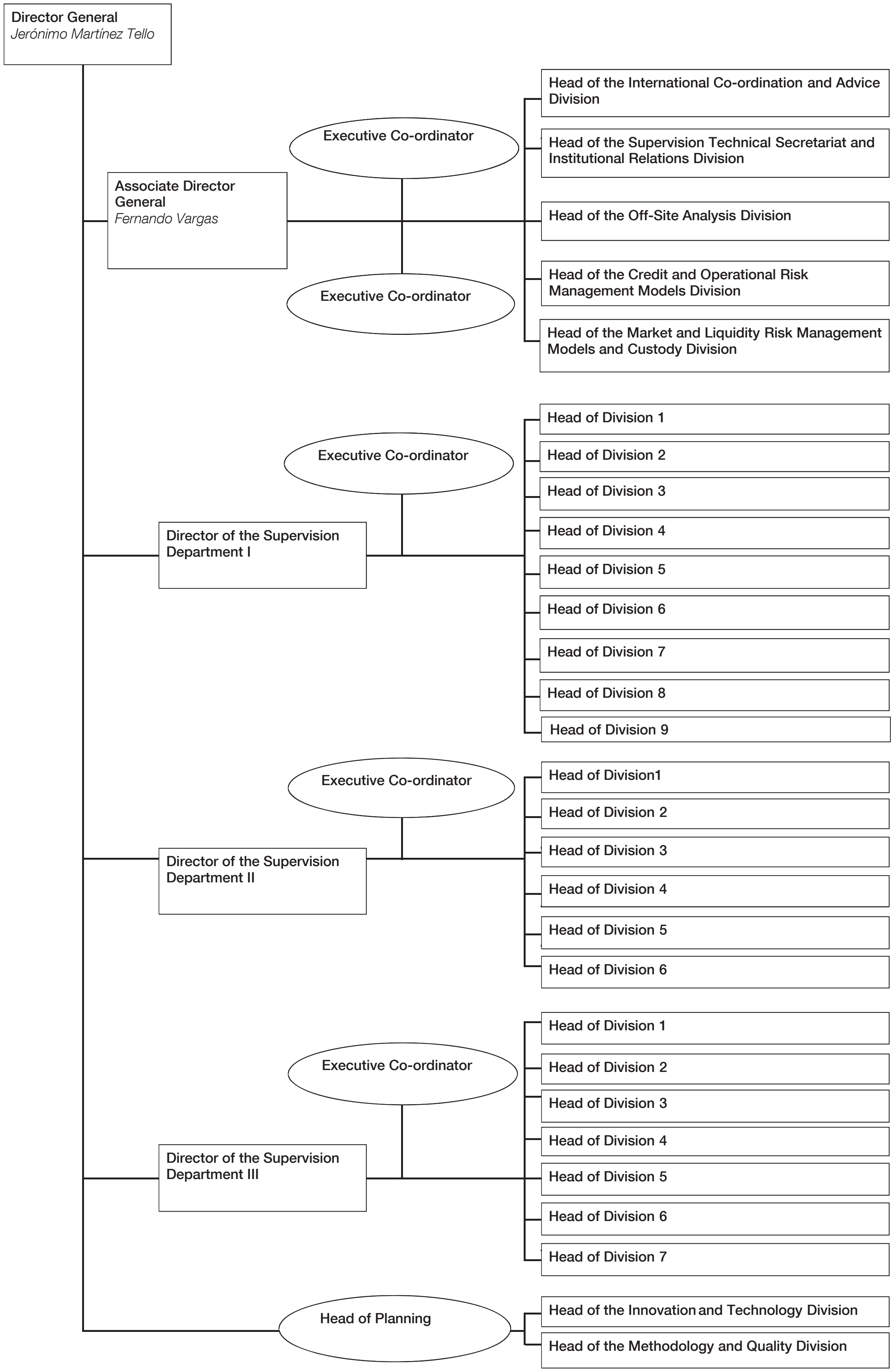
The Banco de España has been collaborating very actively for many years in the field of training. In 2010 a seminar was held on "The advanced approach to credit risk management", a workshop was organised on "The supervision of technological risk", a seminar was given on "Recording and valuing derivative instruments" and, in collaboration with the Centre for Latin American Monetary Studies (CEMLA), a course was held on "Financial instruments and international reporting standards". Finally, the Banco de España and the CEDDET Foundation offered an eight-week on-line seminar on "Risk-based supervision" aimed at the officials of banking supervisory and regulatory bodies of ASBA member countries.

With respect to the analysis of the region's problems and good-practice recommendation, this is addressed from the standpoint of the experience of ASBA's associate members and international standards. In 2010, work relating to stress testing, liquidity risk, conglomerate supervision, transition to international accounting standards and financial inclusion was noteworthy. The Banco de España actively supported these initiatives contributing the experience accumulated in Spain and in the European Union and participated in the working groups on liquidity and conglomerates, as well as through various questionnaires on the regulatory and supervisory framework in Spain and the implementation of international accounting standards in Spain and in the European Union.

ANNEX 1 ORGANISATION OF BANKING SUPERVISION AT THE BANCO DE ESPAÑA AT 31.12.2010


Governing Council
Audit
Executive Commission
Governor
Miguel Fernández Ordóñez
Deputy Governor
F. Javier Aríztegui
Directorate General Operations, Markets and Payment Systems
Javier Alonso
Cash and Issue
Operations
Payment Systems
Directorate General Banking Regulation
José M.ª Roldán
Financial Stability
Financial Reporting and CCR
Financial Institutions
Directorate General Economics, Statistics and Research
José L. Malo de Molina
Economic Analysis and Forecasting
Statistics
Monetary and Financial Studies
Directorate General Services
Pilar Trueba
Associate Directorate General Internal Affairs
Enrique Gallegos
Procurement and General Services
Control, Budget and Accounting
Human Resources and Organisation
Information Systems and Processes
Directorate General Banking Supervision
Jerónimo Martínez Tello
Supervision I
Supervision II
Supervision III
Associate Directorate General Banking Supervision
Fernando Vargas
General Secretariat
José Antonio Alepuz
Legal Department
Technical Secretariat
Associate Directorate General International Affairs
Pilar L'Hotellerie-Fallois
Internal Audit
Communication

ORGANISATION CHART OF THE DIRECTORATE GENERAL BANKING SUPERVISION (31 December 2010) TABLE A.1.2



ORGANISATION CHART OF THE DIRECTORATE GENERAL BANKING REGULATION (31 December 2010) TABLE A.1.3

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

SUPERVISION AND REGULATION STAFF IN 2010 TABLE A.1.4

Number

	Directorate General	
	Supervision	Regulation
Directors and other managers	45	26
Bank examiners	240	4
Senior analysts	14	23
IT auditors	41	—
Junior analysts	48	51
Adminsitrative staff	42	48
TOTAL	430	152

SOURCE: Banco de España.

The regulatory changes introduced to tighten the accounting rules for estimating and recognising the impairment of doubtful assets, the commencement of restructuring of the savings bank sector and the persistence of the scenario of recession and of funding difficulties in the international financial markets affected the performance of Spanish credit institutions' balance sheets at both consolidated and individual level. The notable restructuring effort, particularly in the savings bank sector, brought a reduction in balance sheet size at individual and consolidated level in banking business in Spain, while, in contrast, the activity abroad of the consolidated groups grew notably. Thus activity showed a fall in customer loans, except in activity abroad where they grew significantly. On the liabilities side uneven behaviour was also apparent in deposits, which grew in consolidated groups but decreased at individual level, recourse to traditional interbank markets was replaced by funding through money market operations via counterparties and net worth fell as a result of the extraordinary write-downs in the period.

Against this background of transition, in 2010 CIs and CGs[1] as a whole showed an across-the-board worsening of all their income statement margins and profitability indicators. Compared with the previous year, the decline in operating profit (accelerated by high write-downs) spread to the gross and net interest margins as a result of the stagnation of activity and of the higher cost of funding. Additionally, the insufficient containment of expenses by institutions also contributed to the adverse performance of the efficiency ratio. At disaggregated level, the larger CGs (which are those with a greater presence abroad) and, to a lesser extent, the institutional group of commercial banks (at individual level) stood out as the most profitable segments.

With regard to the solvency of CGs subject to compliance with the solvency ratio in Spain, although total own funds decreased, their highest-quality component, tier 1 capital (original own funds), continued to rise, basically due to capital stock and minority interests, to lower deductions for valuation differences, and to contributions by the FROB to the own funds of some institutions. However, it grew more slowly than in prior years, strongly influenced by the behaviour of reserves, which decreased in a context of sharp asset write-downs. To this must be added the negative contributions of lower amount from other components, including deductions and the so-called instruments subject to limits. Meanwhile, capital requirements decreased as a result of lower requirements for credit and counterparty credit risks. In these, excluding securitisation and equity positions, changes in the relative weight of the various asset categories in terms of exposure values contributed to falls in the applicable average risk weight and thus led to lower capital requirements despite the moderately higher exposure values. Noteworthy in counteracting the fall in capital requirements for credit and counterparty credit risks were the capital requirements for position, foreign exchange and commodity risks, which increased significantly as a result of the activity of the major international groups, whose long positions in foreign currency increased.

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1 Although the data in the Banco de España's Report on Banking Supervision (RBS) are consistent with those contained in the Financial Stability Report (FSR), which is also produced by the Banco de España, there may not be an exact match. There are various reasons for this, including the different scope of analysis stemming from the groupings of institutions considered: credit institutions in the RBS and deposit institutions in the FSR. The available information has been summarised in the tables in Annex 3 of the internet version of this Report.

2.1 Activity of credit institutions and their consolidated groups

In a scenario of continuing recession, of persistence of the difficulties in international financial markets since in 2007, of regulatory changes to tighten the accounting rules for estimating and recognising the impairment of doubtful assets, especially mortgage credit (CBE 3/2010), and of inception of the restructuring of the savings bank sector approved by Royal Decree-Law 11/2010, credit institutions saw a slight decline in their balance sheets at individual level in 2010. Their total balance sheet decreased by 0.6 % in annual terms which, adjusted for the effect of the extraordinary write-downs with a charge to reserves (see Table A.2.1), would leave a minimal decrease of 0.1 %, i.e. the balance sheet remained practically steady in the year, following the trend of 2009. Unlike in previous years, the volume of the balance sheet changed adversely in comparison with the behaviour of nominal GDP, which increased by 0.8 % (see Panel A of Chart A.2.1).

This decrease was influenced by the considerable rise in impairment allowances and by the derecognition of written-off assets, which depressed both own funds and the volume of loans and advances to other debtors. All this came about as a result of, first, the write-downs charged to reserves, basically in savings banks, associated with merger and IPS (institutional protection scheme) processes, and, second, the continuing high impairment allowances recorded with a charge to income already seen in previous years.[2]

In the other major balance sheet items, liabilities decreased slightly (0.3 %) and, consequently, equity declined year-on-year by 6.6 % (see Table A.3.2), although it would have grown by 2.1 % if the extraordinary write-downs charged to reserves had not been made.

The slight decrease in assets is, however, the result of offsetting movements in various items, derived from the economic setting in which institutions have been operating. Thus there were falls in the amounts relating to cash and central banks and to loans and advances to credit institutions, with decreases of 19.4 % and 8.5 %, respectively, but the residual item “Other assets” increased significantly because it includes the loans entered into through reverse repos via counterparties, which grew by 288 %, offsetting the fall in the first two items. These counterparties are a variation on the classical interbank market in which they provide government debt as collateral and the platform guarantees that the transactions will be successfully carried out. Other offsetting movements are the decrease of 4.3 % in debt securities and the increase of 19.6 % in trading derivatives, which practically offset each other in absolute value. More significant is the change in loans and advances to other debtors, an item which accounts for 61.2 % of assets and which decreased by 1.2 %. Within it, credit to resident general government grew by 21.7 % while credit to the resident private sector fell by 1.8 %. However, if the change in the latter is adjusted for the effect of the extraordinary write-downs with a charge to reserves made by savings banks, the high impairment allowances recognised on the income statement and the derecognition of written-off assets with the release of previously provisioned amounts[3] (see Table A.2.1), and considering that the bulk of these adjustments were made to credit to the resident private sector, this latter item seems to have grown slightly by 0.2 %.

Doubtful assets continued to rise at high rates, although more slowly than in the previous two years. This growth, along with the slight fall-off in lending, caused the doubtful assets ratio to rise by more than 0.5 pp to 4.10 % in December 2010. The doubtful assets ratio of mortgage loans to households for house purchase and refurbishing stood at 2.42 %, down somewhat more than 0.3 pp compared with the previous year, evidencing the sound pay-

2 The accounting rules require assets to be reflected in the balance sheet net of the related impairment allowances.
3 The accounting rules require assets to be reflected in the balance sheet net of the related impairment allowances.

BREAKDOWN OF CHANGES IN OWN FUNDS, IMPAIRMENT ALLOWANCES AND WRITTEN-OFF ASSETS — TABLE A.2.1

Yearly data

€ m

	Total credit institutions		2010		
	2009	2010	Comercial banks	Saving banks	Other
DETAIL OF OWN FUNDS (a)					
PRIOR YEAR BALANCE	177,808	186,023	107,421	64,716	13,886
Total revenue and expenses recognised	13,547	10,951	8,929	1,824	198
Increase (decrease) in capital / endowment fund	5,195	8,265	7,941	—	324
Distribution of dividends	–7,457	–7,194	–6,845	–7	–342
Other increases (decreases) in equity	–3,069	–19,197	–682	–18,288	–228
Of which: due to mergers, acquisitions and creation of IPSs	—	–16,896	—	–16,896	—
FINAL BALANCE	186,023	178,848	116,765	48,245	13,838
IMPAIRMENT ALLOWANCES. LOANS (b)					
PRIOR YEAR BALANCE	45,097	53,131	23,106	24,469	5,556
Movements reflected in income statement	20,250	17,683	10,788	5,244	1,651
Other movements	–2,790	18,331	1,600	16,388	344
Balances used	–9,427	–17,476	–7,202	–8,873	–1,400
FINAL BALANCE	53,131	71,670	28,292	37,227	6,151
MOVEMENT IN THE WRITTEN-OFF ASSETS ACCOUNT (c)					
PRIOR YEAR BALANCE	24,051	31,859	17,952	11,281	2,626
Additions charged to impairment allowances	9,510	17,653	7,319	8,930	1,404
Additions charged directly to income	1,525	1,709	667	937	106
Past-due income	1,150	1,868	885	851	131
Other	571	945	610	297	38
Total additions	12,756	22,175	9,481	11,015	1,679
Total reductions	–4,943	–5,804	–1,818	–3,572	–414
Net change due to exchange differences	–6	20	13	7	—
FINAL BALANCE	31,859	48,250	25,628	18,731	3,891

SOURCE: Banco de España. Data available at 4 April 2011.

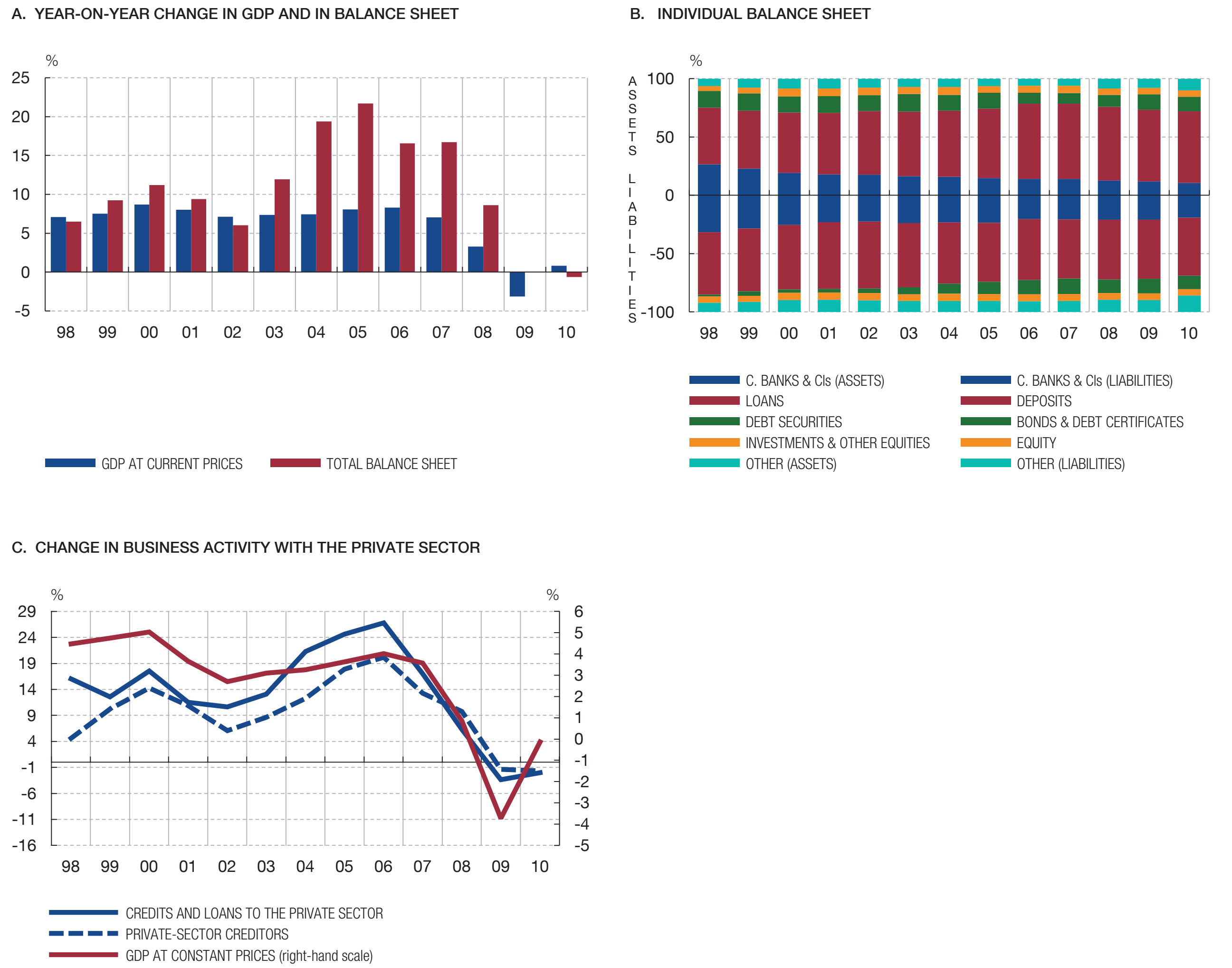
a Data from the statement of changes in equity. Confidential Return A1.
b Data from breakdown of movements in impairment allowances. Confidential Return T14.
c Data from movement of the written-off assets account during the current year. Confidential Return T10.7.

ment behaviour of households. As a result of the increase in doubtful assets, but also in impairment allowances with a charge to profit and loss and to equity, the doubtful assets coverage ratio increased by 0.3 pp to 47.95 %.

The liabilities side, which saw a slight decline of 0.3 %, showed symmetrical behaviour to that on the assets side. The most notable development was a significant replacement of central bank funding, down by 33.7 %, and of interbank deposits, down by 4.8 %, by funding through money market operations via counterparties, which is recorded in the line item “Other liabilities”. In the course of 2010, the main European counterparty clearing houses (LCH Clearnet and Eurex Repo) began to accept Spanish sovereign bonds as collateral in repo transactions, giving Spanish institutions an alternative means of funding to the traditional interbank market. Meanwhile, the slight fall-off in deposits from the private sector eased with respect to the previous year (–0.6 %), with contrasting behaviour between those executed via repos, which were down by 30.7 %, and term deposits, the liabilities item with most weight in ATA, which were up by 1.2 %. Also noteworthy is the behaviour of

ACTIVITY OF CREDIT INSTITUTIONS (a) CHART A.2.1

Total business. Year-end data



SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this chart refer to the institutions active at each year-end.

debt certificates including bonds, down by 9.6 % due to the slump in those relating to commercial paper and bills (–48 %), which was not offset by the rise in mortgage covered bond issues (7.5 %) (see Panel B of Chart A.2.1).

The weight of own funds, the basic component of equity, decreased to 5.7 %, reversing the trend of the previous year, after a fall of 3.9 % during the course of year. As mentioned above, this development was influenced by the significance of the write-downs with a charge to reserves, and by the smaller contribution from profit or loss, which was, moreover, heavily impacted by the substantial provisioning. This outcome resulted, inter alia, from an increase of €8,265 million in own funds, basically bank capital stock and reserves, and from decreases of €19,197 million in own funds, of which €16,896 million relate to extraordinary write-downs at savings banks (see Table A.2.1).

In 2010, the distribution by institutional group (see Table A.3.3) of the total balance sheet reflects, unlike in the previous year, a loss of weight by savings banks and foreign banks to Spanish banks, which gained 1.6 percentage points to reach 45.4 % of the total. In the item “Loans and advances to other debtors” the situation was similar, except that in this case the share of foreign banks did not change, so the 1.6 pp redistributed passed in full from savings banks to Spanish banks, as a result of the aforementioned extraordinary write-downs at savings banks. The share accounted for by investments in debt securities decreased significantly in foreign banks and, to a lesser extent, in Spanish banks, with declines of 1.9 pp and 0.7 pp, respectively, as a result of the fall in the balance of commercial paper and bills. Finally, the share of savings banks in tax assets rose by 14.1 pp as a result of the restructuring process under way.

On the liabilities side, the share of banks in the “Central banks” item decreased considerably by 19.5 to 43.3 % at year-end, this decrease being offset by an equivalent rise in the share of savings banks to represent 54.8 % of this item. As noted above, this development is related to the funding obtained through counterparty clearing houses and recorded in the residual item “Other liabilities”, in which banks increased by 9.1 pp and savings banks decreased by 6.4 pp to stand at 40.6 %. In the item “Deposits from other creditors”, which is the one with the greatest weight on the liabilities side, the shares of foreign banks and savings banks fell by 0.5 pp and 2.6 pp, respectively, these portions passing to Spanish banks, which grew by 3.2 pp.

In own funds, the aforementioned adjustment in the savings bank sector led these institutions to lose 7.8 pp to stand at 27.0 % of the total while Spanish banks gained 6.6 pp to stand at 61.6 %, the other types of credit institutions remaining practically unchanged.

As regards securitisations, the stagnation of the assets and liabilities securitised by Spanish CIs continued in 2010, due to the freezing of the markets for instruments of this type. 2010 saw another sharp fall-off in new issues of asset-backed securities (–43.6 %, see Table A.3.7), continuing the declining path of previous years. The decline in CIs’ liability securitisations was even more marked, since they fell to less than half (–53.8 %), with a total absence of new securitisations of liabilities other than mortgage covered bonds, which fell off by 38 %. In any event, given market conditions, new issues of asset-backed securities continued to be massively retained by the originating institutions for use as collateral in their liquidity management. Only 2.3 % of new securitisations involved a significant transfer of risk and were thus recognised as such in the solvency ratio, and only a minimal percentage of 4.7 % entailed derecognition of the securitised assets. Notably, in the past year the securitisation of residential mortgage-backed bonds has regained weight and, as mentioned above, new securitisations of liabilities other than covered bonds have disappeared.

The outstanding balances of asset securitisations backed by residential mortgages and mortgage covered bond securitisations continued to constitute the vast majority of CIs’ securitisations (39 % and 38 %, respectively, see Table A.3.8). The originators and issuers continue to be concentrated in savings banks (which represent 61.1 %), followed by banking groups (which represent 32.3 %).

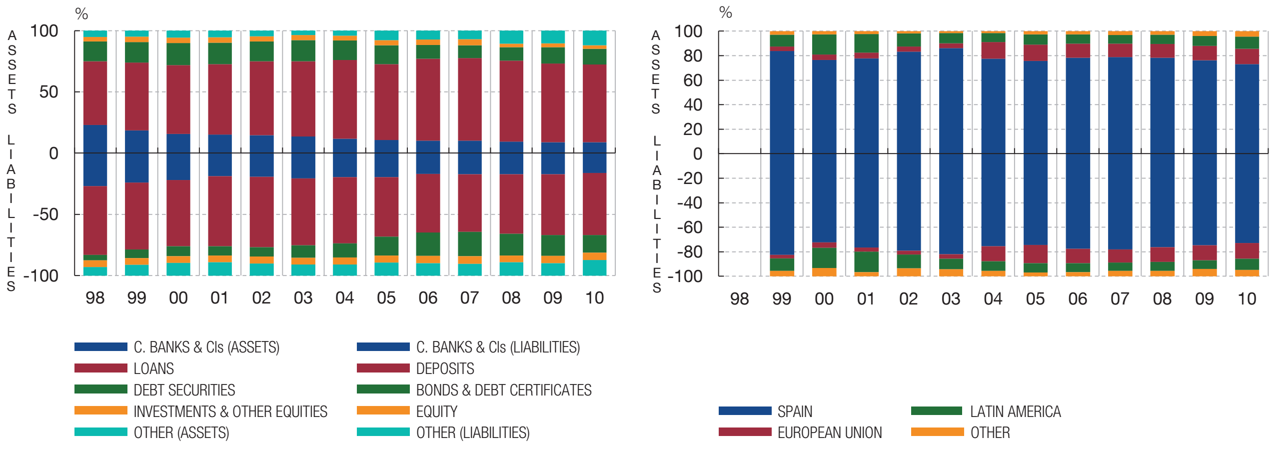
The growth rate of CGs’ activity continued to decline yet another year. The total amount of their balance sheets exceeded €3.8 trillion at end-2010, showing a moderate year-on-year advance of 2.0 % (2.8 % in 2009, 8.8 % in 2008 and 14.8 % in 2007). This is because activity in Spain contracted by 1.9 %, its share of total activity edging down by 3 pp to stand at 73.7 %, in contrast to activity abroad, which grew by 15.1 %, driven partly by acquisitions by the major Spanish banking groups of foreign branch networks and institutions in the year (see Tables A.3.5 and A.3.6).

ACTIVITY OF CONSOLIDATED GROUPS (a) CHART A.2.2

Total business. Year-end data

A. CONSOLIDATED BALANCE SHEET

B. GEOGRAPHICAL DISTRIBUTION OF BUSINESS



SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this chart refer to the CGs active at each year-end note that they include individual CIs not belonging to any consolidated group).

The various assets-side items of the balance sheet generally followed the patterns mentioned above at individual level, except that the “Cash and central banks” items grew by 39.9 % at consolidated level while it decreased by 19.5 % in business in Spain, this decline being in line with developments at individual level. There is a slight increase in loans and advances to other debtors, which were limited by the adverse performance at domestic level. By contrast, the behaviour on the liabilities side diverged from that noted at individual level in deposits from other creditors, which increased by 4.1 %, and by 3.1 % in business in Spain. Equity declined by 2.4 % and own funds fell by 1.9 %, in both cases by less than in the individual balance sheets, as already noted above (see Panel A of Chart A.2.2).

As regards the geographical distribution of consolidated group assets, the loss of weight of activity in Spain was more than offset by the growth of activity abroad, most significantly in Latin America and, to a lesser extent, in the EU. Financial assets and liabilities in Latin America grew by 25.8 % and 26.1 % respectively, and the net asset value of managed funds grew by 37.2 % (see Panel B of Chart A.2.2 and Table A.3.6).

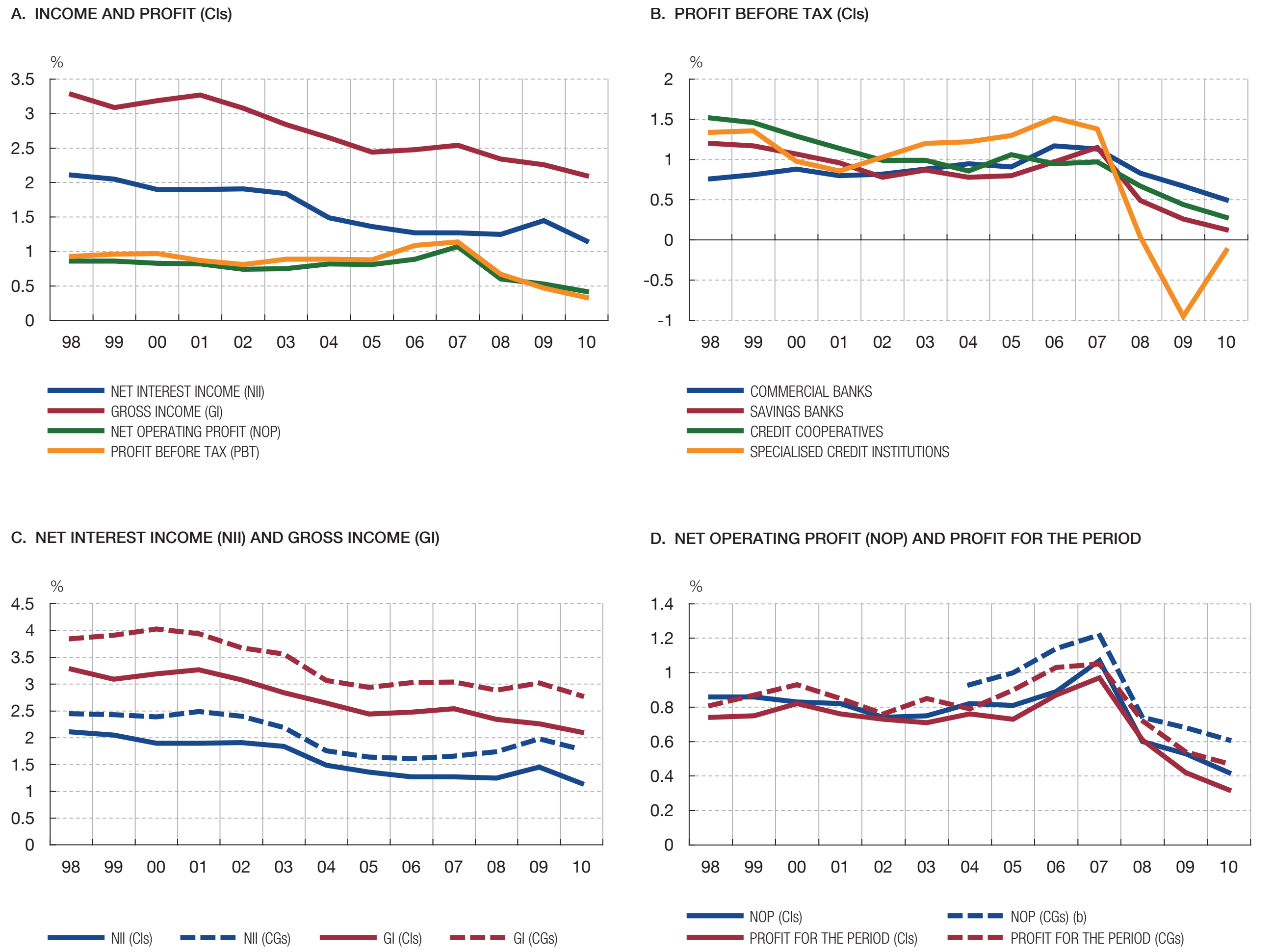
2.2 Results of credit institutions and their consolidated groups

At end-2010, the individual income statements of CIs showed an aggregate profit of €10,219 million, which represents a significant decrease (–23.1 %) with respect to the previous year. The return on average total assets (ROA) fell to 0.32 % (0.42 % in 2009), while the efficiency ratio was not impervious to the general deterioration of the income statement and rose to 46.08 % (see Table A.3.9).

Unlike in previous years, 2010 ended with a contraction in all margins and in the bottom line of the income statement of CIs. Net interest income (NII), which in 2009 had performed positively, succumbed to the pressure derived from an increasingly adverse economic and financial environment. The other main items –gross income (GI), net operating profit (NOP), profit before tax and profit for the period– continued to worsen (see Chart A.2.3.A).

PROFIT AND MARGINS OF CREDIT INSTITUTIONS AND OF CONSOLIDATED GROUPS (a) CHART A.2.3

Percentage of ATA. Yearly data



SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this chart refer to the institutions active at some time during each year. The label "CIs" denotes individual data. In the case of data referring to CGs, note that they include individual CIs not belonging to any CG.

b Uniform information is not available for the NOM of CGs for years prior to 2004 due to the conceptual changes introduced jointly by Banco de España Circular 4/2004 and Circular 6/2008.

In particular, NII slipped by 30 bp as a percentage of ATA with respect to 2009, declining to 1.15 % as a result of the falls in financial income (–25.1 %) and financial costs (–29.0 %). The commercial strategies for attracting deposits pursued by some institutions in 2010 contributed to the erosion of this margin.

Another factor which decisively shaped the performance of GI was the complex macroeconomic conjuncture in 2010, marked by the sovereign debt crises in the euro area (and the rescues of Greece in May and Ireland in November) which affected the normal functioning of the interbank and wholesale markets in general, giving rise to restrictions and considerably higher funding costs. Against this background, Spanish institutions found themselves obliged to resort increasingly to the funding granted by the Eurosystem. In this situation, the ECB's monetary policy was characterised by the maintenance of the interest rates applicable to refinancing operations (stabilised at a level of 1 % since May 2009) and of the spreads on standing credit facilities (0.75 %) and standing deposit facilities (–0.75 %).

The contribution from the return on equity instruments (which notably grew by 53.9 %) could not prevent GI from falling moderately (–6.5 %) to stand at 2.10 % of ATA (16 bp lower than in 2009). As regards other ordinary revenue, the available data reveal that, despite the lower activity, net fee and commission income remained relatively steady (falling by only 2.3 %). Unlike in the preceding two years, the financial assets and liabilities in the trading portfolio generated positive net income, which explains the strong performance of this segment of the income statement.

The NOP of CIs diminished in absolute terms (–21.1 %) and in relative terms (–11 bp) to stand at 0.42 % of ATA. In this case, the unfavourable changes in this margin can, without loss of generality, be attributed to the continuing high level of write-downs. The containment of administrative and amortisation expenses (unchanged overall) did not prevent the worsening of the efficiency ratio which, due to a decrease in the denominator (GI), returned to the levels (46.08 %) of 2006-2007 (see Chart A.2.4.C). Looking ahead to coming years, it seems reasonable to expect that the optimisation of operating costs by institutions (as a result of the process of restructuring and concentration under way) may result in improvements in efficiency, especially among the institutions which until now have formed part of the institution group of savings banks.

Finally, the profit before tax of CIs decreased by 28.9 % dragged down by the fall in the "Other income (net)" item (–58.0 %), although the impairment losses improved with respect to 2009. Also, the profit for the period fell by 23.1 % due to the significant decline in the amounts relating to income tax. As a result of all these developments, the return on equity (ROE), an indicator of bank profitability, decreased, and this decline affected the consolidated ROE mentioned below.

Analysis by institutional group[4] (see Table A.3.10) reveals the diverging paths taken by income margins in the three types of deposit institutions (commercial banks, savings banks and credit cooperatives). Broadly, only banks performed systematically better than the average, even recording GI which timidly nudged above that of 2009 (up by 1.0 %). By contrast, the relative position of savings banks worsened. Meriting separate mention are the specialised credit institutions (SCIs), whose small size and specific business focus make them very sensitive to the current situation of rising bad debts. In 2010, although SCIs incurred lower losses than in 2009, their aggregate NOP, profit before tax and profit for the period continued to be negative.

With regard to consolidated groups, aggregate profit for the period decreased by 10.0 % with respect to 2009 to stand at €18,115 million (see Table A.3.11). ROE declined to 7.46 % and the efficiency ratio rose to 47.22 %. However, as noted in previous years, the figures in the income statements of CGs are, in absolute and relative (% of ATA) terms, significantly more positive than for individual CIs as a whole, at least as regards margins and profitability, although in 2010 this was not so in the case of the efficiency ratio, which was higher (less favourable) for CGs.

Against this background, the ATA of CGs increased by 3.1 % (in contrast to 0.7 % for CIs) in 2010, buoyed by the strong performance of the five major CGs (see Table A.3.12), which

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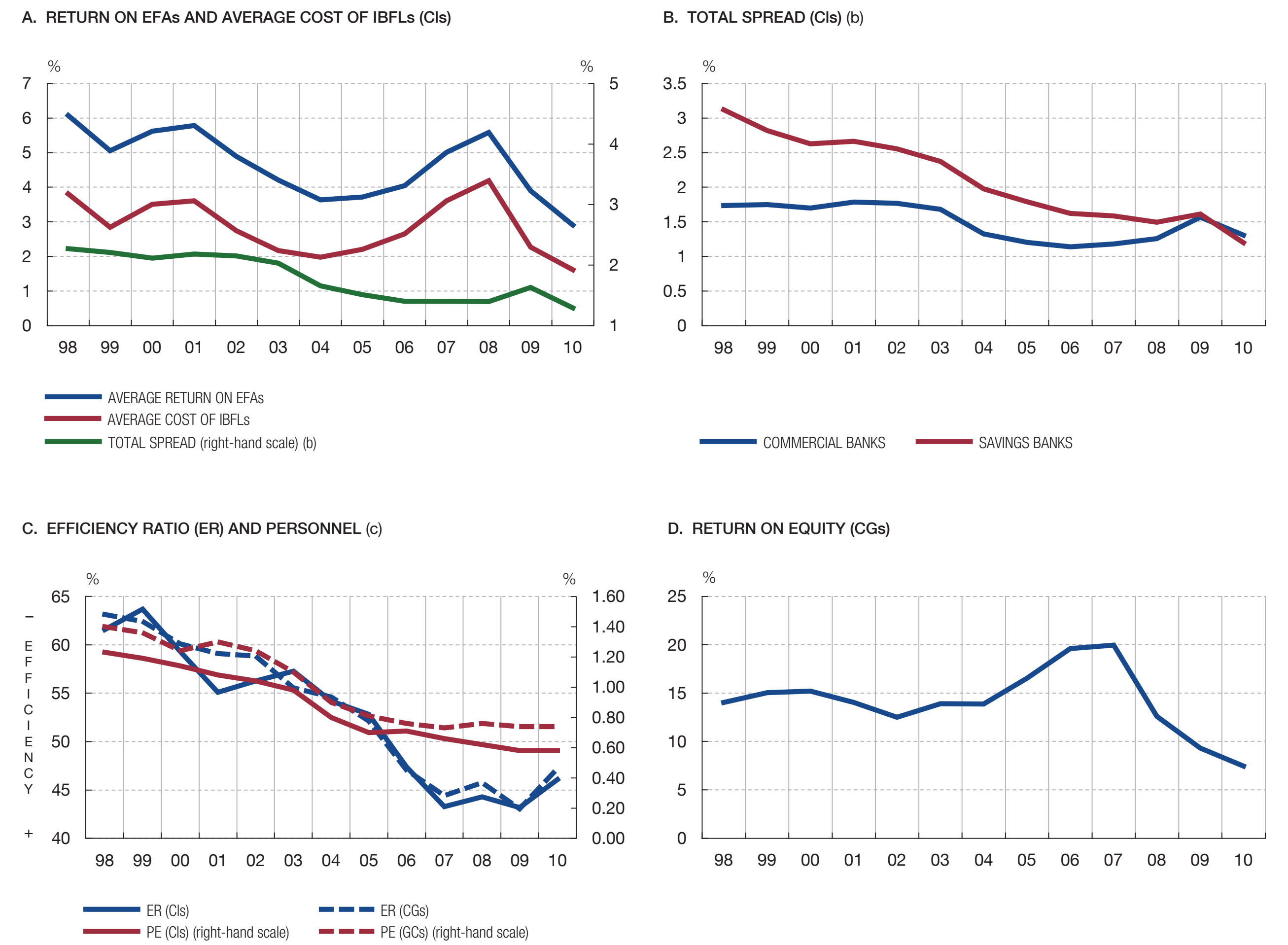
4 Unlike in previous editions of the *Report on Banking Supervision in Spain,* the analysis by institutional group is limited to individual credit institutions. The transformation in 2010 in the composition of the main consolidated groups of commercial banks and savings banks resulted in a structural change in the data for that year (compared with the data available for previous years). For this reason, Table A.3.12 was redesigned to show a classification by size (as measured by ATA) of CGs.

RETURNS AND EFFICIENCY OF CREDIT INSTITUTIONS AND OF CONSOLIDATED GROUPS (a) CHART A.2.4

Percentage of ATA. Yearly data



SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this chart refer to the institutions active at some time during each year. The label “CIs” denotes individual data. In the case of data referring to CGs, note that they include individual CIs not belonging to any CG.

b Total spread is defined as the average return on earning financial assets (EFAs) minus the average cost of interest-bearing financial liabilities (IBFLs).

c The efficiency ratio is defined as administrative expenses and amortisation divided by gross income. Personnel expenses are expressed as a percentage of ATA (absolute values).

expanded their volume of assets by a significant 4.6 % and, at the same time, managed to improve their results (profit before tax increased by 10.4 % in 2010).

As pointed out in previous editions of the Report on Banking Supervision in Spain, the growing geographical diversification of the business abroad of the large banking groups (mainly in Latin America and the European Union, and incipiently in Asia) continues to be one of the pillars sustaining the ever-wider gap in results in favour of CGs.

2.3 Solvency of consolidated groups of credit institutions subject to compliance with the solvency ratio in Spain[5]

The solvency ratio of CGs subject to compliance with the solvency ratio in Spain (hereafter in this section, CGs) in 2010 stood at 11.9 %, down 0.3 pp from the previous year (see Table A.3.13 and Panel A of Chart A.2.5). This decline took place due to a fall in total own

5 In this section, the abbreviation CGs is used to refer to consolidated groups of credit institutions and to individual institutions not belonging to any consolidated group of credit institutions subject to compliance with the solvency ratio in Spain. The entry into force in 2008 of Banco de España Circular 3/2008 of 22 May 2008 to

funds (of 3.7 %) higher than the decrease in capital requirements (of 0.9 %), and, as a result, the surplus of own funds fell to €80 billion (see Panel B of Chart A.2.5).

Although total own funds as a whole decreased, their highest-quality component, which has the largest weight in the total (85.4 % in 2010, see Panel C of Chart A.2.5), namely tier 1 capital (original own funds), continued to grow in anticipation of a regulatory context in which, in order to build up the resilience of the financial system to adverse scenarios, the measures adopted at international and Spanish level[6] will require the quality and level of credit institutions' capital to be increased in the coming years, in some cases progressively and in others more immediately.

The growth of tier 1 capital in 2010 (3.7 %), however, was significantly more moderate than in previous years, mainly because of the effect exerted by reserves, a component which represented 59.5 % of tier 1 capital in 2009. Reserves, in a context of substantial write-downs by CGs, decreased significantly in 2010 (–6.3 %) to account for 53.8 % of tier 1 capital. Also contributing negatively to the growth of tier 1 capital in 2010 were the rise in deductions therefrom, particularly those for intangible assets, and, to a lesser extent, the fall in instruments subject to limit (especially preference shares and non-voting shares not carrying early redemption incentives). On the other hand, contributing significantly to the growth of 3.7 % in tier 1 capital in 2010 were the increases in eligible capital stock and in other country-specific original own funds, in particular, within the latter, convertible preference shares recorded in the caption "Other" in Table A.3.13, which includes the contributions from the FROB to the own funds of some credit institutions.[7] Positive contributions, albeit to a lesser extent, were also made by the increase in minority interests and the lower deductions for value adjustments eligible as tier 1 capital. It should be mentioned that these lower deductions were favoured by the entry into force in 2010 of an amendment to Rule 8.1.d) of CBE 3/2008, whereby credit institutions may, when calculating own funds, opt to disregard fair value gains and losses on available-for-sale debt securities.

As regards the other components of own funds, tier 2 capital (additional own funds) decreased by 17.2 %, basically as a result of the fall in core additional own funds, to which practically all their main components contributed –lower securities of indeterminate duration, lower additions to core additional own funds from adjustments made to valuation differences in tier 1 capital, and lower provisions– in line with an economic setting in which significant write-downs have been made. The second of the factors mentioned relates to the regulatory change mentioned above concerning the inclusion of certain gains in own funds. Supplementary additional own funds (and, in particular, their main component, subordinated loan capital), also contributed to the decrease in tier 2 capital with a fall of 10.1 %.

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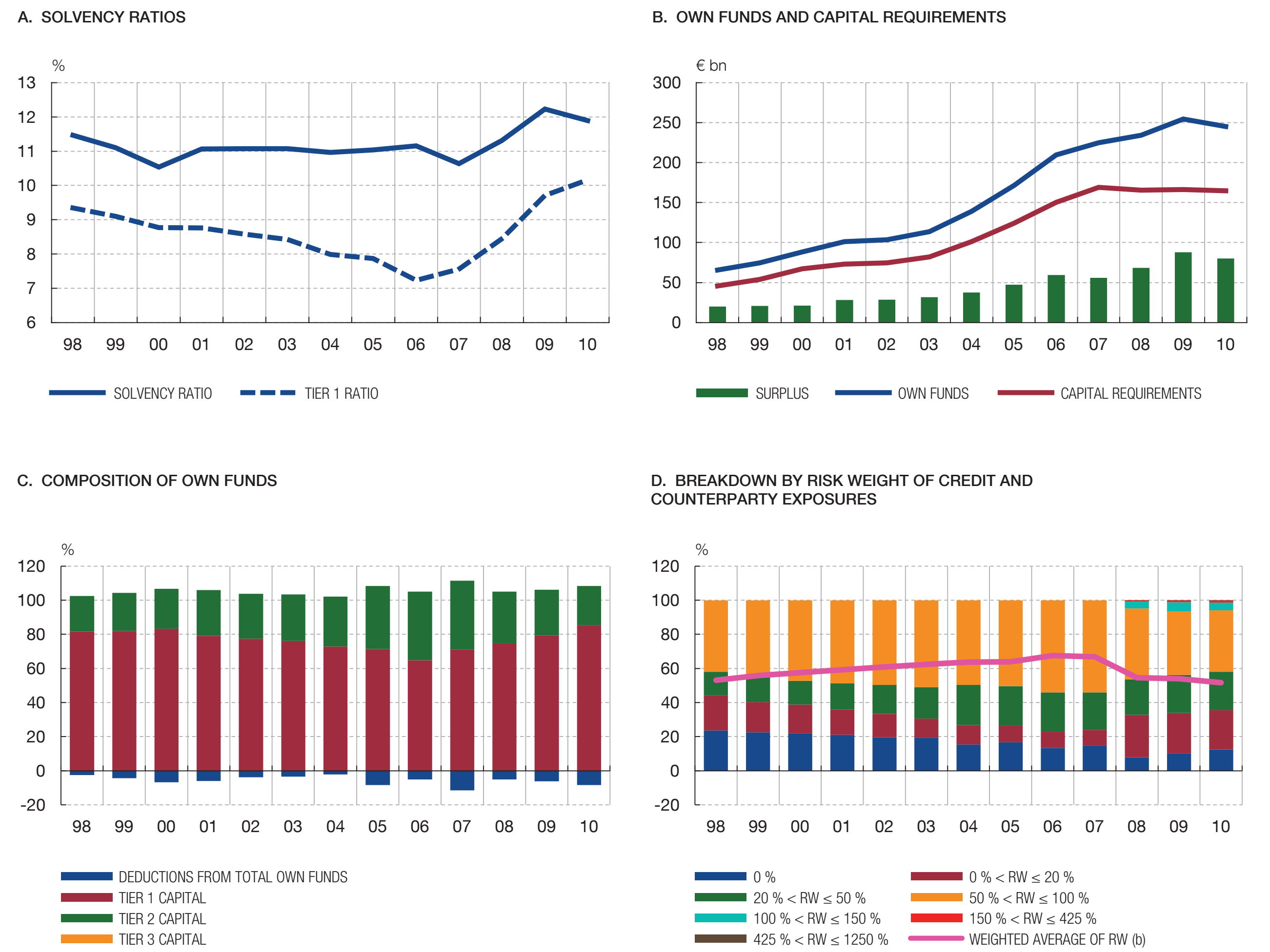
credit institutions on determination and control of minimum own funds (hereafter "CBE 3/2008") gave rise to a certain break in the time series of the data analysed in this section, since those relating to 2008 onwards were reported by CGs in accordance with CBE 3/2008, while the data relating to prior years were reported under CBE 5/1993. This break affects both the main solvency items analysed and the breakdowns resulting from the entry into force of CBE 3/2008. Accordingly, the figures prior to 2008 constitute what has been considered a best approximation in terms of both amount and item description.

6 These measures include, at Spanish level, Royal Decree-Law 2/2011 of 18 February 2011 for strengthening the financial system, under which the general core capital requirement for credit institutions is 8 % of risk-weighted assets; this requirement rises to 10 % for those groups or institutions that have not placed at least 20 % of their capital stock with third-party investors and whose wholesale funding exceeds 20 %. The notice published by the Banco de España on 10 March 2011 stated that at that date the core capital of the system amounted to €179,642 million and had to be raised by €15,152 million in a set of institutions to meet the requirements of Royal Decree-Law 2/2011.

7 Royal Decree-Law 9/2009 of 26 June 2009 on bank restructuring and strengthening of the own funds of credit institutions (BOE of 27 June 2009).

SOLVENCY OF CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (a) CHART A.2.5

Year-end data



SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this chart refer to the CGs existing at each year-end (note that the data include individual CIs not belonging to any CG).
b Using exposure values as weights.

Lastly, the increase in deductions from original and additional own funds stemmed from the larger excesses over 10 % of capital at unconsolidated investee financial institutions; from the larger excesses over 20 % of capital at insurance and similar investees; from larger negative amounts resulting from comparison of provisions and expected losses under the IRB approach; and from larger deductions relating to the amount of exposures in securitisations which receive a risk weight of 1250 %.

The decrease of 0.9 % in capital requirements was the result of a fall in capital requirements for credit and counterparty credit risk, the component with the largest weight (87.3 % in 2010), which was not offset by the increase in requirements for position, foreign exchange and commodity risks, in requirements for operational risk and in transitional, settlement and other requirements (see Table A.3.14).

Closer analysis of the requirements for credit and counterparty credit risk shows that these requirements decreased by 2.3 % due to the fact that, despite the increase in exposure values[8] (3.3 %), the overall average risk weight applicable to those values decreased by 2.4 pp to approximately 51.5 % (see Panel D of Chart A.2.5). This decrease basically reflected a larger proportion of exposures weighted at 0 % and a smaller proportion of exposures in the intervals (0 %-20 %), (50 %-100 %) and (100 %-150 %), which counteracted slight increases in the proportion of exposures in the intervals (20 %-50 %) and (150 %-425 %).

Examination of the components of credit and counterparty credit risk requirements shows that the requirements calculated under the standardised approach (excluding securitisation positions), those calculated under the IRB approach (excluding securitisation positions) and those for securitisation positions decreased (1.8 %, 2.5 % and 13.2 %, respectively), the first two contributing to a greater extent to the decrease in total requirements for credit and counterparty credit risks, in line with their predominance (62.7 % and 35.6 %, respectively).

The lower requirements under the standardised approach (excluding securitisation positions) reflected a fall of approximately 3.1 pp in the applicable average risk weight to 55.8 %, which amply counteracted the increase in the overall exposure values.[9] Contributing to this fall in the average risk weight was a redistribution of the weights, measured in terms of exposure values, of the various asset categories: there were losses in the relative weights of exposures to Corporate (3.1 pp) and Institutions (2.6 pp) and gains in exposures to Central governments or central banks (4.3 pp) and, to a lesser extent, in Exposures secured by real estate (1 pp) and Past-due items (0.5 pp). By asset category, the decrease in total requirements was basically due to the decrease in requirements in the Corporate category. The items contributing to counteract this decrease notably include Exposures secured by real estate and Past-due items. Generally, the behaviour of exposure values (rather than average risk weights) was mainly responsible for the changes in requirements in each category.

The decrease in requirements under the IRB approach (excluding securitisation positions) resulted from lower requirements in the minor components of Equity and, to a lesser extent, of Other assets other than financial assets.[10] These movements were, in the first case, basically a decrease in the requirements calculated using internal models, with respect to which the value of the original exposures decreased significantly, and in the second case, a complete reallocation of the exposures to the standardised approach. Disregarding these items, the requirements for credit and counterparty credit risk under the IRB approach would have remained relatively steady (with a growth rate of 0.4 %) because, although the exposure values grew (3.1 %), the average risk weight applicable to this subset of exposures decreased by 1.1 pp to approximately 42.2 %. By component, the very slight growth in total requirements was due to increases in requirements in the Retail and

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8 Broadly, "exposure values" are the values which result once various effects have been taken into account which may give rise to a decrease in the original exposure value or to reallocations of the exposures to other categories with a different treatment for capital requirements purposes (effects such as those derived from value adjustments and provisions, from the application of credit risk mitigation techniques or from the application of conversion factors to exposures in off-balance-sheet items). Multiplying the exposure values by the related risk weight gives the so-called "risk-weighted assets". The capital requirements are calculated as 8 % of these "risk-weighted assets".

9 Exposure values grew at a rate of 3.6 %, which was lower than that of the original exposures due to a larger increase in value adjustments and provisions (46 %) and to the impact on exposure values of the application of credit risk mitigation techniques (88 %).

10 The category Other assets other than financial assets makes up the whole of the amount of the caption Other in Table A.3.14.

the Institutions categories, which were practically offset by the decrease in requirements in the Corporate category. In this latter category, the fall in requirements was concentrated in the portion treated under the basic IRB approach, since under the advanced IRB approach the requirements for this category grew. As under the standardised approach, the changes in requirements in these categories were caused by the behaviour of exposure values. In that behaviour, care must be taken not to overlook the effect that would be expected from the progressive reallocation of the exposures of certain portfolios from the standardised approach to the IRB approach and from the basic IRB approach to the advanced IRB approach.

With regard to the requirements for securitisation positions, which correspond nearly entirely to traditional securitisations, the decrease was concentrated in those calculated under the standardised approach, which in 2010 represented 84.8 % of the total. The securitisations treated under the standardised approach barely showed any increase in their exposure values, but their average risk weight increased significantly by 8.8 pp to 64.7 %, in line with the downward path of the credit ratings. This higher risk weight would have entailed an increase of 15.8 % in the requirements for these securitisation positions before application of limits. However, since the originators limited the resulting requirements to those that would have applied to the securitised exposures if these had not been securitised, the final requirements were lower than in 2009. The same features were observed in the securitisation positions under the IRB approach.

Despite the lower relative weight of position, foreign exchange and commodity risks, it should be mentioned that the requirements for them rose considerably (31.8 %) and were what most contributed to counteracting the fall in the requirements for credit and counterparty credit risk. Noteworthy was the increase in requirements for foreign exchange risk derived from the taking of larger long positions in foreign currencies.

Lastly, the capital requirements for operational risk grew slightly by 1.7 %. This resulted from a rise in the requirements calculated under the standardised and alternative standardised approaches (6.8 %), a decrease in those calculated under the basic indicator approach (–7.4 %) and stagnation of those calculated under advanced approaches (0.1 %). The behaviour of requirements under the standardised and basic indicator approaches is influenced by the changes that may take place in the so-called gross income[11] of the last three years, since these requirements are calculated by applying to this income weights that are 15 % for the basic indicator approach and between 12 % and 18 % for the standardised approach depending on the line of business in which the income arose.

11 Broadly, the so-called gross income is the result of grouping together certain items in the income statement of CGs.

SERVING EMPLOYEES, OPERATIONAL BRANCHES, ATMs AND AGENTS OF CIs

TABLE A.3.1

Year-end data

Number unless stated otherwise

	Active institutions (b)	Serving employees: Total	Serving employees: Of which: At offices	Hours worked (millions)	Operational branches	ATMs	Cards (000)	Point-of-sale terminals (000)	Agents	Employees per operational branch	Per 10,000 inhab. Over 16 years old (c): Serving employees	Per 10,000 inhab. Over 16 years old (c): Operational branches	Per 10,000 inhab. Over 16 years old (c): ATMs	Per 10,000 inhab. Over 16 years old (c): Point-of-sale terminals	Cards per inhab. Over 16 years old
TOTAL CIs															
2007	354	277,027	205,649	453	45,594	60,328	94,117	1,353	11,849	4.5	73.1	12.0	15.9	357.0	2.5
2008	355	277,732	204,092	457	46,164	61,430	99,756	1,414	10,783	4.4	72.4	12.0	16.0	368.6	2.6
2009	345	269,168	197,332	457	44,533	60,005	96,386	1,442	5,164	4.4	70.0	11.6	15.6	375.2	2.5
2010	332	263,392	191,845	434	43,303	59,309	93,785	1,480	5,289	4.4	68.4	11.2	15.4	384.3	2.4
Commercial banks															
2007	150	117,559	81,785	196	15,575	20,443	35,615	669	11,465	5.3	31.0	4.1	5.4	176.6	0.9
2008	153	115,129	77,766	193	15,615	20,506	39,176	702	10,398	5.0	30.0	4.1	5.3	183.1	1.0
2009	153	109,996	73,835	187	14,879	19,875	35,124	755	4,779	5.0	28.6	3.9	5.2	196.3	0.9
2010	159	111,871	74,360	188	15,251	20,434	35,748	809	4,969	4.9	29.0	4.0	5.3	210.0	0.9
Domestic															
2007	52	99,848	74,798	167	14,213	19,155	28,990	660	4,764	5.3	26.3	3.8	5.1	174.2	0.8
2008	48	97,076	69,967	163	14,158	19,094	31,671	691	4,384	4.9	25.3	3.7	5.0	180.2	0.8
2009	46	92,936	66,766	157	13,463	18,493	27,678	742	3,807	5.0	24.2	3.5	4.8	192.9	0.7
2010	52	95,277	67,760	159	13,843	19,093	28,415	795	3,914	4.9	24.7	3.6	5.0	206.5	0.7
Foreign subsidiaries															
2007	18	11,219	5,929	19	1,181	1,240	5,163	9	6,592	5.0	3.0	0.3	0.3	2.4	0.1
2008	18	11,326	6,552	19	1,264	1,364	5,845	11	5,889	5.2	3.0	0.3	0.4	2.8	0.2
2009	18	10,546	5,960	19	1,226	1,334	5,782	13	844	4.9	2.7	0.3	0.3	3.4	0.2
2010	19	10,623	5,611	19	1,223	1,307	5,886	13	916	4.6	2.8	0.3	0.3	3.5	0.2
Foreign branches															
2007	80	6,492	1,058	11	181	48	1,462	—	109	5.8	1.7	0.0	—	—	—
2008	87	6,727	1,247	11	193	48	1,659	—	125	6.5	1.8	0.1	—	—	—
2009	89	6,514	1,109	11	190	48	1,664	—	128	5.8	1.7	0.0	—	—	—
2010	88	5,971	989	10	185	34	1,448	—	139	5.3	1.6	0.0	—	—	—
Savings banks															
2007	46	131,933	106,050	210	24,637	35,051	37,434	592	258	4.3	34.8	6.5	9.2	156.3	1.0
2008	46	134,513	107,898	217	25,035	35,847	37,869	617	259	4.3	35.1	6.5	9.3	160.7	1.0
2009	46	132,340	105,689	226	24,252	35,013	37,535	592	250	4.4	34.4	6.3	9.1	154.0	1.0
2010	36	125,162	99,926	203	22,750	33,726	35,890	570	180	4.4	32.5	5.9	8.8	148.0	0.9
Credit cooperatives															
2007	82	20,428	15,651	34	4,953	4,834	4,659	91	64	3.2	5.4	1.3	1.3	23.9	0.1
2008	81	20,940	16,128	34	5,097	5,077	5,145	95	52	3.2	5.5	1.3	1.3	24.7	0.1
2009	80	20,757	15,905	34	5,043	5,117	5,423	95	61	3.2	5.4	1.3	1.3	24.8	0.1
2010	78	20,545	15,997	34	5,019	5,149	5,155	101	66	3.2	5.3	1.3	1.3	26.2	0.1
SCIs															
2007	76	7,107	2,163	11	429	—	16,409	—	62	5.0	1.9	0.1	—	0.1	0.4
2008	75	7,150	2,300	12	417	—	17,567	—	74	5.5	1.9	0.1	—	0.1	0.5
2009	66	6,075	1,903	10	359	—	18,304	—	74	5.3	1.6	0.1	—	0.1	0.5
2010	59	5,814	1,562	9	283	—	16,992	—	74	5.5	1.5	0.1	—	0.1	0.4

SOURCE: Banco de España. Data available at 4 April 2011.

a CIs existing at each date.
b Those of the registered institutions which were actually performing transactions at end-2010.
c The population figure used as the denominator in the calculation of these ratios is the total Spanish resident population over 16 years of age according to the Spanish Labour Force Survey (EPA), while the numerator takes total business of ICs 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.

BREAKDOWN OF ACTIVITY OF CIs (a)

TABLE A.3.2

Total business. Year-end data

€ m and %

	2007	2008	2009	2010	Memorandum item: 2010		
					Structure		% annual Δ
					%	Change in pp	
BALANCE SHEET TOTAL	2,892,836	3,141,957	3,142,028	3,121,937	100.0	0.0	–0.6
Assets	2,892,836	3,141,957	3,142,028	3,121,937	100.0	0.0	–0.6
Cash and central banks	61,341	66,002	48,053	38,735	1.2	–0.3	–19.4
Loans and advances to credit institutions	347,702	331,655	324,308	296,776	9.5	–0.8	–8.5
Of which: interbank	261,158	260,824	249,201	246,968	7.9	0.0	–0.9
Loans and advances to other debtors	1,860,631	1,985,784	1,933,059	1,910,307	61.2	–0.3	–1.2
Resident general government	43,889	54,403	66,242	80,621	2.6	0.5	21.7
Resident private sector	1,720,429	1,816,773	1,763,237	1,730,670	55.4	–0.7	–1.8
Of which: commercial credit	90,859	74,186	55,268	54,227	1.7	–0.1	–1.9
Of which: secured by a mortgage	1,018,956	1,064,341	1,075,214	1,059,526	33.9	–0.3	–1.5
Non-residents	96,313	114,609	103,580	99,016	3.2	–0.1	–4.4
Debt securities	266,275	322,650	414,929	397,113	12.7	–0.5	–4.3
Other equity instruments	65,079	39,434	40,727	34,900	1.1	–0.2	–14.3
Trading derivatives	68,638	131,671	93,342	111,593	3.6	0.6	19.6
Other financial assets	26,996	30,626	32,428	38,421	1.2	0.2	18.5
Hedging derivatives	13,113	27,469	30,490	33,831	1.1	0.1	11.0
Investments	116,632	129,549	135,928	132,506	4.2	–0.1	–2.5
Insurance contracts linked to pensions	9,965	9,977	9,684	9,187	0.3	0.0	–5.1
Fixed assets	28,116	30,148	30,673	30,170	1.0	0.0	–1.6
Tax assets	18,930	20,784	19,902	31,443	1.0	0.4	58.0
Other assets	9,417	16,207	28,504	56,956	1.8	0.9	99.8
Liabilities and equity	2,719,829	2,963,990	2,954,070	2,946,475	94.4	0.4	–0.3
Central banks	82,987	117,539	112,794	74,753	2.4	–1.2	–33.7
Deposits from credit institutions	513,306	543,309	546,256	520,245	16.7	–0.7	–4.8
Deposits from other creditors	1,467,725	1,605,930	1,585,435	1,558,407	49.9	–0.6	–1.7
Resident and non-resident general government	79,633	82,564	82,688	81,059	2.6	0.0	–2.0
Resident private sector	1,282,705	1,400,147	1,376,577	1,368,973	43.9	0.1	–0.6
Unadjusted overnight deposits	442,449	429,014	473,687	475,181	15.2	0.1	0.3
Current accounts	259,396	246,165	262,774	260,019	8.3	–0.1	–1.0
Savings accounts	179,435	179,820	207,862	211,364	6.8	0.2	1.7
Other deposits	3,618	3,028	3,052	3,799	0.1	0.0	24.5
Time deposits and redeemables at notice	749,930	875,313	830,755	840,402	26.9	0.5	1.2
Repos	85,557	83,804	61,132	42,369	1.4	–0.5	–30.7
Non-residents	105,387	123,219	126,170	108,374	3.5	–0.5	–14.1
Debt certificates including bonds	381,516	369,794	393,895	356,270	11.4	–1.1	–9.6
Of which: mortgage securities (b)	156,245	172,639	191,718	206,010	6.6	0.5	7.5
Trading derivatives	73,772	129,311	94,818	113,480	3.6	0.6	19.7
Subordinated liabilities	85,869	86,952	101,576	108,494	3.5	0.3	6.8
Other financial liabilities	38,319	34,519	31,897	30,221	1.0	0.0	–5.3
Other liabilities	47,633	46,441	57,236	152,063	4.9	3.1	165.7
Provisions	28,701	30,196	30,163	32,542	1.0	0.0	7.9
Of which: provisions for pensions and similar	20,629	20,994	20,129	20,930	0.7	0.1	4.0
Equity	173,008	177,966	187,958	175,462	5.6	–0.4	–6.6
Valuation adjustments	10,130	158	1,935	–3,386	–0.1	–0.2	—
Own funds	162,878	177,808	186,023	178,848	5.7	–0.2	–3.9
Of which: capital and reserves (including share premium)	135,363	158,821	169,050	164,212	5.3	–0.1	–2.9
MEMORANDUM ITEM:							
Unadjusted earning financial assets	2,563,911	2,747,823	2,785,290	2,750,467	88.1	–0.5	–1.3
Unadjusted securities portfolio	450,635	495,127	599,814	577,974	18.5	–0.6	–3.6
Equity portfolio	183,970	171,639	184,107	180,569	5.8	–0.1	–1.9
Investments in the group	89,269	117,673	130,300	134,876	4.3	0.2	3.5
Other investments	29,622	14,531	13,080	10,794	0.3	–0.1	–17.5
Other equity securities	65,079	39,434	40,727	34,900	1.1	–0.2	–14.3
Contingent exposures and liabilities	401,511	336,476	328,660	291,793	9.3	–1.2	–11.2
Variable-rate credit	1,387,448	1,465,417	1,469,341	1,491,993	47.8	1.0	1.5
Asset transfers	213,761	279,758	288,225	273,815	8.8	–0.4	–5.0
Of which: securitised (c)	34,673	29,455	28,117	19,711	0.6	–0.3	–29.9
Total mortgage covered bonds issued (d)	275,055	321,102	346,745	358,624	11.5	0.5	3.4

SOURCE: Banco de España. Data available at 4 April 2011.

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 Table A 3.8.

d Figure taken from the confidential return "Supplementay information on the Balance Sheet" of CIs, under the 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)

Total business. December 2010

%

	Deposit institutions										
	Total	Banks							Savings banks	Cooperatives	SCIs
		Total	Domestic	Foreign							
				Total	Subsidiaries	Branches					
						Total	EU	Non-EU			
BALANCE SHEET TOTAL	98.4	54.8	45.4	9.4	3.0	6.4	6.2	0.2	39.6	3.9	1.6
Assets	98.4	54.8	45.4	9.4	3.0	6.4	6.2	0.2	39.6	3.9	1.6
Cash and central banks	99.9	50.6	44.9	5.7	2.9	2.9	2.7	0.2	46.7	2.6	0.1
Loans and advances to credit institutions	99.2	82.6	55.0	27.5	2.6	24.9	24.5	0.5	14.2	2.4	0.8
Of which: interbank	99.0	84.7	53.3	31.4	2.3	29.1	28.6	0.5	11.5	2.8	1.0
Loans and advances to other debtors	97.6	47.6	40.2	7.4	3.7	3.7	3.5	0.2	45.0	5.0	2.4
Resident general government	97.2	62.8	51.0	11.8	10.4	1.3	1.2	0.1	32.5	1.9	2.8
Resident private sector	97.7	45.5	38.4	7.1	3.4	3.8	3.6	0.2	46.8	5.4	2.3
Of which: commercial credit	89.2	55.8	50.0	5.8	2.8	3.0	2.7	0.3	28.9	4.4	10.8
Of which: secured by a mortgage	99.0	38.4	33.9	4.6	3.2	1.4	1.4	0.0	54.0	6.7	1.0
Non-residents	95.5	71.7	63.2	8.5	3.7	4.8	4.3	0.5	23.5	0.4	4.5
Debt securities	99.9	55.5	42.3	13.2	2.7	10.6	10.5	0.0	41.8	2.6	0.1
Other equity instruments	100.0	60.0	50.1	9.9	0.2	9.7	9.7	0.0	34.6	5.4	0.0
Trading derivatives	100.0	78.7	75.8	2.8	0.4	2.5	2.4	0.1	21.2	0.1	0.0
Other financial assets	99.8	82.9	78.4	4.4	1.2	3.2	3.1	0.0	15.9	1.0	0.2
Hedging derivatives	100.0	36.3	33.0	3.3	1.2	2.1	2.1	0.0	62.3	1.4	0.0
Investments	100.0	74.2	72.3	1.9	0.4	1.5	1.5	0.0	25.5	0.2	0.0
Insurance contracts linked to pensions	99.9	71.6	70.2	1.4	1.1	0.3	0.3	0.0	28.4	0.0	0.1
Fixed assets	99.2	22.1	20.3	1.7	1.1	0.6	0.6	0.0	68.8	8.3	0.8
Tax assets	98.1	38.0	31.8	6.2	2.6	3.6	3.5	0.1	57.8	2.2	1.9
Other assets	98.7	72.9	69.7	3.2	0.7	2.5	2.4	0.0	23.8	2.0	1.3
Liabilities and equity	98.4	54.2	44.5	9.8	3.0	6.8	6.6	0.2	40.4	3.8	1.6
Central banks	100.0	43.3	36.2	7.1	7.1	0.0	0.0	0.0	54.8	1.9	0.0
Deposits from credit institutions	92.4	74.0	35.0	38.9	7.6	31.3	30.5	0.9	16.5	1.9	7.6
Deposits from other creditors	99.7	45.7	41.7	4.1	2.1	1.9	1.9	0.0	47.9	6.1	0.3
Resident and non-resident general government	100.0	56.9	55.5	1.4	0.6	0.8	0.8	0.0	39.9	3.2	0.0
Resident private sector	99.9	42.0	37.9	4.1	2.1	1.9	1.9	0.0	51.2	6.7	0.1
Unadjusted overnight deposits	100.0	45.6	39.0	6.6	2.9	3.7	3.6	0.1	47.5	6.9	0.0
Current accounts	100.0	54.4	43.1	11.2	4.7	6.5	6.4	0.1	41.3	4.3	0.0
Savings accounts	100.0	34.7	34.0	0.8	0.7	0.1	0.1	0.0	55.0	10.3	0.0
Other deposits	98.3	44.1	36.1	8.0	5.0	3.1	2.9	0.1	51.3	2.9	1.7
Time deposits and redeemables at notice	99.8	39.0	36.6	2.4	1.6	0.8	0.8	0.0	54.0	6.8	0.2
Repos	100.0	60.8	51.3	9.6	5.2	4.4	4.4	0.0	36.9	2.2	0.0
Non-residents	97.7	85.0	79.0	5.9	2.9	3.0	2.9	0.1	12.3	0.5	2.3
Debt certificates including bonds	99.9	51.9	50.3	1.6	1.6	0.0	0.0	0.0	47.0	1.0	0.1
Of which: mortgage securities (b)	100.0	58.7	57.6	1.2	1.2	0.0	0.0	0.0	40.6	0.7	0.0
Trading derivatives	100.0	80.6	78.0	2.6	0.4	2.2	2.2	0.1	19.3	0.1	0.0
Subordinated liabilities	99.4	59.4	57.9	1.5	1.4	0.2	0.2	0.0	39.6	0.3	0.6
Other financial liabilities	95.4	68.3	61.1	7.2	2.8	4.4	4.2	0.2	25.0	2.2	4.6
Other liabilities	99.6	58.2	55.4	2.8	1.1	1.7	1.7	0.0	40.6	0.7	0.4
Provisions	99.5	57.1	55.1	2.0	1.3	0.8	0.7	0.1	41.6	0.7	0.5
Of which: provisions for pensions and similar	99.5	68.6	67.5	1.2	1.0	0.2	0.2	0.0	30.6	0.3	0.5
Equity	97.7	64.8	61.4	3.4	2.6	0.8	0.2	0.6	27.5	5.4	2.3
Valuation adjustments	96.4	89.5	75.2	14.3	5.5	8.7	8.7	0.0	1.2	5.7	3.6
Own funds	97.7	65.3	61.6	3.6	2.7	1.0	0.4	0.6	27.0	5.4	2.3
Of which: capital and reserves	97.4	63.3	59.0	4.4	2.9	1.4	0.8	0.6	28.3	5.8	2.6
MEMORANDUM ITEM:											
Unadjusted earning financial assets	98.1	52.7	42.3	10.4	3.4	7.0	6.8	0.2	41.2	4.3	1.9
Unadjusted securities portfolio	99.9	59.7	49.6	10.1	1.9	8.2	8.2	0.0	37.9	2.2	0.1
Equity portfolio	100.0	69.3	65.9	3.4	0.4	3.0	3.0	0.0	29.4	1.3	0.0
Investments in the group	100.0	73.1	71.4	1.7	0.2	1.5	1.5	0.0	26.6	0.2	0.0
Other investments	100.0	51.0	47.5	3.5	3.2	0.3	0.3	0.0	47.9	1.1	0.0
Other equity securities	100.0	60.0	50.1	9.9	0.2	9.7	9.7	0.0	34.6	5.4	0.0
Contingent exposures and liabilities	99.9	79.7	73.6	6.1	1.8	4.3	3.9	0.4	17.5	2.7	0.1
Variable-rate credit	98.2	42.5	35.2	7.2	3.7	3.5	3.3	0.2	49.9	5.8	1.8
Asset transfers	95.8	49.5	41.8	7.6	5.3	2.4	2.4	0.0	40.2	6.1	4.2
Of which: securitised (c)	63.2	26.8	26.4	0.3	0.2	0.1	0.1	0.0	32.0	4.5	36.8
Total mortgage covered bonds issued (d)	100.0	40.2	39.4	0.8	0.7	0.1	0.1	0.0	57.3	2.5	0.0

SOURCE: Banco de España. Data available at 4 April 2011.

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 Table A 3.8.

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

CREDIT INSTITUTIONS: STRUCTURE OF LENDING TO RESIDENT PRIVATE SECTOR (a) TABLE A.3.4

Business in Spain. Year-end data

%	2007	2008	2009	2010
Lending to business	53,3	54,2	53,8	53,7
Goods	18,1	17,7	16,5	15,7
Agriculture, fishing and extractive industries	1,7	1,7	1,6	1,6
Manufacturing	6,0	5,8	5,4	5,3
Energy and electricity	1,7	2,0	2,4	2,5
Construction	8,7	8,2	7,1	6,3
Services	35,2	36,4	37,3	38,0
Commerce, repairs and hotels and restaurants	6,4	6,4	6,3	6,5
Transport and communications	2,3	2,4	2,1	2,3
Real estate development	17,3	17,2	17,8	17,5
Financial intermediation	1,8	2,4	4,0	4,7
Other services	7,4	8,0	7,1	7,1
Lending to households	45,1	44,3	44,9	45,2
Housing (purchase and refurbishing)	35,3	35,1	36,1	36,9
Consumer credit	3,2	3,0	2,7	2,3
Other purposes	6,5	6,2	6,1	6,0
Other	1,6	1,6	1,3	1,0

SOURCE: Banco de España. Data available at 4 April 2011.

a Institutions existing at each date.

ACTIVITY OF CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (a)

TABLE A.3.5

Year-end data

€ m and %

	2007	2008	2009	2010	Memorandum item: 2010					
					Structure		% annual Δ	Of which: business in Spain		% annual Δ
					%	Change in pp		%	Change in pp	
BALANCE SHEET TOTAL	3,343,367	3,637,357	3,740,225	3,816,469	100.0	0.0	2.0	73.7	–3.0	–1.9
Assets	3,343,367	3,637,357	3,740,225	3,816,469	100.0	0.0	2.0	73.7	–3.0	–1.9
Cash and central banks	88,723	103,105	88,179	123,335	3.2	0.8	39.9	31.0	–22.9	–19.5
Loans and advances to credit institutions	251,317	233,024	244,801	216,152	5.7	–0.8	–11.7	83.8	–6.0	–17.6
Loans and advances to other debtors	2,250,401	2,411,413	2,398,964	2,418,963	63.4	–0.7	0.8	74.3	–2.0	–1.9
Debt securities	355,536	393,787	503,927	486,840	12.8	–0.7	–3.4	74.5	–2.5	–6.4
Investments	54,369	38,011	41,958	47,921	1.3	0.2	14.2	93.2	–0.2	14.0
Tangible assets	35,936	40,983	45,408	47,995	1.3	0.1	5.7	82.8	–2.4	2.8
Other assets	307,085	417,035	416,987	475,262	12.5	1.4	14.0	73.4	0.6	14.9
Of which: consolidated goodwill	21,927	27,379	29,675	31,769	0.8	0.0	7.1	3.3	0.7	37.8
Liabilities and equity	3,132,773	3,435,637	3,512,436	3,594,035	94.2	0.3	2.3	75.1	–1.1	0.8
Central banks	92,183	134,484	123,897	95,139	2.5	–0.8	–23.2	70.1	–16.8	–38.1
Deposits from credit institutions	485,323	497,754	524,164	523,019	13.7	–0.3	–0.2	79.6	–3.6	–4.5
Deposits from other creditors	1,574,998	1,764,265	1,855,209	1,931,298	50.6	1.0	4.1	72.1	–0.7	3.1
Debt certificates including bonds	663,048	643,610	634,316	556,973	14.6	–2.4	–12.2	78.3	–0.4	–12.6
Subordinated liabilities	91,713	96,236	105,568	108,567	2.8	0.0	2.8	82.2	2.4	5.9
Tax liabilities	18,719	13,744	15,630	17,917	0.5	0.1	14.6	51.8	–4.1	6.3
Other liabilities	173,065	249,753	218,448	325,230	8.5	2.7	48.9	55.5	–11.3	23.7
Provisions	33,724	35,791	35,204	35,893	0.9	0.0	2.0	78.8	3.6	6.9
Equity	210,593	201,720	227,789	222,434	5.8	–0.3	–2.4	87.2	–4.9	–7.5
Minority interest	10,953	9,853	13,424	14,827	0.4	0.0	10.5	55.6	–1.4	7.8
Valuation adjustments	17,018	–9,648	–1,036	–3,623	–0.1	–0.1	249.8	61.1	488.3	—
Own funds	182,622	201,516	215,401	211,230	5.5	–0.3	–1.9	89.0	–2.8	–4.9
Of which: capital and reserves (including share premium)	148,245	177,568	192,717	189,794	5.0	–0.2	–1.5	94.0	–1.5	–3.0
MEMORANDUM ITEM:										
Interest-bearing financial liabilities	2,913,268	3,134,068	3,247,454	3,220,650	84.4	–2.4	–0.8	74.9	–1.6	–2.9
Off-balance-sheet customer funds	713,731	635,471	683,228	743,296	19.5	1.2	8.8	100.0	0.0	—
Of which: managed by the group	541,468	478,634	487,603	480,676	12.6	–0.4	–1.4	57.6	–10.5	–16.7
Unadjusted securities portfolio	503,875	498,790	615,253	590,451	15.5	–0.9	–4.0	77.3	–2.2	–6.6
Of which: equity portfolio	147,958	104,122	110,489	103,293	2.7	–0.3	–6.5	90.3	–0.5	–7.0
Investments in the group	11,036	12,685	14,062	13,189	0.3	–0.1	–6.2	80.7	–3.9	–10.6
Other investments	31,406	20,626	21,924	28,470	0.7	0.1	29.9	98.6	0.3	30.3
Other equity securities	105,516	70,810	74,502	61,634	1.6	–0.4	–17.3	88.5	–1.3	–18.4

SOURCE: Banco de España. Data available at 4 April 2011.

a These data refer to CGs (note that they include individual CIs not belonging to any CG) existing at each date.

LOCAL BUSINESS ABROAD OF CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (a)

TABLE A.3.6

Year-end data

€ m

	2007	2008	2009	2010	Memorandum item: 2010		
					Structure		% annual Δ
					%	Change in pp	
Consolidated balance sheet abroad	704,244	784,995	872,297	1,004,050	26.3	3.0	15.1
LOCAL BUSINESS:							
Financial assets	590,900	649,838	741,714	861,002	22.6	2.8	16.1
European Union	306,371	337,038	367,555	403,326	10.6	0.8	9.7
Latin America	196,853	228,356	247,637	311,603	8.2	1.6	25.8
Other	87,677	84,444	126,522	146,073	3.8	0.4	15.5
Financial liabilities	544,041	639,211	705,696	757,222	19.8	0.9	7.3
European Union	267,413	323,324	338,920	354,414	9.3	0.2	4.6
Latin America	168,483	197,336	202,805	255,670	6.7	1.3	26.1
Other	108,145	118,552	163,972	147,139	3.9	–0.5	–10.3
MEMORANDUM ITEM:							
Funds managed (net asset value)	131,977	111,914	155,363	203,941	5.3	1.1	31.3
European Union	23,155	15,694	22,335	24,475	0.6	0.0	9.6
Latin America	102,263	91,469	129,580	177,787	4.7	1.2	37.2
Other	6,558	4,751	3,449	1,679	0.0	–0.1	–51.3
CIs abroad (number)	176	184	172	185			
Subsidiaries	122	127	114	129			
European Union	44	45	44	59			
Latin America	30	36	30	29			
Other	48	46	40	41			
Branches	54	57	58	56			
European Union	38	40	39	38			
Latin America	1	—	—	—			
Other	15	17	19	18			

SOURCE: Banco de España. Data available at 4 April 2011.

a These data refer to CGs (note that they include individual CIs not belonging to any CG) existing at each date.

NEW SECURITISATIONS (NOT ABCP) ORIGINATED BY SPANISH CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (a)

TABLE A.3.7

Year-end data

€ m and %

	Total consolidated groups		Total Spanish CIs		Memorandum item: Spanish CIs 2010		
					Structure		% annual Δ
	2009 (p)	2010 (p)	2009 (p)	2010 (p)	%	Change in pp	
TOTAL ASSETS AND LIABILITIES SECURITISED	73,403	48,096	67,880	38,264	100.0	0.00	–43.6
Total underlying assets of traditional securitisations	57,859	40,708	52,335	30,876	80.7	3.60	–41.0
Residential mortgages	20,787	19,367	20,421	16,466	43.0	12.92	–19.4
Commercial mortgages	1,822	1,122	953	1,122	2.9	1.50	17.7
Finance leases	2,850	0	1,759	0	0.0	–2.59	—
Corporate loans	21,739	9,596	21,739	9,596	25.1	–6.93	–55.9
Consumer loans	6,914	8,927	3,716	1,997	5.2	–0.27	–46.3
Other	3,747	1,696	3,747	1,696	4.4	–1.12	–54.8
Total underlying assets of synthetic securitisations	235	318	235	318	0.8	0.45	35.3
Total underlying liabilities of CIs securitised	15,309	7,070	15,309	7,070	18.5	–4.05	–53.8
Mortgage covered bonds	11,395	7,070	11,395	7,070	18.5	1.71	–38.0
Other	3,914	0	3,914	0	0.0	–5.77	—
Other information on asset securitisations:							
Breakdown by type of originator:							
Banks	28,400	24,479	22,884	14,647	38.3	4.59	–36.0
Savings banks	24,828	16,288	24,820	16,288	42.6	6.04	–34.4
Cooperatives	3,874	259	3,874	259	0.7	–5.01	–93.3
SCIs	992	0	992	0	0.0	–1.46	—
Breakdown of underlying assets at originator by treatment for accounting and solvency purposes (%):							
Securitisations not reflected in accounting but reflected in solvency (b)	5.1	0.0	5.7	0.0	—	—	—
Securitisations not reflected in either accounting or solvency	94.9	96.4	94.3	95.3	—	—	—
Securitisations reflected in both accounting and solvency	0.0	1.8	0.0	2.3	—	—	—
Securitisations reflected in accounting but not in solvency	0.0	1.8	0.0	2.4	—	—	—
Securitisation structure (%):							
Senior tranches	73	20	73	17	—	—	—
Mezzanine tranches	15	3	15	2	—	—	—
First loss tranches	12	78	13	82	—	—	—
Securitisation positions held on the balance sheet (%):					—	—	—
Senior tranches	87	82	86	96	—	—	—
Mezzanine tranches	61	61	58	64	—	—	—
First loss tranches	85	99	85	99	—	—	—
Breakdown by type of securitisation SPE (%):							
Asset securitisation SPEs	95.4	97.8	96.4	97.1	—	—	—
Liability securitisation SPEs	96.8	100.0	97.9	100.0	—	—	—
Other information on liability securitisations:							
Breakdown by type of originator:							
Banks	0	0	0	0	0.0	0.00	—
Savings banks	14,809	6,070	14,809	6,070	15.9	–5.92	–59.0
Cooperatives	500	1,000	500	1,000	2.6	1.86	100.0
SCIs	0	0	0	0	0.0	0.00	—
Securitisation structure (%):							
Senior tranches	98	92	98	92	—	—	—
Mezzanine tranches	0	1	0	1	—	—	—
First loss tranches	2	7	2	7	—	—	—

SOURCE: Return RP26 (CBE 3/2008). Data available at 4 April 2011.

a ABCP (asset-backed commercial paper) programmes are not included.

b Securitisations not reflected in accounting are those in which the originator holds the underlying assets on the balance sheet. Securitisations not reflected in solvency are those in which the originator does not transfer the credit risk of the underlying assets.

OUTSTANDING AMOUNTS OF SECURITISATIONS ORIGINATED BY SPANISH CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS

TABLE A.3.8

Year-end data

€ m and %

	Total consolidated groups		Total Spanish CIs		Memorandum item: Spanish CIs 2010		
					Structure		% annual Δ
	2009 (p)	2010 (p)	2009 (p)	2010 (p)	%	Change in pp	
TOTAL ASSETS AND LIABILITIES SECURITISED	543,513	559,495	451,027	454,313	100.0	0.00	0.7
Total underlying assets of traditional securitisations	368,523	374,843	277,663	271,020	59.7	–1.86	–2.4
Residential mortgages	249,266	262,239	172,716	176,645	38.9	0.61	2.3
Commercial mortgages	4,684	4,201	2,749	3,595	0.8	0.19	30.8
Finance leases	7,226	5,032	6,114	4,089	0.9	–0.46	–33.1
Corporate loans	63,644	58,073	63,644	58,073	12.8	–1.31	–8.8
Consumer loans	26,333	27,522	15,705	11,893	2.6	–0.88	–24.3
Other	14,194	14,899	14,191	14,137	3.1	–0.05	–0.4
Commercial paper	3,176	2,876	2,544	2,589	0.6	0.04	1.8
Of which: receivables	2,226	2,390	2,226	2,390	0.5	0.01	7.4
Total underlying assets of synthetic securitisations	2,555	6,734	929	5,375	1.2	0.99	478.5
Total underlying liabilities of CIs securitised	172,435	177,918	172,435	177,918	39.2	0.97	3.2
Mortgage covered bonds	161,924	172,803	161,924	172,803	38.0	2.10	6.7
Other	10,511	5,115	10,511	5,115	1.1	–1.23	–51.3
Other information on asset securitisations:							
Breakdown by type of originator:							
Banks	229,147	243,853	136,723	138,720	30.5	0.19	1.5
Savings banks	114,898	112,943	114,836	112,894	24.8	–0.66	–1.7
Cooperatives	18,300	16,586	18,300	16,586	3.7	–0.36	–9.4
SCIs	8,734	8,195	8,734	8,195	1.8	–0.14	–6.2
Breakdown of underlying assets at originator by treatment for accounting and solvency purposes (%):							
Securitisations not reflected in accounting but reflected in solvency (a)	17.5	14.6	22.4	19.7	—	—	—
Securitisations not reflected in either accounting or solvency	75.6	79.7	69.2	73.2	—	—	—
Securitisations reflected in both accounting and solvency	5.0	3.9	6.4	5.1	—	—	—
Securitisations reflected in accounting but not in solvency	1.8	1.8	1.9	2.0	—	—	—
Securitisation structure (%):							
Senior tranches	81	61	79	55	—	—	—
Mezzanine tranches	13	10	14	11	—	—	—
First loss tranches	6	30	7	35	—	—	—
Securitisation positions held on the balance sheet (%):							
Senior tranches	63	64	62	63	—	—	—
Mezzanine tranches	63	67	61	68	—	—	—
First loss tranches	81	97	79	97	—	—	—
Breakdown by type of securitisation SPE (%):							
Asset securitisation SPEs	78.1	76.4	93.3	93.3	—	—	—
Liability securitisation SPEs	82.1	80.2	98.4	98.5	—	—	—
Other information on liability securitisations:							
Breakdown by type of originator:							
Banks	8,450	7,450	8,450	7,450	1.6	–0.27	–11.8
Savings banks	159,760	165,193	159,760	165,193	36.4	0.98	3.4
Cooperatives	4,225	5,275	4,225	5,275	1.2	0.26	24.9
SCIs	0	0	0	0	0.0	0.00	—
Securitisation structure (%):							
Senior tranches	94	97	94	97	—	—	—
Mezzanine tranches	3	0	3	0	—	—	—
First loss tranches	2	2	2	2	—	—	—

SOURCE: Return RP26 (CBE 3/2008). Data available at 4 April 2011.

a Securitisations not reflected in accounting are those in which the originator holds the underlying assets on the balance sheet. Securitisations not reflected in solvency are those in which the originator does not transfer the credit risk of the underlying assets.

BREAKDOWN OF THE INDIVIDUAL INCOME STATEMENT FOR CIs (a)

TABLE A.3.9

Data for each period

€ m and %

	Amount				% of ATA				% annual Δ			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Financial income	118,625	147,924	107,388	80,406	4.44	4.93	3.42	2.54	44.6	24.7	–27.4	–25.1
Financial cost	–84,594	–110,300	–61,847	–43,923	–3.17	–3.68	–1.97	–1.39	59.3	30.4	–43.9	–29.0
NET INTEREST INCOME (NII)	34,030	37,624	45,541	36,482	1.27	1.25	1.45	1.15	17.7	10.6	21.0	–19.9
Return on equity instruments	11,260	12,082	7,810	12,021	0.42	0.40	0.25	0.38	20.3	7.3	–35.4	53.9
Non-interest income	22,630	20,369	17,671	17,934	0.85	0.68	0.56	0.57	24.9	–10.0	–13.2	1.5
Fees and commissions (net)	14,177	13,831	13,024	12,726	0.53	0.46	0.41	0.40	11.1	–2.4	–5.8	–2.3
Collection and payment service (net)	6,003	6,459	5,868	5,447	0.22	0.22	0.19	0.17	6.1	7.6	–9.1	–7.2
Securities service (revenue)	1,780	1,307	1,193	1,305	0.07	0.04	0.04	0.04	25.3	–26.6	–8.7	9.4
Marketing of non-banking products (revenue)	4,489	3,899	3,170	3,325	0.17	0.13	0.10	0.11	9.1	–13.1	–18.7	4.9
Contingent exposures and commitments (net)	1,587	1,604	1,653	1,757	0.06	0.05	0.05	0.06	3.3	1.1	3.0	6.3
Exchange of foreign currencies and banknotes (revenue)	59	58	47	51	0.00	0.00	0.00	0.00	13.0	–2.2	–18.6	7.7
Other fees and commissions (net)	259	504	1,093	840	0.01	0.02	0.03	0.03		94.8	116.7	–23.1
Income on financial assets and liabilities (net)	6,305	4,963	3,214	4,387	0.24	0.17	0.10	0.14	79.7	–21.3	–35.2	36.5
Held for trading	794	1,879	491	1,037	0.03	0.06	0.02	0.03	–13.8	136.7	–73.9	111.2
Other financial instruments at fair value	35	328	–340	55	0.00	0.01	–0.01	0.00		835.7	—	—
Other income on financial assets and liabilities	5,476	2,755	3,064	3,295	0.21	0.09	0.10	0.10	105.4	–49.7	11.2	7.6
Exchange differences (net)	1,290	812	804	618	0.05	0.03	0.03	0.02	33.0	–37.1	–1.0	–23.1
Other operating income (net)	857	764	629	203	0.03	0.03	0.02	0.01	–2.1	–10.9	–17.7	–67.7
GROSS INCOME (GI)	67,920	70,076	71,022	66,437	2.54	2.34	2.26	2.10	20.5	3.2	1.4	–6.5
Administrative expenses	–27,086	–28,639	–28,220	–28,316	–1.01	–0.95	–0.90	–0.90	10.3	5.7	–1.5	0.3
Personnel expenses	–17,596	–18,515	–18,267	–18,202	–0.66	–0.62	–0.58	–0.58	9.6	5.2	–1.3	–0.4
Other general expenses	–9,489	–10,124	–9,953	–10,114	–0.36	–0.34	–0.32	–0.32	11.6	6.7	–1.7	1.6
Amortisation	–2,292	–2,392	–2,451	–2,301	–0.09	–0.08	–0.08	–0.07	6.9	4.4	2.5	–6.1
Provisioning expenses (net)	–1,413	–3,572	–1,442	–3,966	–0.05	–0.12	–0.05	–0.13	–53.5	152.8	–59.6	175.0
Impairment losses on financial assets (net)	–8,575	–17,338	–22,239	–18,704	–0.32	–0.58	–0.71	–0.59	33.2	102.2	28.3	–15.9
Loans and receivables	–8,330	–15,845	–20,706	–17,706	–0.31	–0.53	–0.66	–0.56	31.6	90.2	30.7	–14.5
Other financial instruments not measured at fair value	–245	–1,493	–1,533	–997	–0.01	–0.05	–0.05	–0.03	124.9	510.3	2.7	–35.0
NET OPERATING PROFIT (NOP)	28,555	18,134	16,669	13,150	1.07	0.60	0.53	0.42	41.3	–36.5	–8.1	–21.1
Impairment losses on other assets (net)	–1,251	–1,018	–6,457	–4,555	–0.05	–0.03	–0.21	–0.14	677.1	–18.6	534.1	–29.5
Goodwill and other intangible assets	–17	0	–52	–71	0.00	0.00	0.00	0.00	40.5	—	—	37.8
Other	–1,234	–1,018	–6,405	–4,484	–0.05	–0.03	–0.20	–0.14	728.6	–17.5	528.9	–30.0
Other income (net)	3,030	3,139	4,591	1,930	0.11	0.10	0.15	0.06	–35.8	3.6	46.2	–58.0
Other gains	3,835	3,529	5,201	2,744	0.14	0.12	0.17	0.09	–26.3	–8.0	47.4	–47.3
Other losses	–804	–390	–610	–816	–0.03	–0.01	–0.02	–0.03	67.7	–51.6	56.5	33.8
PROFIT BEFORE TAX (PBT)	30,334	20,256	14,803	10,525	1.14	0.68	0.47	0.33	22.5	–33.2	–26.9	–28.9
Income tax	–4,427	–1,852	–1,468	–276	–0.17	–0.06	–0.05	–0.01	–10.0	–58.2	–20.7	–81.2
Mandatory transfer to welfare funds (b)	–90	–65	–45	–30	0.00	0.00	0.00	0.00	15.8	–28.1	–29.7	–33.7
PROFIT FOR THE PERIOD	25,818	18,339	13,290	10,219	0.97	0.61	0.42	0.32	30.6	–29.0	–27.5	–23.1
MEMORANDUM ITEMS:												
Average total assets (ATA)	2,670,351	3,000,802	3,139,124	3,160,020	100.00	100.00	100.00	100.00	17.6	12.4	4.6	0.7
Average own funds (c)	145,576	167,958	183,744	187,221	5.45	5.60	5.85	5.92	15.4	15.4	9.4	1.9
Net interest income due to the excess of EFAs over IBFLs (d)	1,219.0	1,019.0	1,579.0	1,586.0	0.05	0.03	0.05	0.05	15.1	–16.4	55.0	0.4
Average return on earning financial assets (EFAs)	—	—	—	—	5.01	5.58	3.90	2.90	—	—	—	—
Average cost of interest-bearing financial liabilities (IBFLs)	—	—	—	—	3.60	4.19	2.27	1.61	—	—	—	—
Efficiency ratio (e)	—	—	—	—	43.25	44.28	43.19	46.08	—	—	—	—
Credit risk allowances and provisions:												
Specific allowances or provisions	–5,683	–21,045	–29,656	–23,835	–0.21	–0.70	–0.94	–0.75	225.7	270.3	40.9	–19.6
General allowances or provisions	–3,080	5,538	9,159	5,885	–0.12	0.18	0.29	0.19	–42.2	—	65.4	–35.7
Net additions to country-risk allowances and provisions	–10.0	–375.0	101.0	23.0	0.00	–0.01	0.00	0.00	–72.5	3,690.4	—	–77.0

SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this table refer to institutions active at some time during 2010. The structure of the table and the data for 2008, 2009 and 2010 were prepared in accordance with CBE 6/2008 of 26 November 2008 which amends CBE 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats. For 2007 the information has been reformulated in line with the current structure.

b Only savings banks and credit cooperatives.

c Includes own funds for accounting purposes excluding retained earnings; also included are declared dividends and remuneration, and valuation adjustments arising from exchange differences.

d Calculated on the basis of the average return of EFAs on the positive difference between EFAs and IBFLs. For consistency with the definition of net interest income, the calculation of EFAs excludes the return on equity instruments.

e The efficiency ratio is defined as administrative expenses and amortisation divided by gross income.

MAIN INCOME AND PROFIT ITEMS OF THE INCOME STATEMENT BY TYPE OF CREDIT INSTITUTION (a) — TABLE A.3.10

Data for each period

€ m and %

	Amount				% of ATA				% annual Δ			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Net interest income (NII):												
Total credit institutions	34,030	37,624	45,541	36,482	1.27	1.25	1.45	1.15	17.7	10.6	21.0	–19.9
Commercial banks	14,400	16,726	22,664	19,112	0.99	1.00	1.30	1.10	15.5	16.2	35.5	–15.7
Savings banks	16,006	17,020	18,897	14,061	1.50	1.46	1.53	1.12	20.3	6.3	11.0	–25.6
Credit cooperatives	2,317	2,440	2,384	1,885	2.30	2.22	2.07	1.56	23.9	5.3	–2.3	–20.9
Specialised credit institutions	1,308	1,438	1,597	1,424	2.85	2.68	3.07	2.84	2.9	9.9	11.0	–10.8
Gross income (GI):												
Total credit institutions	67,920	70,076	71,022	66,437	2.54	2.34	2.26	2.10	20.5	3.2	1.4	–6.5
Commercial banks	33,464	37,636	36,769	37,150	2.29	2.25	2.12	2.14	13.4	12.5	–2.3	1.0
Savings banks	29,744	27,508	29,155	24,803	2.79	2.36	2.36	1.98	30.5	–7.5	6.0	–14.9
Credit cooperatives	2,948	3,038	3,150	2,664	2.93	2.76	2.74	2.20	18.0	3.0	3.7	–15.4
Specialised credit institutions	1,765	1,894	1,947	1,819	3.85	3.53	3.75	3.63	12.3	7.3	2.8	–6.6
Net operating profit (NOP):												
Total credit institutions	28,555	18,134	16,669	13,150	1.07	0.60	0.53	0.42	41.3	–36.5	–8.1	–21.1
Commercial banks	15,391	11,762	10,954	9,470	1.05	0.70	0.63	0.55	35.1	–23.6	–6.9	–13.6
Savings banks	11,580	5,541	5,563	3,242	1.09	0.48	0.45	0.26	55.1	–52.2	0.4	–41.7
Credit cooperatives	955	777	606	446	0.95	0.71	0.53	0.37	21.3	–18.6	–22.0	–26.4
Specialised credit institutions	630	55	–454	–8	1.37	0.10	–0.87	–0.02	12.6	–91.3	–933.1	–98.3
Profit before tax (PBT):												
Total credit institutions	30,334	20,256	14,803	10,525	1.14	0.68	0.47	0.33	22.5	–33.2	–26.9	–28.9
Commercial banks	16,384	12,881	10,957	8,650	1.12	0.77	0.63	0.50	11.0	–21.4	–14.9	–21.1
Savings banks	12,325	6,592	3,834	1,600	1.16	0.57	0.31	0.13	43.7	–46.5	–41.8	–58.3
Credit cooperatives	975	732	503	342	0.97	0.67	0.44	0.28	18.9	–24.9	–31.3	–32.0
Specialised credit institutions	650	50	–490	–67	1.42	0.09	–0.94	–0.13	6.2	–92.3	–1,072.7	–86.3
Profit for the period:												
Total credit institutions	25,818	18,339	13,290	10,219	0.97	0.61	0.42	0.32	30.6	–29.0	–27.5	–23.1
Commercial banks	13,757	11,388	9,729	7,944	0.94	0.68	0.56	0.46	17.2	–17.2	–14.6	–18.3
Savings banks	10,852	6,302	3,523	2,036	1.02	0.54	0.29	0.16	55.1	–41.9	–44.1	–42.2
Credit cooperatives	775	615	429	315	0.77	0.56	0.37	0.26	18.7	–20.6	–30.3	–26.5
Specialised credit institutions	433	33	–390	–76	0.95	0.06	–0.75	–0.15	14.4	–92.4	–1,280.0	–80.5
MEMORANDUM ITEMS:												
Average total assets (ATA):												
Total credit institutions	2,670,351	3,000,802	3,139,124	3,160,020	100.0	100.0	100.0	100.0	17.6	12.4	4.6	0.7
Commercial banks	1,458,992	1,672,875	1,738,427	1,734,550	54.64	55.75	55.38	54.89	15.3	14.7	3.9	–0.2
Savings banks	1,064,963	1,164,290	1,233,580	1,254,204	39.88	38.80	39.30	39.69	21.1	9.3	6.0	1.7
Credit cooperatives	100,551	110,030	115,132	121,096	3.77	3.67	3.67	3.83	16.7	9.4	4.6	5.2
Specialised credit institutions	45,845	53,607	51,985	50,170	1.72	1.79	1.66	1.59	14.3	16.9	–3.0	–3.5

SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this table refer to institutions active at some time during 2010.

BREAKDOWN OF THE CONSOLIDATED INCOME STATEMENT FOR CIs (a) TABLE A.3.11

Data for each period

€ m and %

	Amount				% of ATA				% annual Δ			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Financial income	154,909	190,168	152,315	128,402	4.96	5.55	4.10	3.35	38.1	22.8	–19.9	–15.7
Financial cost	–102,841	–130,598	–78,886	–60,212	–3.29	–3.81	–2.12	–1.57	48.2	27.0	–39.6	–23.7
NET INTEREST INCOME (NII)	52,068	59,570	73,429	68,190	1.67	1.74	1.98	1.78	21.6	14.4	23.3	–7.1
Equity instruments	7,202	7,567	5,176	6,361	0.23	0.22	0.14	0.17	1.0	5.1	–31.6	22.9
Return on equity instruments	2,787	3,186	2,850	2,652	0.09	0.09	0.08	0.07	7.8	14.3	–10.5	–7.0
Share of profit of entities accounted for using the equity method	4,414	4,381	2,326	3,709	0.14	0.13	0.06	0.10	–2.9	–0.8	–46.9	59.5
Associate entities	1,921	1,961	787	1,575	0.06	0.06	0.02	0.04	17.3	2.1	–59.9	100.2
Jointly controlled entities	660	250	361	461	0.02	0.01	0.01	0.01	–1.0	–62.2	44.6	27.6
Group entities	1,833	2,170	1,178	1,674	0.06	0.06	0.03	0.04	–18.2	18.4	–45.7	42.1
Non-interest income	35,881	31,940	33,401	31,769	1.15	0.93	0.90	0.83	16.8	–11.0	4.6	–4.9
Fees and commissions (net)	22,971	22,909	22,931	23,660	0.74	0.67	0.62	0.62	11.2	–0.3	0.1	3.2
Collection and payment service (revenue)	9,993	10,430	10,535	10,581	0.32	0.30	0.28	0.28	9.1	4.4	1.0	0.4
Securities service (revenue)	3,033	2,359	2,279	2,450	0.10	0.07	0.06	0.06	15.3	–22.2	–3.4	7.5
Marketing of non-banking products (revenue)	8,131	7,599	6,621	7,275	0.26	0.22	0.18	0.19	7.4	–6.5	–12.9	9.9
Contingent exposures and commitments (revenue)	1,643	1,929	1,972	2,053	0.05	0.06	0.05	0.05	7.2	17.4	2.2	4.1
Exchange of foreign currencies and banknotes (revenue)	143	183	210	241	0.00	0.01	0.01	0.01	6.2	28.1	14.7	14.7
Other fees and commissions (net)	28	409	1,315	1,060	0.00	0.01	0.04	0.03	—	1,376.8	221.1	–19.4
Income on financial assets (net)	10,622	7,073	8,801	7,074	0.34	0.21	0.24	0.18	28.5	–33.4	24.4	–19.6
Held for trading	2,285	667	2,993	2,746	0.07	0.02	0.08	0.07	–15.1	–70.8	348.6	–8.3
Other financial instruments at fair value	136	510	249	116	0.00	0.01	0.01	0.00	—	273.8	–51.2	–53.2
Other income on financial assets and liabilities	8,201	5,896	5,559	4,212	0.26	0.17	0.15	0.11	44.20	–28.1	–5.7	–24.2
Exchange differences (net)	1,465	1,177	1,497	1,322	0.05	0.03	0.04	0.03	59.9	–19.7	27.2	–11.7
Other operating income (net)	823	781	172	–287	0.03	0.02	0.00	–0.01	–5.7	–5.1	–78.0	—
GROSS INCOME (GI)	95,151	99,076	112,006	106,320	3.05	2.89	3.02	2.78	18.00	4.1	13.1	–5.1
Administrative expenses	–38,510	–41,353	–43,793	–45,418	–1.23	–1.21	–1.18	–1.19	11.5	7.4	5.9	3.7
Personnel expenses	–24,421	–26,026	–27,367	–28,148	–0.78	–0.76	–0.74	–0.74	11.4	6.6	5.2	2.9
Other general expenses	–14,089	–15,327	–16,426	–17,270	–0.45	–0.45	–0.44	–0.45	11.7	8.8	7.2	5.1
Amortisation	–3,738	–3,976	–4,426	–4,784	–0.12	–0.12	–0.12	–0.13	12.1	6.4	11.3	8.1
Provisioning expenses (net)	–2,097	–4,069	–2,488	–4,750	–0.07	–0.12	–0.07	–0.12	–42.9	94.0	–38.9	90.9
Impairment losses on financial assets (net)	–12,732	–24,301	–35,958	–27,952	–0.41	–0.71	–0.97	–0.73	44.9	90.9	48.0	–22.3
Loans and receivables	–12,456	–21,713	–33,697	–26,648	–0.40	–0.63	–0.91	–0.70	43.3	74.3	55.2	–20.9
Other financial instruments not measured at fair value	–276	–2,588	–2,261	–1,304	–0.01	–0.08	–0.06	–0.03	178.7	837.9	–12.6	–42.3
NET OPERATING PROFIT (NOP)	38,074	25,377	25,341	23,417	1.22	0.74	0.68	0.61	25.5	–33.3	–0.1	–7.6
Impairment losses on other assets (net)	–1,794	–2,033	–6,965	–4,981	–0.06	–0.06	–0.19	–0.13	729.9	13.3	242.6	–28.5
Goodwill and other intangible assets	–1,265	–1,130	–1,447	–304	–0.04	–0.03	–0.04	–0.01	2,245.5	–10.7	28.1	–79.0
Other	–529	–904	–5,518	–4,677	–0.02	–0.03	–0.15	–0.12	226.2	70.7	510.7	–15.2
Other income (net)	4,959	5,718	4,653	3,496	0.16	0.17	0.13	0.09	–26.4	15.3	–18.6	–24.9
Other gains	6,092	6,048	5,484	4,611	0.20	0.18	0.15	0.12	–22.9	–0.7	–9.3	–15.9
Other losses	–1,133	–330	–831	–1,116	–0.04	–0.01	–0.02	–0.03	–2.5	–70.9	151.7	34.3
PROFIT BEFORE TAX (PBT)	41,239	29,062	23,029	21,931	1.32	0.85	0.62	0.57	11.9	–29.5	–20.8	–4.8
Income tax	–8,149	–4,407	–2,859	–3,787	–0.26	–0.13	–0.08	–0.10	–10.7	–45.9	–35.1	32.4
Mandatory transfer to welfare funds (b)	–90	–65	–45	–30	0.00	0.00	0.00	0.00	15.8	–28.1	–29.7	–34.8
CONSOLIDATED PROFIT FOR THE PERIOD	33,000	24,591	20,124	18,115	1.06	0.72	0.54	0.47	19.3	–25.5	–18.2	–10.0
Attributed to the parent	31,568	23,085	18,599	16,063	1.01	0.67	0.50	0.42	20.2	–26.9	–19.4	–13.6
Attributed to minority interests	1,432	1,506	1,525	2,052	0.05	0.04	0.04	0.05	2.7	5.1	1.3	34.5
MEMORANDUM ITEMS:												
Average total assets (ATA)	3,122,937	3,428,929	3,713,767	3,827,285	100.00	100.00	100.00	100.00	16.9	9.8	8.3	3.1
Average own funds of the group (c)	157,585	183,054	199,777	215,394	5.05	5.34	5.38	5.63	18.1	16.2	9.1	7.8
Net interest income due to the excess of EFAs over IBFLs (d)	3,159	2,954	2,972	5,230	0.10	0.09	0.08	0.14	8.3	–6.5	0.6	76.0
Average return on earning financial assets (EFAs)	—	—	—	—	5.25	5.98	4.60	3.83	—	—	—	—
Average cost of interest-bearing financial liabilities (IBFLs)	—	—	—	—	3.56	4.17	2.43	1.86	—	—	—	—
Efficiency ratio (e)	—	—	—	—	44.40	45.75	43.05	47.22	—	—	—	—
Return on average equity of the group (ROE) (c)	—	—	—	—	20.03	12.61	9.31	7.46	—	—	—	—

SOURCE: Banco de España. Data available 4 April 2011.

a The data in this table refer to CGs (it should be recalled that they include individual CIs not belonging to any CG) active at some time during 2010. The structure of the table and the data for 2008, 2009 and 2010 were prepared in accordance with CBE 6/2008 of 26 November 2008 which amends CBE 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats. For 2007 the information has been reformulated in line with the current structure.

b Only savings banks and credit cooperatives.

c Includes own funds for accounting purposes excluding retained earnings; also included are declared dividends and remuneration, and valuation adjustments arising from exchange differences.

d Calculated on the basis of the return of EFAs on the positive difference between EFAs and IBFLs. For consistency with the definition of net interest income, the calculation of EFAs excludes the return on equity instruments.

e The efficiency ratio is defined as administrative expenses and amortisation divided by gross income.

MAIN INCOME AND PROFIT ITEMS OF THE INCOME STATEMENT OF CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (a)

TABLE A.3.12

Data for each period

€ m and %

	Amount				% of ATA				% annual Δ			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Net interest income (NII):												
Total consolidated groups	52,068	59,570	73,429	68,190	1.67	1.74	1.98	1.78	21.6	14.4	23.3	–7.1
Five largest CGs	33,376	39,190	50,914	49,873	1.73	1.86	2.16	2.03	22.4	17.4	29.9	–2.1
6th to 10th largest CGs	6,872	7,557	8,226	6,638	1.80	1.80	1.87	1.47	28.7	10.0	8.9	–19.3
11th to 20th largest CGs	4,863	5,324	6,294	4,784	1.21	1.21	1.37	1.04	13.8	9.5	18.2	–24.0
21st to 40th largest CGs	3,452	3,633	4,189	3,303	1.35	1.27	1.43	1.13	14.5	5.3	15.3	–21.2
Other	3,505	3,866	3,806	3,592	2.27	2.24	2.24	2.19	19.6	10.2	–1.5	–5.5
Gross income (GI):												
Total consolidated groups	95,151	99,076	112,006	106,320	3.05	2.89	3.02	2.78	18.0	4.1	13.1	–5.1
Five largest CGs	63,662	66,682	77,910	77,796	3.30	3.16	3.31	3.16	18.9	4.7	16.8	–0.2
6th to 10th largest CGs	11,433	12,181	12,442	9,989	2.99	2.90	2.83	2.21	23.9	6.5	2.1	–19.7
11th to 20th largest CGs	8,292	8,625	9,147	7,536	2.07	1.95	2.00	1.64	17.1	4.0	6.1	–17.6
21st to 40th largest CGs	6,385	6,228	6,760	5,642	2.50	2.18	2.30	1.93	2.7	–2.5	8.5	–16.5
Other	5,379	5,360	5,747	5,357	3.48	3.11	3.38	3.27	17.1	–0.4	7.3	–6.7
Net operating profit (NOP):												
Total consolidated groups	38,074	25,377	25,341	23,417	1.22	0.74	0.68	0.61	25.5	–33.4	–0.1	–7.6
Five largest CGs	26,535	19,400	19,662	20,889	1.37	0.92	0.84	0.85	31.5	–26.9	1.4	6.2
6th to 10th largest CGs	4,580	2,264	2,832	1,908	1.20	0.54	0.64	0.42	21.9	–50.6	25.1	–32.6
11th to 20th largest CGs	2,879	2,035	1,675	221	0.72	0.46	0.37	0.05	23.3	–29.3	–17.7	–86.8
21st to 40th largest CGs	2,472	1,304	991	–33	0.97	0.46	0.34	–0.01	–6.1	–47.3	–24.0	–103.4
Other	1,608	374	181	432	1.04	0.22	0.11	0.26	12.1	–76.8	–50.8	135.2
Profit before tax (PBT):												
Total consolidated groups	41,239	29,062	23,029	21,931	1.32	0.85	0.62	0.57	11.9	–29.5	–20.8	–4.8
Five largest CGs	28,741	21,309	18,609	20,547	1.49	1.01	0.79	0.84	13.9	–25.9	–12.7	10.4
6th to 10th largest CGs	5,046	3,671	2,332	1,654	1.32	0.87	0.53	0.37	5.8	–27.2	–36.5	–29.1
11th to 20th largest CGs	3,184	2,267	1,481	–213	0.79	0.51	0.32	–0.05	24.4	–28.8	–34.7	–114.4
21st to 40th largest CGs	2,547	1,480	524	–369	1.00	0.52	0.18	–0.13	–8.3	–41.9	–64.6	–170.3
Other	1,721	335	83	312	1.11	0.19	0.05	0.19	14.5	–80.7	–74.4	265.6
Consolidated profit for the period:												
Total consolidated groups	33,000	24,591	20,124	18,115	1.06	0.72	0.54	0.47	19.3	–25.5	–18.2	–10.0
Five largest CGs	23,199	18,244	16,500	16,782	1.20	0.86	0.70	0.68	21.3	–21.4	–9.6	1.7
6th to 10th largest CGs	3,948	2,969	1,982	1,403	1.03	0.71	0.45	0.31	18.6	–24.8	–33.2	–29.2
11th to 20th largest CGs	2,490	1,909	1,310	102	0.62	0.43	0.29	0.02	35.1	–23.4	–31.4	–92.2
21st to 40th largest CGs	2,124	1,349	393	–348	0.83	0.47	0.13	–0.12	–8.2	–36.5	–70.9	–188.6
Other	1,239	120	–61	176	0.80	0.07	–0.04	0.11	19.8	–90.4	–150.0	—
MEMORANDUM ITEMS:												
Average total assets (ATA):												
Total consolidated groups	3,122,937	3,428,929	3,713,767	3,827,285	100.0	100.0	100.0	100.0	16.9	9.8	8.3	3.1
Five largest CGs	1,930,398	2,110,028	2,352,391	2,459,724	61.81	61.54	63.34	64.27	15.6	9.3	11.5	4.6
6th to 10th largest CGs	382,197	420,005	439,781	451,665	12.24	12.25	11.84	11.80	23.8	9.9	4.7	2.7
11th to 20th largest CGs	400,893	441,702	457,928	460,144	12.84	12.88	12.33	12.02	13.9	10.2	3.7	0.5
21st to 40th largest CGs	254,879	285,185	293,891	291,931	8.16	8.32	7.91	7.63	20.2	11.9	3.1	–0.7
Other	154,570	172,009	169,776	163,821	4.95	5.02	4.57	4.28	20.7	11.3	–1.3	–3.5

SOURCE: Banco de España. Data available at 4 April 2011.

a The data in this table refer to CGs (note that they include individual CIs not belonging to any CG) active at some time during 2010. The criterion used to classify the CGs by size is the volume of average total assets (ATA) for the last period.

SOLVENCY OF CONSOLIDATED GROUPS OF CIs: OWN FUNDS (a)

TABLE A.3.13

Year-end data

€ m and %

	Amount				Structure %				% annual Δ			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
TOTAL OWN FUNDS	224,865	234,050	254,330	244,957	100.0	100.0	100.0	100.0	7.2	4.1	8.7	–3.7
Original own funds (Tier 1 capital)	159,897	174,643	201,917	209,291	71.1	74.6	79.4	85.4	17.6	9.2	15.6	3.7
Capital stock, reserves and similar items	173,196	180,905	202,926	208,355	77.0	77.3	79.8	85.1	18.9	4.5	12.2	2.7
Capital stock and reserves	137,641	161,220	181,193	184,104	61.2	68.9	71.2	75.2	17.8	17.1	12.4	1.6
Minority interests	11,611	8,753	12,517	13,736	5.2	3.7	4.9	5.6	35.3	–24.6	43.0	9.7
Interim profits or material losses of the current financial year	23,863	14,353	10,886	11,154	10.6	6.1	4.3	4.6	16.3	–39.9	–24.2	2.5
Other	82	–3,422	–1,670	–639	0.0	–1.5	–0.7	–0.3	—	—	–51.2	–61.8
Other and country specific original own funds	27,105	32,107	42,506	49,144	12.1	13.7	16.7	20.1	53.3	18.5	32.4	15.6
Instruments subject to limits	27,105	25,107	33,009	32,108	12.1	10.7	13.0	13.1	53.3	–7.4	31.5	–2.7
Other	0	7,000	9,496	17,036	0.0	3.0	3.7	7.0	—	—	35.7	79.4
Deductions from original own funds	–40,404	–38,369	–43,515	–48,209	–18.0	–16.4	–17.1	–19.7	47.7	–5.0	13.4	10.8
Additional own funds (Tier 2 capital)	90,553	71,145	68,010	56,330	40.3	30.4	26.7	23.0	7.3	–21.4	–4.4	–17.2
Core additional own funds	46,207	28,727	23,143	16,011	20.5	12.3	9.1	6.5	4.5	–37.8	–19.4	–30.8
Adjustments made to valuation differences in original own funds transferred to core additional own funds	11,575	1,531	2,818	1,029	5.1	0.7	1.1	0.4	–2.3	–86.8	84.1	–63.5
SA general provisions and IRB provision excess	20,837	13,703	10,057	9,040	9.3	5.9	4.0	3.7	9.9	–34.2	–26.6	–10.1
Securities of indeterminate duration and other instruments	8,485	8,358	5,206	3,010	3.8	3.6	2.0	1.2	15.8	–1.5	–37.7	–42.2
Other	5,310	5,136	5,063	2,931	2.4	2.2	2.0	1.2	–12.9	–3.3	–1.4	–42.1
Supplementary additional own funds	44,416	42,431	44,912	40,358	19.8	18.1	17.7	16.5	9.5	–4.5	5.8	–10.1
Deductions from additional own funds	–70	–13	–45	–40	0.0	0.0	0.0	0.0	–82.8	–80.9	236.0	–12.0
(–) Deductions from original and additional own funds	–25,585	–11,738	–15,597	–20,664	–11.4	–5.0	–6.1	–8.4	141.3	–54.1	32.9	32.5
(–) Holdings in other credit and financial institutions amounting to more than 10 % of their capital	–16,233	–5,998	–5,983	–8,172	–7.2	–2.6	–2.4	–3.3	361.2	–63.1	–0.3	36.6
(–) Participations held in insurance undertakings, reinsurance undertakings and insurance holding companies amounting to more than 20 % of their capital	–6,334	–3,214	–3,504	–4,192	–2.8	–1.4	–1.4	–1.7	25.8	–49.3	9.0	19.6
Other	–3,017	–2,525	–6,110	–8,301	–1.3	–1.1	–2.4	–3.4	47.5	–16.3	142.0	35.8
Total additional own funds specific to cover market risks (Tier 3 capital) and other	0	0	0	0	0.0	0.0	0.0	0.0	—	—	—	—
SURPLUS (+) / DEFICIT (–) OF OWN FUNDS	55,699	68,519	87,999	80,187	—	—	—	—	–6.2	23.0	28.4	–8.9
Solvency ratio (%)	10.6	11.3	12.2	11.9								
Tier 1 ratio (%)	7.6	8.4	9.7	10.2								

SOURCE: Banco de España. Data available at 4 April 2011.

a Data refer to CGs (note that they include individual CIs not belonging to any CG) existing at the end of each year. From 2008 onwards, data and items in this table, unless otherwise stated, correspond to items of return RP10 "Own funds and compliance with capital requirements" of CBE 3/2008. Due to the change in the solvency regulation there may not be an exact correspondence with data prior to 2008 from a conceptual point of view.

SOLVENCY OF CONSOLIDATED GROUPS OF CIs: REQUIREMENTS (a)

TABLE A.3.14

Year-end data

€ m and %

	Amount				Structure %				% annual Δ			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
CAPITAL REQUIREMENTS	169,166	165,531	166,331	164,770	100.0	100.0	100.0	100.0	12.5	–2.1	0.5	–0.9
Credit, counterparty credit and dilution risks and free deliveries	163,193	145,633	147,228	143,903	96.5	88.0	88.5	87.3	13.5	–10.8	1.1	–2.3
Standardised approach (SA) (excluding securitisation positions)	163,193	93,539	91,946	90,300	96.5	56.5	55.3	54.8	13.5	–42.7	–1.7	–1.8
Central governments or central banks (b)	—	2,184	2,118	2,296	—	1.3	1.3	1.4	—	—	–3.0	8.4
Institutions	—	2,755	2,576	2,097	—	1.7	1.5	1.3	—	—	–6.5	–18.6
Corporate	—	44,000	37,855	33,951	—	26.6	22.8	20.6	—	—	–14.0	–10.3
Retail	—	17,200	16,006	16,458	—	10.4	9.6	10.0	—	—	–6.9	2.8
Secured by real estate property	—	13,390	15,475	16,640	—	8.1	9.3	10.1	—	—	15.6	7.5
Secured by past-due items	—	2,871	4,770	5,815	—	1.7	2.9	3.5	—	—	66.1	21.9
Exposures belonging to regulatory high-risk categories	—	3,976	3,289	3,447	—	2.4	2.0	2.1	—	—	–17.3	4.8
Other	—	7,163	9,856	9,597	—	4.3	5.9	5.8	—	—	37.6	–2.6
Internal ratings-based (IRB) approach (excluding securitisation positions)	—	50,027	52,538	51,222	—	30.2	31.6	31.1	—	—	5.0	–2.5
Of which: advanced IRB	—	40,713	40,955	43,178	—	24.6	24.6	26.2	—	—	0.6	5.4
Central governments or central banks	—	63	72	121	—	0.0	0.0	0.1	—	—	13.9	67.8
Institutions	—	2,767	2,650	2,886	—	1.7	1.6	1.8	—	—	–4.2	8.9
Corporate	—	30,635	31,084	30,778	—	18.5	18.7	18.7	—	—	1.5	–1.0
Of which: SMEs	—	10,759	10,350	10,911	—	6.5	6.2	6.6	—	—	–3.8	5.4
Retail	—	11,966	13,027	13,255	—	7.2	7.8	8.0	—	—	8.9	1.8
Of which: SMEs	—	1,309	1,285	1,416	—	0.8	0.8	0.9	—	—	–1.8	10.2
Of which: secured by real estate	—	8,750	9,875	10,094	—	5.3	5.9	6.1	—	—	12.9	2.2
Of which: non-SMEs secured by real estate	—	8,332	9,377	9,516	—	5.0	5.6	5.8	—	—	12.5	1.5
Equity	—	4,274	5,242	4,183	—	2.6	3.2	2.5	—	—	22.6	–20.2
Other	—	322	464	0	—	0.2	0.3	0.0	—	—	44.0	–100.0
Securitisation positions	—	2,066	2,744	2,381	—	1.2	1.6	1.4	—	—	32.8	–13.2
Of which: traditional	—	2,066	2,738	2,378	—	1.2	1.6	1.4	—	—	32.5	–13.1
Standardised approach	—	1,703	2,377	2,021	—	1.0	1.4	1.2	—	—	39.6	–15.0
IRB approach (c)	—	364	367	360	—	0.2	0.2	0.2	—	—	0.9	–1.8
External ratings-based approach	—	—	—	—	—	0.2	0.2	0.2	—	—	—	—
Of which: with a weight of 1250 %	—	—	—	—	—	0.1	0.1	0.1	—	—	—	—
Supervisory formula method	—	—	—	—	—	0.0	0.0	0.0	—	—	—	—
Internal assessment approach	—	—	—	—	—	0.0	0.0	0.0	—	—	—	—
Approaches based on the weighting of securitisation exposures	—	—	—	—	—	0.0	0.0	0.0	—	—	—	—
Position, foreign exchange and commodity risks	5,700	4,801	4,656	6,137	3.4	2.9	2.8	3.7	–8.6	–15.8	–3.0	31.8
Standardised approach	5,039	3,576	3,587	4,732	3.0	2.2	2.2	2.9	–15.1	–29.0	0.3	31.9
Of which: position in fixed income	2,773	1,439	1,301	1,300	1.6	0.9	0.8	0.8	–26.3	–48.1	–9.6	0.0
Of which: foreign exchange risk	1,734	1,599	2,000	3,182	1.0	1.0	1.2	1.9	25.6	–7.8	25.0	59.1
Of which: Internal models	661	1,225	1,068	1,405	0.4	0.7	0.6	0.9	121.1	85.4	–12.8	31.5
Operational risks (OpR)	—	12,731	13,893	14,133	—	7.7	8.4	8.6	—	—	9.1	1.7
Basic indicator approach	—	4,210	4,128	3,821	—	2.5	2.5	2.3	—	—	–1.9	–7.4
Standardised and alternative standardised approaches	—	8,501	7,991	8,536	—	5.1	4.8	5.2	—	—	–6.0	6.8
Advanced approaches	—	20	1,774	1,776	—	0.0	1.1	1.1	—	—	8,894.0	0.1
Other and transitional capital requirements	273	2,366	555	597	0.2	1.4	0.3	0.4	–30.6	765.6	–76.6	7.7
Of which: complements to overall floor for capital requirements	—	1,989	121	121	—	1.2	0.1	0.1	—	—	–93.9	–0.5
Of which: other country specific own funds requirements	273	377	433	476	0.2	0.2	0.3	0.3	–30.6	38.1	14.8	9.9

SOURCE: Banco de España. Data available at 4 April 2011.

a Data refer to CGs (note that they include individual CIs not belonging to any CG) existing at the end of each year. From 2008 onwards, data and items in this table, unless otherwise stated, correspond to items of return RP10 “Own funds and compliance with capital requirements” of CBE 3/2008. Due to the change in the solvency regulation there may not be an exact correspondence with data prior to 2008 from a conceptual point of view.

b It includes the exposure classes “Central governments or central banks”; “Regional governments or local authorities”; “Administrative bodies and non-commercial undertakings”; “Multilateral Development Banks”; and “International Organisations”.

c The breakdown according to the IRB approach of the capital requirements for securitisation positions is an estimate and only data on weight relative to total requirements are provided.

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

TABLE A.3.15

Year-end data

€ m and %

	Amount				Structure %				Δ annual %			
	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010
Effective own funds	204,958	211,270	235,932	234,752	100.0	100.0	100.0	100.0	9.1	3.1	11.7	–0.5
Credit institutions or groups	197,657	206,212	229,563	227,380	96.4	97.6	97.3	96.9	8.0	4.3	11.3	–1.0
Insurance undertakings or groups	7,901	6,835	8,096	9,254	3.9	3.2	3.4	3.9	16.5	–13.5	18.5	14.3
Deductions	–600	–1,777	–1,727	–1,882	–0.3	–0.8	–0.7	–0.8	–68.4	196.3	–2.8	9.0
Capital requirements	154,491	150,179	154,643	158,415	100.0	100.0	100.0	100.0	13.7	–2.8	3.0	2.4
Credit institutions or groups	150,588	147,006	151,200	154,432	97.5	97.9	97.8	97.5	13.6	–2.4	2.9	2.1
Insurance undertakings or groups	4,150	3,552	3,791	4,517	2.7	2.4	2.5	2.9	14.5	–14.4	6.7	19.2
Deductions	–247	–379	–348	–534	–0.2	–0.3	–0.2	–0.3	–22.3	53.4	–8.2	53.4
Surplus or deficit	50,467	61,090	81,289	76,337	—	—	—	—	–3.1	21.1	33.1	–6.1
Surplus or deficit of CGs	47,069	59,206	78,363	72,948	—	—	—	—	–6.8	25.8	32.4	–6.9

SOURCE: Banco de España. Data available at 4 April 2011.

a Data refer to mixed groups and financial conglomerates existing at each date subject to compliance with the solvency ratio in Spain.

ANNEX 4 INFORMATION FOR BANK CUSTOMERS, REGISTERS AND OTHER INSTITUTIONAL INFORMATION

INFORMATION TO BANK CUSTOMERS

TABLE A.4.1

Yearly data

Number

	2007	2008	2009	2010 (e)
ADVERTISING PROJECTS:				
Cases processed	6,528	6,525	6,376	3,696
By type of decision:				
Authorised (a)	5,641	5,707	5,182	3,055
Rejected	2	8	7	1
Modified (b)	643	765	1,136	622
Returned (c)	242	45	51	18
By type of transaction:				
Lending transactions	3,209	2,930	2,703	1,794
Deposit transactions	2,260	2,561	2,195	1,085
Other	172	216	284	176
By type of medium:				
Press	1,181	817	898	554
Radio	187	140	152	93
Television	214	207	205	119
Other	4,059	4,543	3,927	2,289
COMMISSION CHARGES:				
Cases examined	1,104	1,205	964	833
Decisions (d)	887	1,077	922	717
Approvals	368	349	349	287
With objections	519	728	573	430
Objections formulated	1,893	2,542	1,901	1,390

SOURCE: Banco de España.

a Includes both authorisations owing to an affirmative decision and deemed authorisations owing to the absence of a negative decision (“administrative silence”).
b Modifications, normally in prices, in projects authorised in the same or in previous years.
c Relate to projects whose content does not require authorisation, or which have been withdrawn by the applicant.
d A single decision may relate to various cases.
e All the advertising projects for 2010 refer to the period from January to June since no authorisation is required after that period.

REGISTERS AND OTHER INSTITUTIONAL INFORMATION

TABLE A.4.2

Year-end data and changes in the year

Number and %

	2007	2008	2009	2010
Senior officers	4,877	4,832	4,755	4,614
Legal persons	420	424	420	436
Individuals	4,457	4,408	4,335	4,178
Of which:				
Males	3,980	3,897	3,790	3,640
Females	477	511	545	538
Percentage of females in banks	7	7	9	8
Percentage of females in savings banks	16	17	18	19
Percentage of females in credit cooperatives	7	9	9	10
Percentage of females in SCIs	5	6	7	7
Percentage of females in other credit institutions	12	12	13	13
Additions or deletions of senior officers	1,281	1,224	1,511	1,869
Of which: first-time additions	569	533	661	653
Reinstatements	67	74	75	109
Inquiries as to integrity of senior officers	64	41	109	215
Average number of people listed per document	5	5	3	3
Registered shareholders of banks	560	592	541	532
Individuals	88	134	120	117
Legal persons	472	458	421	415
Of which: credit institutions (a)	114	106	101	115
Of which: Spanish shareholders	385	408	357	356
Registered members of credit cooperatives	421	382	364	518
Individuals	214	181	173	150
Legal persons	207	201	191	368
Of which: credit institutions (a)	91	89	78	242
Of which: Spanish members	420	378	363	517
Registered shareholders of SCIs	172	194	178	157
Individuals	28	28	28	23
Legal persons	144	166	150	134
Of which: credit institutions (a)	67	90	85	76
Of which: Spanish shareholders	145	170	155	137
Agency agreements	24,323	26,465	22,053	24,106
Banks	11,356	10,278	4,651	4,830
Savings banks	258	259	250	180
Credit cooperatives	64	52	61	66
Specialised credit institutions	62	74	74	74
Branches of credit institutions	109	120	128	139
Currency exchange bureaux and/or money transfer agencies	12,474	15,682	16,889	18,734
Payment institutions	—	—	—	83
Agency agreements with foreign CIs	107	107	107	107
Registered amendments to articles of association	223	184	142	168
Cases processed of amendments to articles of association	37	24	25	50
Banks	11	4	7	15
Savings banks	1	1	1	2
Credit cooperatives	16	12	10	24
SCIs	4	4	1	5
MGCs	5	3	6	4
Reported to Directorate General of the Treasury and Financial Policy	29	21	20	33
Reported to regional government	8	3	5	17

SOURCE: Banco de España.

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

ANNEX 5 MAIN DOCUMENTS PUBLISHED BY THE INTERNATIONAL SUPERVISORY FORA: FSB, BCBS, SSG, CEBS AND ECB

DOCUMENTS PUBLISHED BY THE FSB IN 2010

TABLE A.5.1

January	Framework for Strengthening Adherence to International Standards
March	Thematic Review on CompensationProcyclicality (FSF-BIS)
August	Interim Report by the Macroeconomic Assessment Group: Assessing the macroeconomic impact of the transition to stronger capital and liquidity requirements
September	Mexico Peer Review Report
October	Principles for Reducing Reliance on CRA Rating
	Implementing OTC Derivatives Market Reforms
November	Reducing the Moral Hazard Posed by Systemically Important Financial Institutions: Recommendations and Time Lines
	Intensity and Effectiveness of SIFI Supervision: Recommendations for Enhanced Supervision

DOCUMENTS PUBLISHED BY THE BCBS IN 2010

TABLE A.5.2

Consultative documents	July	Countercyclical capital buffer proposal
	August	Proposal to ensure the loss absorbency of regulatory capital at the point of non-viability
	November	Core principles for effective deposit insurance systems – a proposed methodology for compliance assessment
	December	Operational risk – supervisory guidance for the advanced measurement approaches
		Sound practices for the management and supervision of operational risk
		Pillar 3 disclosure requirements for remuneration
Documents	January	Review of the differentiated nature and scope of financial regulation - key issues and recommendations
	February	Vendor models for credit risk measurement and management
	August	An assessment of the long-term economic impact of stronger capital and liquidity requirements
	October	Calibrating regulatory minimum capital requirements and capital buffers: a top-down approach
		Developments in modelling risk aggregation
	December	Basel III: A global regulatory framework for more resilient banks and banking systems
		Basel III: International Framework for liquidity risk measurement, standards and monitoring
Principles and recommendations	January	Compensation principles and standards assessment methodology
	March	Report and recommendations of the cross-border bank resolution group
	August	Microfinance activities and the core principles for effective banking supervision
	October	Good practice principles on supervisory colleges
		Principles for enhancing corporate governance
	December	Results of the comprehensive quantitative impact study
		Sound practices for backtesting counterparty credit risk models

DOCUMENTS PUBLISHED BY THE SSG IN 2010

TABLE A.5.3

December	Observations on developments in risk appetite frameworks and IT infrastructure

DOCUMENTS PUBLISHED BY THE CEBS IN 2010

TABLE A.5.4

Consultative documents	October	Consultation paper on the Guidebook on Internal Governance
		Consultation paper on CEBS's advice to the European Commission on the non-eligibility of entities only producing credit scores for ECAI recognition
	December	Draft guidelines on AMA changes
Standards and Guidelines	January	Revised Guidelines on Supervisory Disclosure
	February	High Level Principles for risk management
	April	Principles for disclosure in times of stress (Lessons learned from the financial crisis)
	August	Revised Guidelines on stress testing
	September	Revised Guidelines on the management of concentration risk under the supervisory review process
	October	Guidelines on liquidity cost benefit allocation
	November	Revised guidelines on the recognition of External Credit Assessment Institutions
	December	Guidelines to Article 122a of the Capital Requirements Directive
		Guidelines for the joint assessment and joint decision regarding the capital adequacy of cross-border groups
		Guidelines on remuneration policies and practices
Advice to the European Commission	June	On the EU Framework for Cross-Border Crisis Management in the Banking Sector
	December	On the non-eligibility of entities only producing credit scores for ECAI recognition

DOCUMENTS PUBLISHED BY THE ECB WITHIN THE FRAMEWORK OF FINANCIAL STABILITY IN 2010

TABLE A.5.5

February	Financial integration in Europe
April	Measures taken by euro area governments in support of the financial sector (Article, Monthly Bulletin, April 2010, pp 75-90)
June	Financial Stability Review
July	EU stress-test exercise. Technical note on the macroeconomic scenarios and reference risk parameters
	2010 EU-wide stess testing exercise: Questions & Answers
	EU stress-test exercise. Key messages on methodological issues
August	Report on EU banking structures
October	Recent developments in supervisory structures in the EU Member States (2007-10)
	The ECB's response to the financial crisis (Article, Monthly Bulletin, October 2010, pp 59-74)
December	Financial Stability Review

ANNEX 6 SPANISH CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS (DECEMBER 2010)

Full consolidation method is applied except as otherwise indicated.

(*) Proportionate consolidation method.
(**) Equity method.
(A) Indicates that institution joined the CG in the year.
FC Financial conglomerate.
MG Mixed group.
DI Deposit institution.
OCI Other credit institutions.

COMMERCIAL BANKS

FC **SCH Group**

0049-Banco Santander, SA (Spain)	**DI**				
0011-Allfunds Bank, SA (*)	DI	Argentina	Banco Santander Ríos. A.	DI	
0030-Banco Español de Crédito, SA	DI		Préstamos de Consumo, SA	DI	
0036-Santander Investment, SA	DI	Austria	Santander Consumer Holding Austria	OCI	
0038-Banesto Banco de Emisiones, SA	DI		Santander Consumer Bank GmbH	OCI	
0073-Open Bank, SA	DI	Bahamas	Santander Bank & Trust, Ltd.	DI	
0083-Banco Alicantino de Comercio, SA	DI		Santander Investment Bank, Ltd.	DI	
0086-Banco Banif, SA	DI		Banco Santander Bahamas International	DI	
0091-Banco de Albacete, SA	DI	Belgium	Santander Benelux, SA, NV	DI	
0224-Santander Consumer Finance, SA	DI	Brazil	Banco Santander (Brazil), SA	DI	
4784-Transolver Finance, EFC, SA (*)	OCI		Banco Bandepe, SA	DI	
4797-Santander Lease, SA, EFC	OCI		Aymoré Crédito, Financiamento e Inv.	OCI	
8236-Santander Consumer, EFC, SA	OCI		Companhia de Arrendamento Mercantil (*)	OCI	
8512-Unión Créditos Inmobiliarios (*)	OCI		Companhia de Crédito, Financiamento (*)	OCI	
8906-Santander Factoring y Confirming	OCI		Santander Leasing SA Arrendamento	OCI	
		Cayman Islands	Serfin International Bank and Trust	DI	
			Alliance & Leicester Finance Company	DI	(A)
		Chile	Banco Santander - Chile	DI	
			Santander Factoring, SA	OCI	
			Santander Corredorade Seguros Limited	OCI	
		Colombia	Banco Santander Colombia, SA	DI	
		USA	Banco Santander International	DI	
			Totta & Acores Inc. Newark	DI	
			Santander Holdings USA, Inc.	DI	
			Grupo Drive	DI	
		Finland	Santander Consumer Finance Oy	DI	
		Hungary	Santander Consumer Finance Zrt.	OCI	
		Ireland	Totta (Ireland), PLC	DI	
		Isle of Man	Bradford & Bingley International Li	OCI	
			Alliance & Leicester International	OCI	(A)
		Italy	Santander Consumer Finance Media S.	DI	
			Santander Private Banking, SPA	DI	
			Santander Consumer Finanzia, SRL	OCI	
			Santander Consumer Bank, SPA	OCI	
			Unifin, SPA	OCI	
		Jersey	Abbey National International Limited	DI	
		Luxembourg	Allfunds International, SA (*)	OCI	
		Mexico	Banco Santander (Mexico), SA, Ins	DI	
		Norway	Santander Consumer Bank, AS	DI	
		Netherlands	Santander Consumer Finance Benelux	DI	
		Panama	Banco Santander (Panama), SA	DI	
		Paraguay	Banco de Asunción, SA	DI	
		Peru	Banco Santander Perú, SA	DI	
		Poland	Santander Consumer Bank Spólka Akcy	DI	
			Aig Bank Polska Spólkaakcyjna	DI	(A)
		Portugal	Banco Madesant - Sociedade Unipesso	DI	
			Banco Santander Totta, SA	DI	

				Banco Santander Consumer Portugal, SA	DI	
				Totta Crédito Especializado, Instit	OCI	
			Puerto Rico	BST International Bank, Inc.	DI	
				Banco Santander Puerto Rico	DI	
				Santander Overseas Bank, Inc.	DI	
				Santander International Bank of Puerto Rico	DI	
				Santander Financialservices, Inc.	OCI	
				Crefisa, Inc.	OCI	
			UK	Santander UK, PLC	DI	
				Alliance & Leicester, PLC	DI	
				Abbey National Treasury Services	DI	
				Alliance & Leicester Commercial Bank	DI	(A)
				CA Premier Banking Limited	DI	
				Santander Cards UK Limited	DI	
				Santander Consumer (UK), PLC	OCI	
				Santander UK Investments	OCI	
				Santander Cards Limited	OCI	
				Abbey Covered Bonds (Lm) Limited	OCI	
				Liquidity Limited	OCI	
				Liquidity Import Finance Limited	OCI	
				Alliance & Leicester Cash Solutions	OCI	(A)
				Alliance & Leicester Estate Agents	OCI	(A)
				Alliance & Leicester Financing, PLC	OCI	(A)
				Alliance & Leicester Investments	OCI	(A)
				Alliance & Leicester (Isle of Man)	OCI	(A)
				Alliance & Leicester (Jersey) Limited	OCI	(A)
				Alliance & Leicester Personal Finan.	OCI	(A)
				Girobank Carlton Investments Limited	OCI	(A)
				Girobank Investments Limited	OCI	(A)
				Mitre Capital Partners Limited	OCI	(A)
				The Alliance & Leicester Corporation	OCI	(A)
				Alliance & Leicester Commercial Fin.	OCI	(A)
			Czech Republic	Santander Consumer Finance, AS	OCI	
				Santander Consumer Leasing, SRO	OCI	
			Germany	Santander Consumer Bank, AG	DI	
				Santander Consumer Leasing GmbH	OCI	
			Switzerland	Banco Santander (Suisse), SA	DI	
			Uruguay	Banco Santander, SA	DI	
	Mapfre Group, Consolidated proportionally with 2038-Caja Madrid					
	0063-Banco Ser. Fin. Caja Madrid-Mapfre (Spain)	**DI**				
	0125-Bancofar, SA	DI		Mexico	Finanmadrid México, SA	OCI
	4837-Madrid Leasing Corporación, SA	OCI				
	8793-Finanmadrid, SA, EFC	OCI				
MG	**Pastor Group**					
	0072-Banco Pastor, SA (Spain)	DI				
	8620-Pastor Servicios Financieros	OCI				
MG	**Popular Group**					
	0075-Banco Popular Español, SA (Spain)	**DI**				
	0216-Banco Popular Hipotecario, SA (*)	DI		USA	Total Bank	DI
	0229-Bancopopular-E, SA	DI		Portugal	Banco Popular Portugal	DI
	0233-Popular Banca Privada, SA	DI			Heller Factoring Portuguesa	OCI
	8816-Sdad. Conjunta Emisión GMP, EFC, SA (*)	OCI				
	8903-Popular de Factoring, SA, EFC	OCI				
MG	**Sabadell Group**					
	0081-Banco de Sabadell, SA (Spain)	**DI**				
	0042-Banco Guipuzcoano, SA	DI	(A)	Andorra	Banc Sabadell d'Andorra, SA	DI
	0185-Banco Urquijo Sabadell BP, SA	DI		Bahamas	Banco Atlántico (Bahamas) Bank and Tr	DI
	8211-Bansabadell Financiación, EFC, SA	OCI		USA	Sabadell United Bank, NA	DI (A)
	8821-Bansabadell Fincom, EFC, SA	OCI		Monaco	Banco Atlántico Mónaco, SAM	DI
MG	**Bankinter SA Group**					
	0128-Bankinter, SA (Spain)	**DI**				
	8832-Bankinter Consumer Finance, EFC, SA	OCI				

FC **BBVA Group**

0182-Banco Bilbao Vizcaya Argentaria, SA (Spain)	DI					
0009-Finanzia, Banco de Crédito, SA	DI		Netherlands Antilles	Banco Provincial Overseas, NV	DI	
0057-Banco Depositario BBVA, SA	DI		Argentina	BBVA Banco Francés, SA	DI	
0113-Banco Industrial de Bilbao, SA	DI			PSA Finance Argentina Compañía Fin. (*)	OCI	
0121-Banco Occidental, SA	DI		Brazil	BBVA Brasil Banco de Investimento	DI	
0129-BBVA Banco de Financiación, SA	DI		Chile	Banco Bilbao Vizcaya Argentaria Chile	DI	
0132-Banco de Promoción de Negocios	DI			Fórum Servicios Financieros, SA (*)	OCI	
0227-UNOE Bank, SA	DI			BBVA Servicios Corporativos Limitad	OCI	
8321-Entre2 Serv. Financ., EFC, SA	OCI			BBVA Factoring Limitada (Chile)	OCI	
			Colombia	BBVA Colombia, SA	DI	
			USA	Compass Bank	DI	
				Compass Southwest, Lp	DI	
				Homeowners Loan Corporation	OCI	
				Compass Auto Receivables Corporation	OCI	
				Compass Texas Mortgagefinancing, In.	OCI	
				Compass Mortgage Corporation	OCI	
				Compass Mortgage Financing, Inc.	OCI	
				Phoenix Loan Holdings, Inc.	OCI	
				BBVA Wealth Solutions, Inc.	OCI	
			Ireland	BBVA Ireland, PLC	OCI	
			Italy	BBVA Finance, SPA	OCI	
				BBVA Finanzia, SPA	OCI	
			Mexico	BBVA Bancomer, SA, de CV	DI	
				Hipotecaria Nacional, SA, de CV	OCI	
				Financiera Ayudamos SA, de CV, SA	OCI	
			Panama	Banco Bilbao Vizcaya Argentaria (Panama)	DI	
			Paraguay	BBVA Paraguay, SA	DI	
			Peru	Banco Continental, SA	DI	
			Portugal	Banco Bilbao Vizcaya Argentaria (Portugal)	DI	
				BBVA Leasimo - Sociedade de Locação	OCI	
				BBVA Instituição Financeira de Cred.	OCI	
			Puerto Rico	Banco Bilbao Vizcaya Argentaria Puerto Rico	DI	
			Switzerland	BBVA Suiza, SA (BBVA Switzerland)	DI	
			Uruguay	Banco Bilbao Vizcaya Argentaria Uruguay	DI	
			Venezuela	Banco Provincial SA-Banco Univ.	DI	

MG **Cajatres Group (IPS)**

0486-Banco Grupo Cajatres, SA (Spain)	DI	(A)
2010-MP y Caja Gral. Badajoz	DI	(A)
2017-Círculo Católico Obreros de Burgos	DI	(A)
2086-Caja Ahorros Inmaculada de Aragón	DI	(A)

MG **Mare Nostrum (IPS)**

0487-Banco Mare Nostrum, SA (Spain)	DI	(A)
0184-Banco Europeo de Finanzas, SA (*)	DI	(A)
2031-Caja General de Ahorros de Granada	DI	(A)
2043-Caja de Ahorros de Murcia	DI	(A)
2051-Caja de Ahorros y MP de Baleares	DI	(A)
2081-Caixa d'Estalvis del Penedès	DI	(A)
4838-SA Nostra de Inversiones, EFC, SA	OCI	(A)

MG **Bco Financiero (IPS)**

0488-Banco Financiero y de Ahorros, SA (Spain)	DI	(A)				
0063-Banco Ser. Fin. Caja Madrid-Mapfre (*)	DI	(A)	USA	City National Bancshares Inc.	DI	(A)
0093-Banco de Valencia, SA	DI	(A)		City National Bank of Florida	DI	(A)
0099-Altae Banco, SA	DI	(A)	Mexico	Finanmadrid México, SA, de CV (*)	OCI	(A)
0125-Bancofar, SA (*)	DI	(A)				
2037-Caja de Ahorros de La Rioja	DI	(A)				
2038-Caja de Ahorros y MP de Madrid	DI	(A)				
2042-Caixa d'Estalvis Laietana	DI	(A)				
2052-Caja Insular de Ahorros de Canarias	DI	(A)				
2069-Caja Ahorros y Monte Piedad Segovia	DI	(A)				
2077-Bancaja	DI	(A)				
2094-Caja de Ahorros y MP de Ávila	DI	(A)				
4837-Madrid Leasing Corporación, SA (*)	OCI	(A)				

	8793-Finanmadrid, SA, EFC (*)	OCI	(A)				
	8825-Adquiera Servicios Financieros, EFC	OCI	(A)				
MG	**Banco Base (IPS)**						
	0489-Banco Base (CAM, Astur, Extr., Cant.), SA (Spain)	**DI**	**(A)**				
	0115-Banco de Castilla-La Mancha, SA	DI	(A)	Mexico	Crédito Inmobiliario, SA, de CV	DI	(A)
	2048-Caja de Ahorros de Asturias	DI	(A)				
	2066-C. Ahorros de Santander y Cantabria	DI	(A)				
	2090-Caja de Ahorros del Mediterráneo	DI	(A)				
	2099-Caja Ahorros y MP de Extremadura	DI	(A)				
	4819-Bancantabria Inversiones, SA, EFC	OCI	(A)				
	8824-Camge Financiera, EFC, SA	OCI	(A)				
MG	**Banca Cívica (IPS)**						
	0490-Banca Cívica, SA (Spain)	**DI**	**(A)**				
	0184-Banco Europeo de Finanzas, SA (*)	DI	(A)				
	2018-Caja de Ahorros Municipal de Burgos	DI	(A)				
	2054-Caja de Ahorros y MP de Navarra	DI	(A)				
	2065-Caja General de Ahorros de Canarias	DI	(A)				
	2106-MPCA S. Fernando Guadalajara, Huelva, Jerez y Sevilla	DI	(A)				
	8596-Unión Cto. Fin. Mob. Inm. Credifimo	OCI	(A)				
	Barclays SA Group						
	Barclays PLC (UK)	**DI**					
	0065-Barclays Bank, SA	DI					
	8905-Barclays Factoring, SA, EFC	OCI					
	Citibank Group						
	Citigroup Inc (USA)	**DI**					
	0122-Citibank España, SA	DI					
	8818-Citifin, SA, EFC	OCI					

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	0011-Allfunds Bank, SA	DI			Consolidated proportionally with SCH Group		
MG	0061-Banca March, SA	DI					
	0078-Banca Pueyo, SA	DI					
	0142-Bco. Pequeña y Med. Empresa	DI					
	0188-Banco Alcalá, SA	DI					
	0198-Banco Cooperativo Español, SA	DI					
	0211-EBN Banco de Negocios, SA	DI					
	0232-Banco Inversis, SA	DI					
	0234-Banco Caminos, SA	DI					
	1000-Instituto de Crédito Oficial	OCI					
	0019-Deutsche Bank, SAE	DI		Germany	Parent: Deutsche Bank, AG	DI	
	0058-BNP Paribas España, SA	DI		France	Parent: BNP Paribas, SA	DI	
	0094-RBC Dexia Investor Services España	DI		UK	Parent: RBC Dexia Investor Services Limited		
	0130-Banco Caixa Geral, SA	DI		Portugal	Parent: Caixa Geral de Depositos	DI	
	0138-Bankoa, SA	DI		France	Parent: CRCAM Pyrénées Gascogne	DI	
	0186-Banco de Finanzas e Inversiones	DI		Italy	Parent: Grupo Mediolanum, SPA		
	0200-Privat Bank Degroof, SA	DI		Belgium	Parent: Banque Degroof	DI	
	0223-General Electric Capital Bank, SA (**)	DI		USA	Parent: General Electric Capital Corp. (**)		
	0225-Banco Cetelem, SA	DI		France	Parent: BNP Paribas	DI	
	0226-UBS Bank, SA	DI		Switzerland	Parent: UBS, AG	DI	
	0235-Banco Pichincha España, SA	DI	(A)	Ecuador	Parent: Banco Pichincha, CA		(A)
	0236-Lloyds Bank International, SA	DI	(A)	UK	Parent: Lloyds Banking Group	DI	(A)

SAVINGS BANKS

MG	**MP Córdoba Group**						
	2024-Caja de Ahorros y MP de Córdoba (Spain)	**DI**					
	0184-Banco Europeo de Finanzas, SA (*)	DI					
	8612-Comerciantes Reunidos del Sur, SA	OCI					
MG	**Novacaixa Galicia Group**						
	2080-Caixa A. Galicia, Vigo, Our. e Pontev. (Spain)	**DI**					
	0046-Banco Gallego, SA	DI					

MG	**Ibercaja Group**					
	2085-Ibercaja (Spain)	**DI**				
	4832-Ibercaja Leasing y Financiación	OCI				
MG	**Bbk Group**					
	2095-Bilbao Bizkaia Kutxa (Spain)	**DI**				
	0237-Bbk Bank, SA	DI	(A)			
	8830-Bbkge Kredit EFC, SA	OCI				
FC	**la Caixa Group**					
	2100-C. Ahorros y Pensiones de Barcelona (Spain)	**DI**				
	0133-Microbank de la Caixa, SA	DI		France	Recouvrements Dulud, S., AS	OCI
	8221-Corporación Hipotecaria Mutual	OCI				
	8776-Finconsum, EFC, SA	OCI				
	8788-Financiacaixa 2, EFC, SA	OCI				
MG	**Caja Gipuzkoa Group**					
	2101-Caja Ahorros Gipuzkoa y S. Sebastián (Spain)	**DI**				
	0059-Banco de Madrid, SA	DI				
	8811-Grupo Serv. Hip. On-Line, EFC, SA	OCI				
MG	**Unicaja Group**					
	2103-Unicaja (Spain)	**DI**				
	0184-Banco Europeo de Finanzas, SA (*)	DI				
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	2000-Confed. Española Cajas de Ahorros	DI				
MG	2013-Caixa Catalunya, Tarragona i Manresa	DI				
	2045-Caja de Ahorros y MP Ontinyent	DI				
	2056-Colonya-Caixa d'Estalvis Pollença	DI				
MG	2097-Caja de Ahorros de Vitoria y Álava	DI				
MG	2107-CEUC Manlleu, Sabadell i Terrassa	DI	(A)			
MG	2108-Caja España Inv., Salamanca y Soria	DI	(A)			
CREDIT COOPERATIVES						
MG	**Cajamar Group (IPS)**					
	3058-Cajamar Caja Rural, SCC (Spain)	**DI**				
	3029-Caja de Crédito de Petrel, CR, CCV	DI	(A)			
	3094-Caja Campo, Caja Rural, SCC	DI				
	3123-Caixa R. de Turis, CCV	DI	(A)			
	3137-Caja R. de Casinos, SCCV	DI				
	3186-Caixa R. Albalat dels Sorells, CCV	DI	(A)			
	Ruralcaja Group (IPS)					
	3082-Caja R. del Mediterráneo, SCC (Spain)	**DI**	**(A)**			
	3045-Caixa R. Altea, CCV	DI	(A)			
	3095-Caja R. S. Roque de Almenara, SCCV	DI	(A)			
	3105-Caixa R. de Callosa d'en Sarrià, CCV	DI	(A)			
	3112-Caja R. S. José de Burriana, SCCV	DI	(A)			
	3118-Caixa Rural Torrent, CCV	DI	(A)			
	3119-Caja R. S. Jaime Alquerías, SCCV	DI	(A)			
	3121-Caja R. de Cheste, SCC	DI	(A)			
	3135-Caja R. S. José de Nules, SCCV	DI	(A)			
	3157-Caja R. la Junquera Chilches, SCCV	DI	(A)			
	3160-Caixa R. S. Josep de Vilavella, SCCV	DI	(A)			
	3165-Caja R. S. Isidro Vilafames, SCCV	DI	(A)			
	3179-Caja R. de Alginet, SCCV	DI	(A)			
	3188-Crèdit Valencià, CR, CCV	DI	(A)			
OTHER GROUPS OF CREDIT COOPERATIVES (institutions whose group includes only one credit institution supervised by the Banco de España)						
	3008-Caja R. de Navarra, SCC	DI				
	3017-Caja R. de Soria, SCC	DI				
	3021-Caja R. de Aragón, SCC	DI				

MG	3025-Caixa C. dels Enginyers, SCC	DI		
MG	3035-Caja Laboral Popular, CC	DI		
	3062-Caja R. de Ciudad Real, SCC	DI		
	3067-CR de Jaén, Barna. y Madrid, SCC	DI		
	3081-Caja R. de Toledo, SCC	DI		
	3084-Ipar Kutxa Rural, SCC	DI		
	3085-Caja R. de Zamora, CC	DI		
	3146-Caja de Crédito Cooperativo, SCC	DI		
	3183-Caja de Arquitectos, SCC	DI		
	3189-Caja R. Aragonesa y de los Pirineos	DI		

SPECIALISED CREDIT INSTITUTIONS

Volkswagen Group
Volkswagen AG (Germany)

8307-Volkswagen Finance, SA, EFC	OCI		
8813-Scania Finance Hispania, EFC, SA	OCI		

Carrefour Group
Carrefour SA (France)

8795-Servicios Financieros Carrefour, EFC	OCI		
8815-Finandia, EFC, SA	OCI		

OTHER GROUPS OF SCIs (institutions whose group includes only one credit institution supervised by the Banco de España)

4713-Lico Leasing, SA, EFC	OCI		
8512-Unión Créditos Inmobiliarios	OCI		Consolidated proportionally with SCH Group
8769-Unión Financiera Asturiana, SA	OCI		
8828-IOS Finance, EFC, SA	OCI	Germany	Parent: Private Financing Initiatives, SL

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2 Moreover, it is updated daily in the Statistics section.
3 A quarterly update of the tables of this publication is also disseminated on the Internet.
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