

2 MICROPRUDENTIAL SUPERVISION



Louis XV mantel clock. 18th century. Banco de España collection.

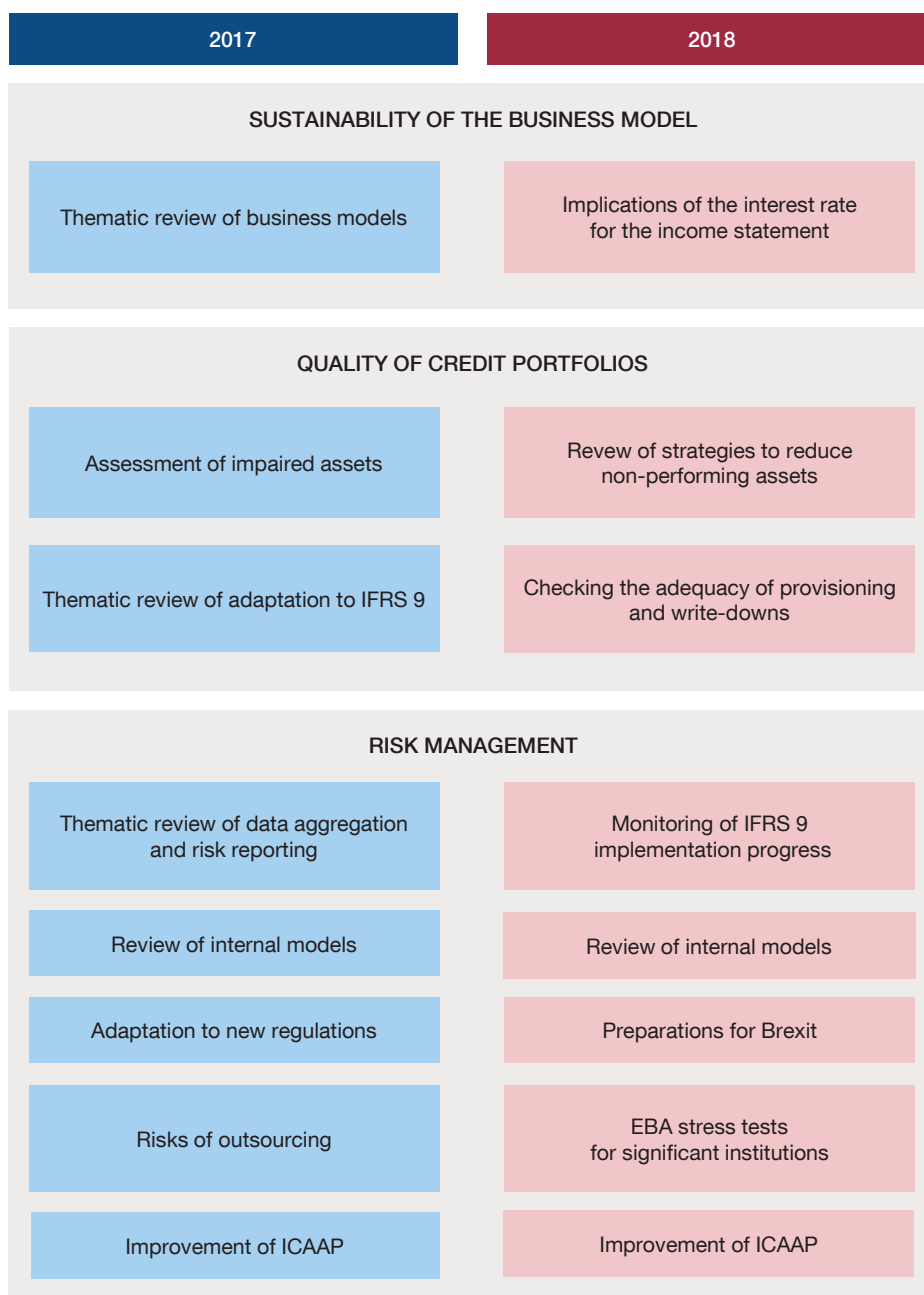
2 MICROPRUDENTIAL SUPERVISION

2.1 Supervisory priorities

As in previous years, the supervisory priorities for 2017 were established jointly in the framework of the SSM, with the active participation of the Banco de España. This section outlines the main areas on which supervisory attention focused in 2017, and the priorities for 2018, which are summarised in Figure 2.1.

SUPERVISORY PRIORITIES IN 2017 AND 2018

FIGURE 2.1



SOURCE: Banco de España.

Supervisory priorities are set as the outcome of a process of analysis of the risks the financial system faces. This section outlines the main areas on which supervisory attention focused in 2017 and the priorities for 2018.

For 2017, in line with the SSM's supervisory objectives, the Banco de España defined its priority areas to be institutions' business models and profitability, the quality of the loan portfolio, and risk management.

- Business models and profitability: the context in which banks are operating, with historically low interest rates, is putting considerable pressure on their profits, which calls for particular attention from supervisors. Therefore, in 2017 further progress was made on the cross-cutting thematic review of banks' business models begun in 2016 and planned over a two-year horizon.
- Quality of the loan portfolio: progress continued on the evaluation of the portfolio of impaired assets. In this connection, the ECB's Guidance to banks on non-performing loans, published in March 2017, incorporated both guidelines on the management of impaired assets and criteria for their accounting treatment, placing particular emphasis on their identification and coverage. These supervisory expectations were already incorporated in Circular 4/2016, along with the update to the general framework for credit risk management and the criteria for the classification and coverage of impaired assets, and they have been maintained in Circular 4/2017. Box 2.1 summarises the main accounting matters covered by the ECB's Guidance on NPLs.

The review of institutions' level of adaptation to the expected loss model in IFRS 9 also continued, and recommendations were made to each institution under review on areas for improvement based on the SSM's supervisory expectations regarding the application of the new accounting standards. Banco de España Circular 4/2017 also covers these supervisory expectations regarding the application of the expected-loss model.



Supervisory team working meeting.

In March 2017 the Single Supervisory Mechanism published guidelines including its supervisory expectations relating to management of and accounting for non-performing loans (NPLs), with the aim of harmonising the supervisory approach applicable to them. These supervisory guidelines contain principles based on best practices regarding NPLs. On one hand, the guidelines include supervisory expectations relating to management of impaired assets,

calling on the establishment of goals and specific strategies to reduce such assets. On the other, they contain accounting expectations, with NPL identification and provisioning criteria, including valuation of collateral for accounting purposes. We summarise below the accounting expectations of the ECB guidelines, which are fully in line with the criteria established by Annex 9 of Banco de España Accounting Circular 4/2017, of 27 November 2017.

| | |
|---------------------------------|---|
| Identification of NPLs | <p>– NPL definitions are equated for accounting and solvency purposes: non-performing exposures are those that satisfy any of the following criteria:</p> <ul style="list-style-type: none"> a) there are amounts more than 90 days past-due (arrears). b) there are reasonable doubts as to their full repayment. <p>Additionally, the "pulling effect" is also included (all the positions of a client are deemed non-performing when transactions with unpaid balances account for 20% or more of the total exposure).</p> <p>– Forbearance: forbearance of non-performing exposures does not automatically lead to their reclassification. The classification of an exposure may improve only if the criteria required under paragraph 120 of Annex 9 of the above-mentioned Circular are complied with.</p> |
| Estimation of provisions | <p>Estimation for calculation of the provision for each exposure may be individual or collective, depending on the characteristics of the provisioned exposure:</p> <ul style="list-style-type: none"> – Individual estimation: applied to exposures which the institution deems significant, non-performing for reasons other than arrears and not to form part of a homogeneous risk group. The provision is calculated as the difference between the carrying amount of the transaction and the discounted cash flows which the institution expects to receive from the debtor. – Collective estimation: applicable to the remaining exposures. To calculate the provision the historical loss experience of the institution with assets having similar credit risk features to those of the group is taken into account. – Periodic backtesting: provisions calculated in the past should be compared with actual losses to assess the quality of the institution's estimates. |
| Valuation of collateral | <ul style="list-style-type: none"> – Institutions should have written policies and procedures on the valuation of collateral for immovable property approved by the Board of Directors, including adequate control and monitoring of such valuations. – The use of full individual appraisals and automated valuation methods to update the valuation of transactions amounting to less than €300,000 is permitted. – Appraiser independence requirements are established. – The frequency of valuations is regulated. A comprehensive individual appraisal is required for exposures classified as non-performing, which should be updated at least once a year. – There will be discounts (haircuts) based on the reference value (appraisal value) when the amount to be recovered through the realisation of collateral is considered for the purpose of taking into account the possible selling costs or the possibility of the selling price being lower than the appraisal value. |

SOURCE: Banco de España.

- Risk management: three lines of supervisory action stand out. Firstly, work continued on the thematic review begun in 2016 to assess compliance with the Basel Committee's principles on the effective aggregation of risk data and the submission of risk reports. Secondly, in order to allay concerns about disparities in the way institutions apply internal models to calculate capital requirements, the specific review of the internal models begun in 2016 was continued. Finally, in relation to banks' internal risk management activities, and in line with the measures adopted in 2016 and 2017, the ongoing improvement of the capital (ICAAP) and liquidity (ILAAP) self-assessment processes was supported, and the way in which banks are managing the risks deriving from business outsourcing was examined.



Directorate General Banking Supervision working meeting.

2.1.2 SUPERVISORY PRIORITIES IN 2018

The main risks the financial sector needs to address in 2018 were already present in previous years, and although they are arguably somewhat less marked, they continue to pose challenges for institutions' profitability and stability. In particular, these risks include the persistence of a low interest-rate environment, and the need to manage considerable volumes of non-performing loans, while adapting to significant regulatory changes.

In order to assess institutions' capacity to address these risks, in 2018 supervision will continue to focus on the three priorities identified in 2017, along with certain other areas:

- Business models: the examination of institutions' business models and profitability will continue to be a supervisory priority in 2018, focusing in particular on the implications of interest-rate risk for profits.
- Credit risk: the strategies institutions have implemented to reduce non-performing exposures, along with recognition criteria and their coverage with provisions, will continue to be reviewed in 2018.

One aspect on which particular attention will be focused in relation to loan loss provision estimates is the valuation of collateral for credit exposures. The ECB's Guidance on NPLs lays down the criteria for estimating the recoverable value of collateral. These are set out and elaborated upon in Circular 4/2017. In this regard, guaranteeing the quality of the valuations performed using automated methods will be an important step.

- Risk management: targeted review of internal models (TRIM) of own funds requirements for credit, market and counterparty risk will continue in 2018 and 2019. On this point, work is under way on the publication of the ECB guidelines for internal models, drawing on the experience gained from these reviews. In 2018, the ECB will also be submitting the ICAAP and ILAAP guidelines for public consultation, in order to help improve institutions' internal management procedures. Finally, the application of the new

expected loss accounting framework will also be a focal point for supervisory attention.

- Other points include the review of the suitability and quality of governance structures in less significant institutions, and Brexit, which affects the financial sector both through institutions with subsidiaries or branches in the United Kingdom, and the possible relocation of currently UK-based institutions to EU Member States. It is therefore essential that transition or relocation plans be drawn up for this eventuality.

Finally, in 2018 a new stress test led by the EBA will be carried out on significant institutions, in order to evaluate and compare institutions' resilience to future crises, based on data at 31 December 2017 and considering two different scenarios, a baseline and an adverse scenario, over a period of three years. The results of these tests will be used as input for the SREP.

2.2 Supervision of credit institutions

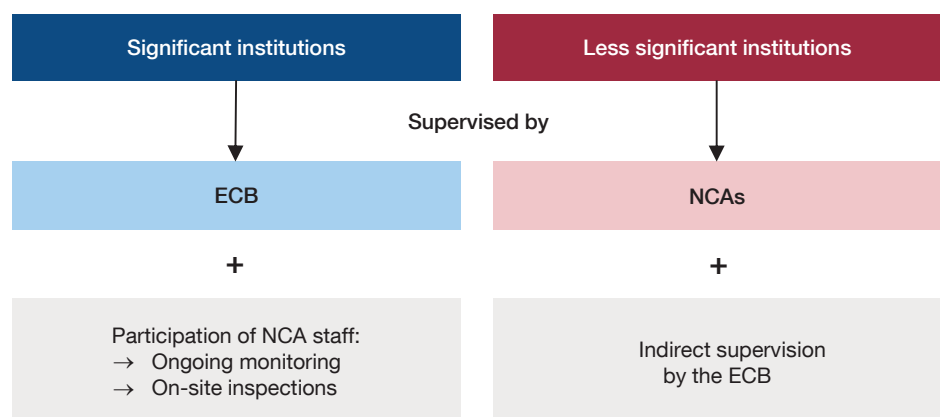
As explained when outlining the distribution of supervisory tasks in the SSM, the ECB supervises institutions defined as significant directly with the collaboration of the NCAs, whereas the NCAs supervise the less significant institutions in their respective jurisdictions. This distribution is shown in Figure 2.2.

At 31 December 2017, there were 119 groups of significant institutions in the SSM, comprising 869 individual institutions, and 2,869 groups of less significant institutions, comprising 3,163 individual institutions. In Spain, there were 13 groups of significant institutions¹ on that date, 69 groups of less significant institutions, and seven sub-groups of Spanish institutions belonging to significant institutions in other countries.

Groups of significant institutions account for 94.3% of total assets in the Spanish banking system, although in December 2017 they comprised just 13 groups. The rest of the system consists of less significant institutions and subgroups of Spanish institutions that belong to significant institutions in other countries, as shown in Table 2.1.

SUPERVISION OF CREDIT INSTITUTIONS IN THE SSM

FIGURE 2.2



SOURCE: Banco de España.

¹ Santander, BBVA, Caixabank, Bankia, Sabadell, Unicaja, Bankinter, Kutxabank, Ibercaja, Abanca, Liberbank, BMN and Banco de Crédito Social Cooperativo. Following the merger by absorption of BMN by Bankia, which took place in January 2018, the number of groups of significant institutions was 12.

Figures at December 2016 and 2017

| | 2016 | | 2017 | |
|---|-----------|--------|-----------|--------|
| | Groups | Assets | Groups | Assets |
| Groups of Spanish significant institutions | 14 | 94.3% | 13 | 94.3% |
| Subgroups of Spanish institutions dependent on groups of foreign significant institutions | 8 | 1.2% | 7 | 1.0% |
| Groups of Spanish less significant institutions (a) | 69 | 4.5% | 69 | 4.7% |
| TOTAL | 91 | | 89 | |

SOURCES: European Central Bank and Banco de España.

a Including groups, individual institutions not belonging to a group and branches of EU banking groups outside the euro area (10 branches in 2016 and 10 branches in 2017).

Table 2.2 shows the classification of credit institutions operating in Spain broken down by institution type.

The supervision of both significant and less significant institutions is carried out along two complementary channels: ongoing monitoring and on-site inspections.

In the case of ongoing monitoring, the intensity depends on the size of the institution, its systemic importance, complexity and type, as well as its risk profile (principle of proportionality). This monitoring of Spanish significant institutions takes place through joint supervisory teams (JSTs), in which staff from the ECB and the Banco de España work side by side.

On-site inspections reviewing specific areas of institutions' activity are scheduled according to institutions' risk profiles and the analysis performed by ongoing monitoring teams, and they are sometimes proposed as the result of cross-cutting analysis of certain types of risks or certain methodologies applied by institutions.

Since the launch of the SSM, there has been a gradual harmonisation of supervision methodologies and practices across the different Member States, in line with the guidelines issued by the EBA, the principles and standards in CRD-IV, and the experience that has been accumulated by mixed supervisory teams. Thus, the Supervisory Board has taken decisions and issued guidelines enabling the progressive convergence of practices and the creation of basic principles of supervision within the SSM to enable a common supervisory culture to develop.

As part of this process, a risk-based supervision methodology has been designed for the supervisory review and evaluation process (SREP) that is applied to significant and less significant institutions on the basis of the principle of proportionality, in accordance with the European regulatory framework and following supervisory best practices. This methodology has been improved and updated to optimise the assessment of the risks in the system.

The SREP methodology assesses the main risks assumed by each institution, assigning it an overall score depending on its risk profile. On this basis the supervisor determines whether the institution's level of capital and liquidity is appropriate for its risk profile or whether additional requirements or other supervisory methods should be imposed.

Institutions are given a SREP score each year and their weaknesses and risk profile are discussed with them, along with any supervisory measures taken. This approach enables

REGISTER OF CREDIT INSTITUTIONS

TABLE 2.2

Data at 31 December. Number (a)

| | 2014 | 2015 | 2016 | 2017 | | |
|--|------|------|------|---------------|-----------------|-------|
| | | | | Registrations | Deregistrations | Final |
| Credit institutions | 227 | 220 | 208 | 6 | 7 | 207 |
| Banks | 70 | 67 | 60 | 1 | 2 | 59 |
| Savings banks | 5 | 2 | 2 | 0 | 0 | 2 |
| Credit cooperatives | 65 | 65 | 63 | 0 | 0 | 63 |
| ICO | 1 | 1 | 1 | 0 | 0 | 1 |
| Branches of EU credit institutions | 79 | 79 | 77 | 5 | 4 | 78 |
| Branches of non-EU credit institutions | 7 | 6 | 5 | 0 | 1 | 4 |
| Controlling companies | 3 | 3 | 4 | 0 | 1 | 3 |
| | 230 | 223 | 212 | 6 | 8 | 210 |

SOURCE: Banco de España.

a The number of institutions also includes those that are non-operational and in the process of deregistering.

supervisors to detect risks that may affect an institution's viability early and so implement recovery measures.

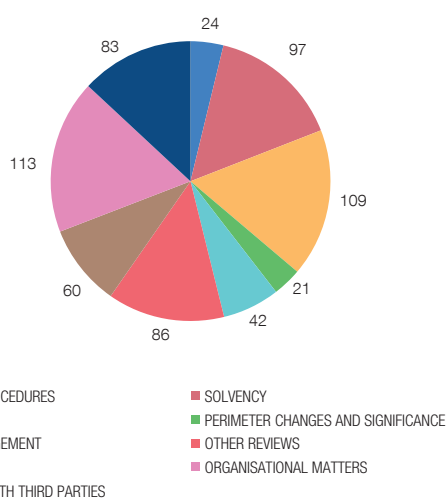
The intensity of supervisory activities (ongoing monitoring and on-site inspections) depends on the supervisory priority assigned to each institution, which, in turn, depends on its risk profile. Depending on the priority assigned, the SSM establishes a supervision plan setting out the tasks to be performed, their estimated dates and the resources needed. The following sections describe the main activities carried out by the Banco de España in 2017.

Working groups and expert networks, in which technical and supervisory policy proposals are analysed and developed, are also key elements of the SSM's operation, enabling the supervisory methodology, organisation and functioning of the single supervisory mechanism to be improved. The Banco de España has taken part in 74 groups of this kind out of a total of 98 active in the SSM in 2017. These groups' proposals are discussed by the Supervisory Board.

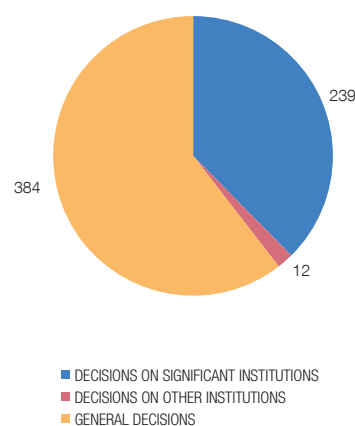
DISTRIBUTION OF DECISIONS

CHART 2.1

1 BY CATEGORY



2 BY TYPE OF INSTITUTION



SOURCE: Banco de España.

The Supervisory Board (SB), of which the Banco de España is a member, adopted around 1,900 supervisory decisions in 2017. These decisions were sent to the ECB Governing Council for final approval by the non-objection procedure, given that the SB does not have executive legal capacity. Recently, a new procedure for delegation of certain non-strategic decisions to ECB executives in order to reduce the administrative burden was successfully implemented.

The SB's decisions refer to both specific institutions and cross-cutting issues affecting supervisory policy, methodology and organisational aspects. Chart 2.1 shows the distribution of the 635 decisions made in 2017 affecting Spanish institutions, broken down by category and institution type.

2.2.1 ONGOING SUPERVISION OF SPANISH SIGNIFICANT INSTITUTIONS

The Banco de España plays a key role in the JSTs responsible for ongoing monitoring of significant institutions.

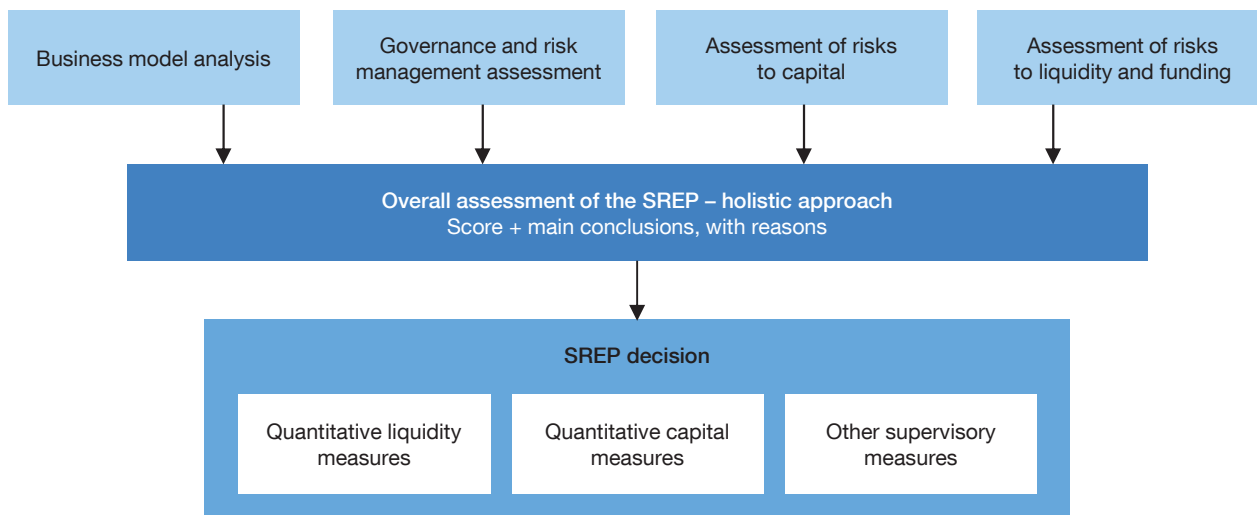
The Banco de España participates in the JSTs of 13 groups (12 following the integration of BMN in Bankia) of Spanish credit institutions classified as significant in accordance with the SSM's criteria, and in the JSTs of 22 foreign significant banking groups operating in Spain. At end-2017, the Banco de España contributed a total of 157 examiners and technical staff to the JSTs supervising Spanish banks.

Ongoing supervision applies the SREP methodology. This comprises four basic components: analysis of the business model; assessment of internal governance and overall controls; assessment of the risks affecting capital and the adequacy of the capital available to cover these risks; and assessment of the risks affecting liquidity and the adequacy of the liquidity position to cover these risks. This methodology is outlined in Figure 2.3.

On the current supervisory approach, the conclusions of the SREP and other supervisory activities are shared with the significant institutions. This supervisor-supervised dialogue is key to the flow of information on the weaknesses detected, the assessment of the institution and the supervisory priorities and expectations, as well as fostering an exchange of opinions and the discussion of the main areas under review. The JSTs maintain direct ongoing contact with the institution at various hierarchical levels, including the board of directors and top management. Moreover, in the case of large Spanish significant institutions, some members of the JSTs are actually based on the institution's premises so as to facilitate access to its managers and its information.

In 2017, the supervisory plans for significant institutions were geared towards the supervisory priorities defined by the SSM in collaboration with the Banco de España. These priorities were outlined in Section 2.1 and included thematic and cross-cutting reviews:

- Review of business-model and profitability risk: thematic review begun in 2016 focusing on analysis of the factors affecting profitability, at both the institution level and by business model segment, in the context of low interest rates.
- Intensive monitoring of institutions with high NPL rates.
- Review of the level of preparation and potential impact of the introduction of IFRS-9 on financial instruments.



SOURCE: Banco de España.

- Review of internal capital models (Targeted Review of Internal Models, TRIM): this multi-annual review begun in 2016 aims to evaluate and confirm the adequacy of the internal Pillar 1 models approved for risk measurement (see Box 2.2).
- Review of compliance with the Basel Committee’s Risk Data Aggregation and Risk Reporting (RDA) principles.
- Review of outsourcing: this review was limited to a small group of two institutions. The interest derives from institutions’ growing recourse to outsourcing functions, with the attendant risks this entails.

The JST’s recurrent activities include periodic monitoring of the main risks to which institutions are exposed, with the frequency and intensity determined by the supervisory importance assigned to the institutions concerned. The teams also analyse: regulatory reports; financial statements; management information; strategic and financial plans; policies, manuals and procedures; minutes of the institution’s various decision-making and management bodies; and other relevant internal documents. Of this range of documents, the ICAAP and ILAAP stand out as the cornerstones of determining the sufficiency and adequacy of liquidity and capital, making them the focus of heightened supervisory attention in the 2017 supervisory cycle in order to enhance these processes. The JSTs also reviewed cross-cutting issues common to several institutions and conducted specific reviews of particular processes, policies and systems deemed relevant under the JST’s strategy of supervision for each institution.

In 2017, the JSTs took part in the ECB’s stress testing to assess the sensitivity of the banks’ portfolio of investment assets and liabilities to interest-rate risk (interest rate risk in the banking book, IRRBB). The results of the exercise were used along with those of the 2016 stress tests and institution-specific considerations to determine the Pillar 2 Guidance (P2G) recommendations. Section 2.2.3 gives more details about this supervisory expectation introduced in 2016.

The Targeted Review of Internal Models (TRIM) project aims to enhance the credibility and ensure the adequacy of significant institutions' internal models, guaranteeing compliance with regulatory standards, harmonising supervisory practices within the SSM, reducing unwarranted variability in risk-weighted assets (RWAs) and, ultimately, confirming compliance with capital requirements.

Over the course of 2016 the preparatory phase of the project was developed, mainly focusing on establishing practical inspection criteria and tools for the on-site teams. A cross-sectional review of general aspects of the models was also conducted (governance, use, control units, etc.).

As a starting point, a series of aspects requiring a harmonised approach were identified, which led to the preparation of a guide for defining best practices. The TRIM guide aims to cover certain gaps in the regulation of internal models in connection with the three types of risk covered by the TRIM (credit, market and counterparty risk) and general topics. The guide has also been prepared in such a way as to ensure close alignment with upcoming changes in the regulation of internal models. The guide, therefore, sets out the ECB's view on the most appropriate supervisory practices and how the relevant European legislation should be applied in a particular area.

From 2017, the TRIM guide entered into an execution phase. Based on several indicators, a criticality and materiality analysis of the models was conducted to ensure that the most relevant models were selected for their on-site review, guaranteeing, in

turn, sufficient coverage of the inspections in terms of exposure and risk-weighted assets.

The purpose of the TRIM on-site investigations is to assess different significant institutions' practices regarding the aspects identified as requiring harmonisation and to identify potential shortcomings in respect of the best practices defined in the guide.

The on-site investigations were divided into two phases:

- The first phase focuses on internal credit risk models for individuals and SMEs, as well as on internal market and counterparty risk models. This phase commenced in April 2017 and is expected to last approximately one year. A total of 118 investigations have been scheduled, of which nine refer to Spanish significant institutions.
- The second phase, which is scheduled to commence starting in the third quarter of 2018, will focus on credit risk models associated with the remaining portfolios not covered during the first phase (mainly including low-default-portfolios).

The outcome of these investigations will be subject to comprehensive horizontal controls to ensure a high level of consistency.

The effects of the TRIM will persist beyond completion of the exercise, since the criteria and tools developed will be integrated into the SSM's regular model supervision practices, thus meeting the TRIM's main goal of harmonising such practices.

In the case of significant institutions with a presence in countries outside the scope of the SSM, the JSTs take part in the colleges of supervisors with collaboration and information sharing with other supervisory authorities. In the case of Spanish groups, these colleges are chaired by the ECB.

The JSTs also take part in authorisation processes initiated by supervised entities, preparing assessment reports for decisions to be made within the SSM. These types of processes include: issues, amortisations and repurchases of elements of capital; changes to internal capital models; payment of variable remuneration; corporate operations; and outsourcing processes.

In addition, the JSTs work with various European and international authorities and bodies, conducting surveys and impact studies, either mediating between these organisations and the participating entities, or responding directly to requests from them.

Lastly, the JSTs carry out other tasks and activities that, although not included in the supervisory plan, are necessary in order to respond rapidly to any possible emerging risks or situations potentially impacting institutions. One instance of this was monitoring the management of contingencies deriving from floor clauses.

Through the JST entrusted with the ongoing supervision of Banco Popular Español, the European Central Bank (ECB) had monitored the Spanish bank very closely in 2017, before determining its resolution in June.

In February 2017 Banco Popular reported losses for FY-2016 of €3.5 billion. Following this, the bank's credit rating was downgraded, prompting more concern among both shareholders and customers. In turn, this led to a sharp fall in the share price and in its deposit base, and ultimately available liquidity was affected, despite the measures taken by the bank.

This deterioration in the bank's situation, which was subject to particularly intense monitoring by the supervisor throughout the

year and by the SRB in the bank's last few weeks, led the ECB to determine that it would, in the near future, be unable to pay its debts or other liabilities as they fell due, or in other words, that it was failing or likely to fail (FOLTF). Thus, in accordance with Article 18(1) of Regulation 806/2014/EU on the Single Resolution Mechanism Regulation (SRMR), on 6 June 2017 the ECB declared that Banco Popular Español was non-viable.

The Single Resolution Board triggered the resolution of Banco Popular, which culminated in the sale of the bank to Banco Santander. The details of the resolution process are set out in the Banco de España's November 2017 *Financial Stability Report*.

2.2.2 ONGOING SUPERVISION OF SPANISH LESS SIGNIFICANT INSTITUTIONS

The Banco de España is responsible for the direct supervision of less significant institutions (LSI), which account for approximately 4.5% of the Spanish banking system's assets, while the ECB is responsible for their indirect supervision.

In the exercise of its supervision of these institutions, the Banco de España conducts general monitoring actions on a quarterly or half-yearly basis. Among other areas, these cover financial monitoring, credit risk and liquidity.

Table 2.3 shows the relative size of each of the types of less significant institution in terms of total assets.

The purpose of these actions is to update the supervisor's knowledge of the institution's risk profile, identify possible weaknesses and detect areas or issues that require closer examination. The principle of proportionality is applied in all these reviews, such that smaller institutions, with a relatively insignificant volume of retail deposits, are subject to simplified off-site monitoring, based on quarterly alerts using the information in the confidential returns and the Bank of Spain's central credit register, in order to detect potential future problems of liquidity, solvency or sustainability of the business model.

PERCENTAGE OF THE DIFFERENT TYPES OF LESS SIGNIFICANT INSTITUTIONS TABLE 2.3

| % total assets/sector | December 2016 | December 2017 |
|-------------------------------|---------------|---------------|
| Domestic banks | 31.5 | 28 |
| Subsidiaries of foreign banks | 4.3 | 4.5 |
| Credit cooperatives | 59.5 | 62.9 |
| Savings banks | 1.2 | 1.1 |
| Foreign branches | 3.5 | 3.5 |
| TOTAL | 100.0 | 100.0 |

SOURCE: Banco de España.

In 2017, comprehensive off-site monitoring was carried out on 18 of the 69 groups of LSIs, accounting for around two thirds of LSIs' total assets, with simplified off-site monitoring being performed for the remaining 51 groups.

Additionally, 570 detailed actions were carried out, including reviews of audit reports, reviews of internal capital adequacy assessment reports, and capital decisions. Periodic meetings were also held with institutions' management.

The Banco de España continued to work with other NCAs in the colleges of supervisors for foreign banking groups whose parent is an LSI, participating in three colleges in 2017.

Direct supervision of LSIs by the Banco de España is backed up with indirect supervision by the ECB. This consists of:

- overseeing the performance of the LSI sector, and
- ensuring the application by NCAs of uniform high standards of supervision.

As in previous years, the Banco de España supported the ECB in these two functions by contributing its staff's experience and familiarity with the characteristics of Spain's less significant institutions. In particular, the Banco de España participates jointly with the ECB in the Senior Management Network and sends periodic and ad hoc information on the way in which supervisory activity has been conducted, and its results, in accordance with the procedures laid down by the ECB.

The Banco de España also works with the ECB and other NCAs on the definition of supervisory standards. Once approved in the form of guidelines or recommendations, these must be applied or taken into consideration by all SSM countries in the supervision of their LSIs – a task to which considerable human resources are dedicated. This collaboration will be continued in the coming years, as ensuring that supervisory standards are consistent and effective is considered a priority, given that there needs to be an appropriate level of consistency within the SSM, without prejudice to the fact that the characteristics of each country's LSIs must be taken into account.

Lastly, given that the branches in Spain of institutions with head offices in European Union Member States that are not under the supervision of the SSM are not subject to prudential or liquidity requirements at the branch level, the Banco de España's supervision is based on simplified off-site monitoring and on the regular exchange of information with the authorities in the branch's home country, under the terms established in Commission Implementing Regulation (EU) 620/2014.

2.2.3 OUTCOME OF THE SUPERVISORY REVIEW AND EVALUATION PROCESS (SREP)

The supervisory assessment of each credit institution is based on the conclusions of the off- and on-site reviews and determines the annual capital decision (known as "Pillar 2"). Institutions are notified in December each year of the decision they are to comply with the following year.

The main input to this decision is the SREP, which includes the assessment of the institution's risks, controls and governance, and the calculation of its capital and liquidity needs, based on this assessment. This is backed up with the supervisory review of the institution's self-assessment of its risks, capital base and liquidity in accordance with its internal processes (ICAAP and ILAAP).

On 22 December 2017 the Banco de España published the new Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

These guidelines aim to facilitate the application of internal capital and liquidity adequacy assessment processes by institutions.

These new guidelines adapt the Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) which were published by the Banco de España in June 2008 to the regulatory changes implemented, to recent changes in supervisory criteria and to the guidelines published by the European Banking Authority (EBA) in November 2016 on the collection of information relating to the ICAAP and the ILAAP for supervisory review and evaluation process (SREP) purposes.¹

The Banco de España adopted the EBA guidelines as its own per a resolution of the Executive Commission on 4 April 2017. The changes introduced in these updated guidelines are inspired in the principle of proportionality, aiming to facilitate compliance of non-systemic institutions with the guidelines.

The recommendations contained in these new guidelines are targeted at less significant credit institutions.

The most important changes are as follows:

- Development of the internal liquidity adequacy assessment process (ILAAP).
- Inclusion of the risk appetite framework, which defines the risk that the institution is willing to accept in pursuing its objectives.
- Updating of the assessment of interest rate risk in the banking book.
- Recommendation to attach an internal audit report relating to the review of the design and consistency of information for both processes.

The Banco de España's updated guidelines will be applied for the first time in the internal capital and liquidity adequacy assessment report for 31 December 2017 which must be drawn up and submitted by the institutions by 30 April 2018.

¹ EBA/GL/2016/10 on ICAAP and ILAAP information collected for SREP purposes.

The basic outline of the supervisory criteria guiding these tasks is set out in the guidelines prepared by the EBA on the SREP, published in December 2014 (EBA/GL/2014/13). These guidelines are currently being revised, with the updated version due to be applicable as of January 2019. Additionally, in late 2016 the EBA published guidelines on the information supervisors are to request from institutions in order to review and assess their ICAAP and ILAAP (EBA/GL/2016/10). The adoption of the latter by the Banco de España was a decisive factor in its publication on 22 December 2017 of its new Guidelines on Capital Adequacy and Liquidity, discussed in Box 2.4.

The formal structure of the 2017 capital decision, establishing the amount of capital necessary to comply with Pillar 2, remains largely the same as in the 2016 version and affects both significant institutions supervised by the SSM and less significant institutions (LSIs).

With regard to significant institutions, 2017 was the third year in which the SSM methodology for determining the capital decision was applied, thus ensuring that all European significant institutions are assessed on a uniform basis. Following the expiry of the period granted to institutions for making representations, the 2017 SREP capital decisions approved by the SSM Supervisory Board will remain in force until the next capital decision, which is scheduled for December 2018.

The capital decisions issued by the SSM in 2017 for significant institutions continue to apply "Pillar 2 guidance" or P2G. This is a supervisory tool that sets capital expectations

above the level of overall capital requirements. These capital expectations supplement the Pillar 2 requirements and are not legally binding. This guidance relies on the outcome of the supervisory stress tests on interest rate risk (IRRBB) carried out in 2017 and is expressed in terms of CET1. The SSM expects banks to comply with P2G, on top of the minimum regulatory requirements (Pillar 1), the Pillar 2 requirement and the combined buffer requirement.

No automatic supervisory action is taken if a bank fails to comply with this expectation. However, supervisors will consider adopting supervisory measures on a case by case basis, with the approval of the SSM's Supervisory Board. Such measures may include the conversion of the capital expectation into a Pillar 2 capital requirement, which the bank in question would then be obliged to comply with.

In the case of less significant institutions, similar, though simpler, arrangements were applied in 2017 than was the case for significant institutions, increasingly taking into account the part of the SREP methodology already developed by the SSM for LSIs and the Banco de España's guidelines on the ICAAP and the capital review process.

Once the corresponding 2017 SREPs were completed, the Banco de España adopted capital decisions for the less significant institutions by means of a procedure taking representations from the institutions into account.

The supervisory practices of the Banco de España are in line, in all material respects, with the current framework established by international agreements, European legislation, the EBA guidelines adopted by the Banco de España on 31 December 2017, and the SSM's cooperation framework. In 2018, it will be necessary to complete the adaptation of the SREP applicable to less significant institutions, in accordance with the SSM's guidelines.

2.2.4 ON-SITE INSPECTIONS

The on-site inspection function is separate from ongoing monitoring in order to reinforce the independence and objectivity of the conclusions obtained from these inspections. Table 2.4 details the on-site actions performed on credit institutions in 2017.

On-site inspection actions for significant institutions are planned as part of the supervision plan. In 2017, a total of 31 on-site actions were carried out on significant institutions together with two anti-money laundering inspections, as described in more detail below.

The Banco de España played a major role in these supervision tasks. Of the 31 on-site actions, 28 were led by Banco de España staff, two by ECB staff and one by staff from another SSM Member State. Moreover, a significant proportion of the personnel who participated in the aforementioned on-site inspections were from the Banco de España.

As regards the inspection methodology, in 2017 work continued to improve on-site inspections, particularly to boost efficiency by establishing procedures to shorten their duration, and mechanisms and practices that reduce the time between one inspection and the next.

The Banco de España is also participating actively in the working groups set up in the SSM to develop the most suitable techniques for on-site supervision of the various risks (credit, technology, market risk, etc.) and to continue making progress on the uniform application of on-site inspection in all SSM Member States.

| | 2017 | | Total |
|-----------------------------------|--------------------------|-------------------------------|-----------|
| | Significant institutions | Less significant institutions | |
| On-site inspections | 19 (a) | 10 | 29 |
| Internal model reviews | 12 | — | 12 |
| Anti-money laundering inspections | 2 | 1 | 3 |
| TOTAL | 33 | 11 | 44 |

SOURCE: Banco de España.

a Of which, three were led by staff from other authorities.

The Banco de España has played an active role in drawing up the Supervisory Examination Programme for 2018, which defines the on-site inspections that are due to be carried out over the course of the year. The main points are:

- An increase in the number of cross-border missions in order to foster harmonised application of SSM methodology during on-site inspections. Some of these missions to institutions in other SSM countries are due to be headed by Banco de España staff. In this regard, Banco de España staff have taken part in inspections of institutions belonging to four financial groups from other SSM Member States, leading two of them.
- The ambitious programme of investigation of internal models in 2018. As in 2017, the programme concentrates on an in-depth review of the internal capital models in force within the SSM (TRIM). In 2018, investigations of TRIM will concentrate on portfolio models with small numbers of non-compliances.

Meanwhile, since the supervision of the prevention of money laundering and financing of terrorism has been excluded from the scope of the SSM's supervisory activities, the Banco de España will continue cooperating and collaborating with SEPLAC in this area. Three inspections were carried out in 2017, and international cooperation and participation in various working groups in this area was continued.

A total of 11 on-site actions were carried out on less significant institutions in 2017. An annual action plan is drawn up for these institutions, which, together with monitoring activities, describes the on-site actions that are due to be performed on the LSIs, bearing in mind the supervisory risk profile of the various institutions and the number of years since the last action. This plan is approved by the Executive Commission of the Banco de España.

2.2.5 COMMON PROCEDURES

The common procedures, set out in Regulation (EU) 468/2014 of the ECB, relate to authorisations to take up the business of a credit institution, withdrawals of such authorisations and the acquisitions of qualifying holdings. In these procedures the Banco de España makes an initial assessment and draws up a proposal for a decision in each specific case. The ECB then makes a final decision on the basis of this proposal, and any additional study it considers appropriate to undertake.

Table 2.6 shows more details of the procedures concerning credit institutions in which the Banco de España has taken part.

2.2.6 INFORMATION
SUBMITTED
PERIODICALLY
TO THE EXECUTIVE
COMMISSION

Although supervisory decisions relating to significant credit institutions are adopted by the Governing Council of the ECB, supported by the Supervisory Board, the Directorate General Banking Supervision informs the Executive Commission of the Banco de España about these decisions and other relevant SSM matters. The Director General Banking Supervision reports to the Executive Commission on:

- Supervisory decisions affecting Spanish significant institutions, including capital decisions.
- Supervisory priorities and the supervision plan for the coming year.
- General SSM matters which may be of particular interest.
- Relevant decisions relating to foreign SSM institutions.
- Periodically, the situation of Spanish institutions.

2.2.7 QUALITY FUNCTION

The quality function is responsible for ensuring that banking supervision is consistent and applies the best supervisory practices. In practical terms, the ultimate goal of the quality function is to contribute to the ongoing improvement of the exercise of the supervisory function by identifying best practices and areas for improvement.

In the context of the SSM, the distribution of competencies between the ECB and the Banco de España over quality matters has remained unchanged. The ECB is responsible for the quality function in relation to significant institutions. In turn, the Banco de España is responsible for the quality of the supervision of less significant institutions. The Banco de España also collaborates with the ECB to review the quality of the supervision of Spanish significant institutions.

This is supplemented by the ECB and the NCAs cooperating through the SQA Network by holding meetings and exchanging experience and comments on the various quality activities carried out.

Various quality reviews were carried out on the supervision of less significant institutions in 2017.

2.2.8 SUITABILITY

The Banco de España, in the case of less significant institutions, and the ECB, in close collaboration with the Banco de España, in the case of significant institutions, supervise compliance with the rules on the suitability of credit institutions' senior officers. Thus, at all times during the exercise of their offices, and not just at the time of taking them up, all officers are required to meet the requirements of good repute and professional standing, have appropriate knowledge and experience for the exercise of their functions, comply with the rules on conflicts of interest and limitations (where applicable), and in the case of the members of the board of directors, be in a position to exercise good governance, i.e. (i) have sufficient time to exercise the office, and (ii) act in a way that is free from conflicts of interest.

The supervision of the suitability regime for senior officers is constantly being adapted to the new criteria published by the regulatory bodies, and to both national and international best practices. In the case of institutions forming part of significant groups, the ECB endeavours to harmonise supervisory criteria among all the SSM countries, while always observing the limits established under national legislations.



Directorate General Banking Supervision working meeting.

As well as participating actively in the preparation of the criteria and practices that began to be defined in previous years (culminating, as discussed below, in the approval of ECB and EBA/ESMA guidelines on suitability assessments), the Banco de España has worked to improve the coordination of the ongoing supervision of institutions' corporate governance, and the suitability regime for senior officers, both individually and collectively.

In 2017, the ECB's suitability guidelines and the joint guidelines of the EBA and ESMA were approved. These will undoubtedly be crucial to the harmonisation of supervisory practices of different NCAs, while also improving the transparency of the assessment criteria they apply.

The ECB's *Guide to Fit and Proper Assessment* explains how ECB Banking Supervision ensures consistent application of the fit and proper assessment criteria, with a view to establishing common supervisory practices for assessing the qualifications, skills and good repute of a candidate for a position on a bank's board. The public consultation process resulted in the guide providing more detailed clarification on the experience and time commitment required of board members, as well as explaining potential conflicts of interest. The publication of this guide will help institutions – which are responsible for selecting and appointing their senior officers and ensuring that they comply with the rules on suitability at all times – to comply with the ECB's banking supervision policies and better understand their assessment processes.

For their part, among other things, the guidelines on assessing the suitability of members of the management bodies and individuals performing key functions issued jointly by the ESMA and the EBA² elaborate upon the concepts of (i) dedicating sufficient time to perform their duties; (ii) collective possession of the appropriate knowledge, skills and experience

² As of 30 June 2018 these new guidelines will replace the "Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2012/06)" dated 22 November 2012, and the competent supervisory authorities will be required to inform the EBA of the degree of compliance with the guidelines, and where necessary, explain any breaches, on the date of entry into force.

by the management body; (iii) the trustworthiness, integrity and independence of mind of the members of the management body; (iv) dedication of the appropriate human and financial resources to induct and train members of the management body; and (v) diversity, which must be taken into account in the selection of the members of the management body. The guidelines also set out the rules on suitability for key positions and their supervision by NCAs (and the ECB, where applicable). Among others, such positions include institutions' chief risk officer (CRO), chief compliance officer (CCO), head of internal audit, and chief financial officer (CFO).

These guidelines shed light on the interpretation of the legal requirements for suitability to which the senior officers of credit institutions are subject, and on the supervisory processes at the NCAs. They are also intended to be a tool for harmonisation of supervisory practices and criteria, and of the information institutions are required to submit along with the manner in which they are to do so.

In 2017, the Banco de España adapted the suitability questionnaire prepared by the ECB, in collaboration with all the NCAs, and published it in its "virtual office", thus incorporating it in the suitability assessment procedure. As well as harmonising the information required in all the euro area Member States, the purpose of this new questionnaire is to streamline the procedure by helping ensure that the suitability assessment requests submitted by institutions are as detailed as possible and so avoid the competent authorities having to ask for additional information during their processing.

2.2.9 ROLE OF THE BANCO DE ESPAÑA'S SUPERVISION IN THE CRISIS MANAGEMENT FRAMEWORK

The recovery and resolution framework in Spain is regulated by Law 11/2015 and Royal Decree 1012/2015, which transposed the Banking Recovery and Resolution Directive (BRRD) into Spanish legislation and set out the distribution of powers in this area between the supervisory and resolution authorities. The *2016 Report on Banking Supervision* describes in detail the distribution of powers.

Figure 2.4 summarises the main stages of the crisis management framework and the tasks assigned to each authority in the different phases.

The supervisor's role in each phase and the Banco de España's supervision work in this area during 2017 are described in more detail below.

Preventive phase

In the preventive phase, institutions and authorities get ready to address possible crisis situations. In the course of their ordinary activity, institutions are required to prepare recovery plans that are assessed by the supervisor and that identify the options available to the institutions that would enable them to survive severe stress situations.

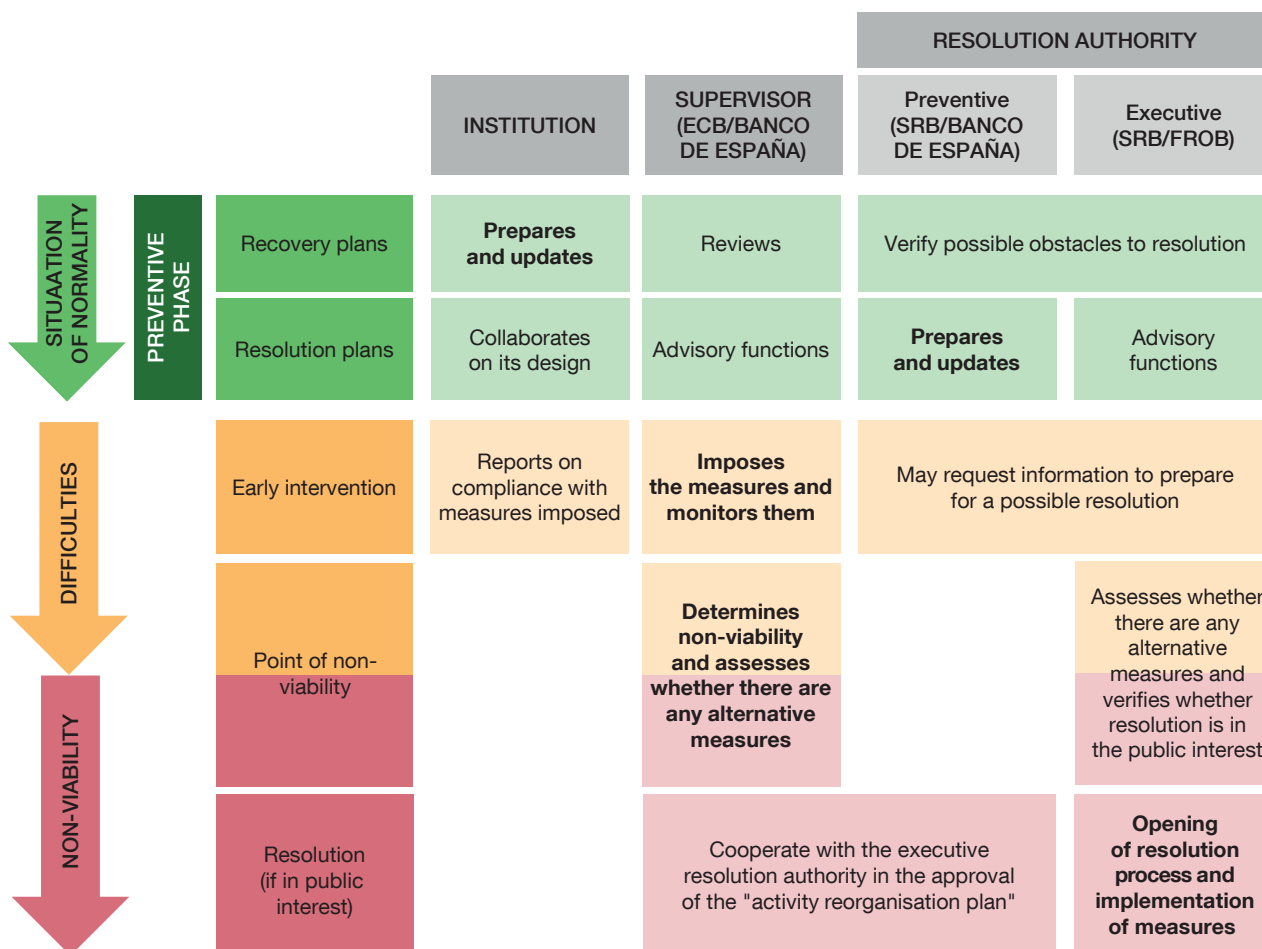
Recovery plans

Recovery plans are drafted each year by the institutions³ to determine the measures that they would take to restore their long-term viability if their financial situation were to deteriorate significantly.⁴

In cases where the supervisor concludes that a plan has material deficiencies, it requires that a new plan be submitted within a three-month deadline and, in extreme cases, it may require the institution to adopt specific measures and even limit the businesses it conducts.

³ These plans should be updated whenever there is a significant change which affects the institution. The legislation allows certain institutions to apply simplified obligations as a result of which the recovery plans can be updated over a longer period.

⁴ The measures envisaged cannot assume that there will be access to public financial assistance.



SOURCE: Banco de España.

From the supervisory standpoint, the following items of the plans are especially important:

- The recovery plan indicators determined and their integration into the institution’s internal risk management framework. These indicators determine when the institution activates the decision-making process for assessing whether it implements the recovery options. Properly adjusted recovery plan indicators are conducive to the institution identifying crisis situations at an early stage and being able to redress the situation.
- Available recovery options. It is essential that institutions are selective and realistic in determining recovery options and they must provide evidence that they have identified, at least, the prior necessary measures in order to put them into practice in a crisis situation.
- The definition of sufficiently severe (yet plausible) scenarios for activating the plan, as a result of which the effects of applying the available recovery options can be analysed and the best options in each crisis situation can be identified.

Furthermore, it should be noted that the supervisor’s assessment of the recovery plan provides it with valuable information when evaluating the governance component of the SREP.

Early intervention phase

The early intervention phase is initiated by the competent supervisor where there is a rapid deterioration in the institution's financial situation which results in an infringement of the solvency regulations or in a foreseeable infringement in the near future. The supervisor has a series of tools which range from requiring the implementation of a measure in the recovery plan to even deciding on the intervention of the institution. Identifying the time at which early intervention is triggered is essential to prevent the institution from reaching the point of non-viability.

Supervisory activity of the Banco de España in recovery and resolution in 2017

With respect to the groups of significant institutions, the JSTs performed the following actions in the area of recovery and resolution in 2017:

- The cycle of reviewing the 2016 recovery plans, which began in the fourth quarter of last year, was completed. As a result of the assessment, letters were sent to the institutions informing them of aspects which must be improved in the 2017 plans. Similarly, in those plans where material deficiencies were detected, institutions were requested to send “revised plans” that remedy such deficiencies.

In general, a clear improvement was seen in the quality of the plans compared with those submitted the previous year, with the consequent positive effects on institutions' crisis management capacity.

- The JSTs participated in the process of reviewing resolution plans in the prior consultation phase with the SRB. In 2017 the SRB set the MREL targets for the most “systemic” institutions.

With regard to less significant institutions, the Banco de España:

- Completed the assessment of the first recovery plans submitted by 53 institutions in the final quarter of 2016. As a result of the review, letters were sent to the institutions either requesting that they remedy the deficiencies detected in the next plan sent or requiring that a new plan be sent by the legally established deadline in the case of significant deficiencies.

The Banco de España participated in three colleges of supervisors of less significant European groups with a presence in Spain, and all of them reached joint decisions on recovery plans.

- It participated in the legally envisaged prior consultation phase on resolution plans of less significant institutions.

2.2.10 LETTERS

In the performance of its supervisory tasks, the Banco de España sent 138 letters to credit institutions containing requirements and recommendations, as detailed in Table 2.5. Of these, 55 related to capital decisions, 54 to recovery plans, 19 to the outcome of the comprehensive annual monitoring and 10 to on-site inspections and monitoring of requirements.

2.2.11 OTHER ACTIONS

The Banco de España's supervisory tasks include, both for significant and less significant institutions, the microprudential supervisory tasks not transferred to the SSM and the handling of certain procedures envisaged in the applicable legislation.

LETTERS ADDRESSED TO CREDIT INSTITUTIONS

TABLE 2.5

Number

| | 2017 |
|---|------------|
| Credit institutions (a) | |
| Banks | 40 |
| Savings banks | 4 |
| Credit cooperatives | 92 |
| Branches of foreign credit institutions | 2 |
| TOTAL | 138 |

SOURCE: Banco de España.

a Of these letters, two relate to SIs, arising from competencies that the SSM has not assumed, and the remainder relate to LSIs.

PROCEDURES IN RESPECT OF CREDIT INSTITUTIONS INVOLVING THE BANCO DE ESPAÑA

TABLE 2.6

| | Total number |
|--|--------------|
| Qualifying holdings, merger, spin-off and other significant acquisitions | 18 |
| Cross-border activity of Spanish credit institutions | 110 |
| Branches in the EU | 24 |
| Branches in third countries | 3 |
| Freedom to provide services | 83 |
| Cessation of business | 2 |
| Loans to senior officers | 44 |
| Suitability of senior officers | 281 |
| Procedures relating to own funds | 22 |
| Amendments of articles of association (a) | 16 |
| Communications with other supervisory authorities or institutions | 13 |
| Other procedures | 15 |
| TOTAL | 521 |

SOURCE: Banco de España.

a In addition to those indicated here, 19 significant institutions (11 banks and 8 credit cooperatives) were reported to the ECB.

Noteworthy is the Banco de España's collaboration with:

- The Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences (SEPBLAC, by its Spanish abbreviation) in the supervision and inspection of the prevention of money laundering obligations and in the adoption of the measures needed by virtue of the cooperation regime between the two bodies.
- Other national supervisors such as the Directorate General of Insurance and the National Securities Markets Commission (CNMV, by its Spanish abbreviation).
- International organisations such as the International Monetary Fund (IMF) and the World Bank.

In this respect, during 2017 the Banco de España collaborated actively with the IMF in its exhaustive in-depth assessment of the Spanish financial sector as part of the Financial

Number. Year-end data (a)

| | 2014 | 2015 | 2016 | 2017 |
|---|------|------|------|------|
| Spanish institutions | 185 | 178 | 177 | 170 |
| Specialised lending institutions | 47 | 39 | 35 | 31 |
| Hybrid specialised lending institutions | — | 5 | 8 | 8 |
| Mutual guarantee companies | 24 | 21 | 21 | 19 |
| Reguarantee companies | 1 | 1 | 1 | 1 |
| Electronic money institutions | 4 | 3 | 4 | 5 |
| Payment institutions | 45 | 43 | 41 | 39 |
| Hybrid payment institutions | — | 2 | 3 | 3 |
| Currency-exchange bureaux (b) | 10 | 13 | 12 | 14 |
| Appraisal companies | 40 | 36 | 37 | 35 |
| Banking foundations | 13 | 14 | 14 | 14 |
| Sareb | 1 | 1 | 1 | 1 |
| Foreign institutions operating in Spain | 328 | 415 | 501 | 572 |
| Branches of EU payment institutions | 8 | 12 | 15 | 14 |
| EU payment institutions operating without an establishment | 263 | 326 | 372 | 400 |
| Branches of EU electronic money institutions | 2 | 2 | 2 | 2 |
| EU electronic money institutions operating without an establishment | 55 | 75 | 112 | 156 |

SOURCE: Banco de España.

- a The number of institutions also includes those that are non-operational and in the process of deregistering.
b Not including establishments only authorised to purchase foreign currency with payment in euro.

Sector Assessment Program (FSAP), and with the World Bank in the framework of the Bank Regulation and Supervision Survey. Also, in 2017 the Banco de España, both as a member of the SSM and in the exercise of its exclusive supervisory powers, performed the procedures summarised in Table 2.6.

2.3 Supervision of institutions other than credit institutions

The Banco de España has exclusive microprudential supervisory powers over the following institutions other than credit institutions that provide services or perform functions related to the financial sector: specialised lending institutions, mutual guarantee and reguarantee companies, appraisal companies, payment institutions, electronic money institutions, currency-exchange bureaux, banking foundations and Sareb. Table 2.7 contains the detail of those institutions.

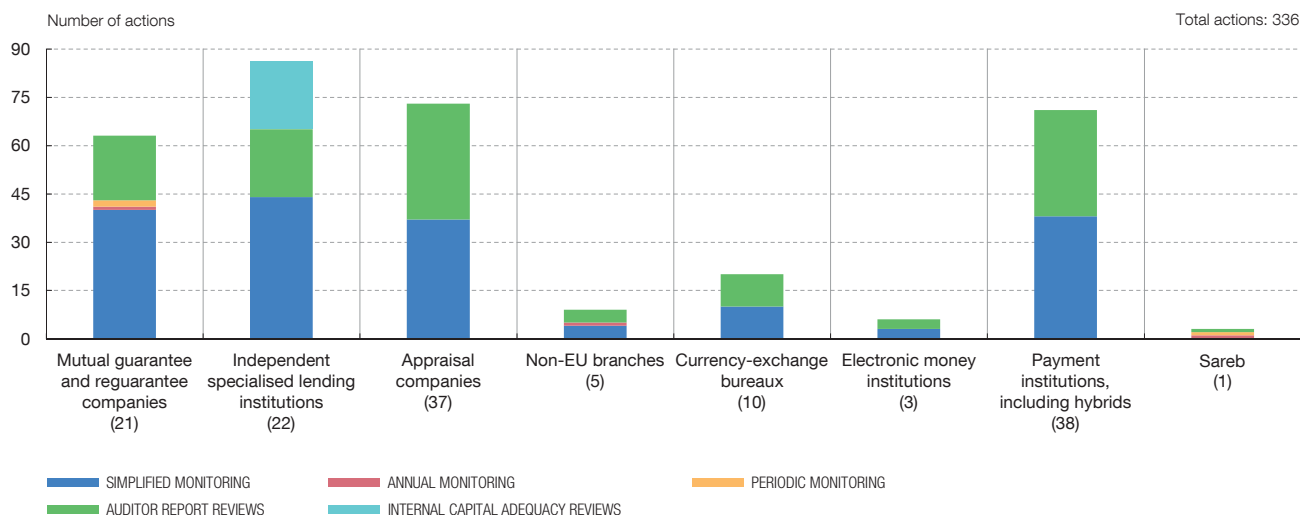
The legal basis under which the Banco de España supervises those institutions and the approach behind the tasks differ from case to case. However, the supervisory concern is always the same: to contribute to the proper functioning of those institutions, considering the role they play.

Although the weighting of the institutions discussed in this section with respect to the financial system as a whole cannot be compared to that of credit institutions, their supervision is conducted by the Banco de España with the conviction that an effective regulatory and supervisory model promotes the fluidity of financial intermediation mechanisms and generates a climate of confidence in financial institutions.

Section 2.3 of the *2016 Report on Banking Supervision* describes in detail the supervisory powers of the Banco de España over this type of institutions.

SUPERVISORY ACTIONS (a)

CHART 2.2



SOURCE: Banco de España.

a The number of institutions supervised in 2017 is shown under the caption for each column.

The following sections of this chapter refer, firstly, to the supervisory activity carried out in 2017 on the above-mentioned institutions. Secondly, mention is made of the authorisations and other procedures relating to the exercise of their activity. And thirdly, a description is given of the actions relating to the oversight of vetted access to activity.

2.3.1 SUPERVISORY ACTIONS

In 2017, 336 remote monitoring actions were performed by various means: annual monitoring, periodic general monitoring, simplified monitoring, reviews of audit reports and reviews of internal capital adequacy assessment reports, as detailed in Chart 2.2.

Also, a total of six inspections were performed in 2017, four of currency-exchange bureaux and two of payment institutions.

2.3.2 AUTHORISATIONS AND OTHER PROCEDURES

The Banco de España participates in the granting and withdrawal of licences to open those institutions and to perform other procedures relating to the exercise of their activities. Nevertheless, the scope of its involvement is not the same for all types of institutions. The Banco de España is the competent authority for granting and withdrawing licences for currency exchange bureaux and officially recognises appraisal companies. However, it only has to issue a mandatory report on the authorisation of the following types of institutions, which is granted by the Ministry of Economy and Competitiveness:

- Specialised lending institutions.
- Electronic money institutions or branches in Spain of non-EU electronic money institutions.
- Payment institutions or branches in Spain of non-EU payment institutions.
- Mutual guarantee companies.
- Reguarantee companies.

CHANGES IN THE NUMBER OF INSTITUTIONS OTHER THAN CREDIT INSTITUTIONS. 2017 VS. 2016

TABLE 2.8

| | Number at 31/12/2016 | Registrations | De- registrations | Number at 31/12/2017 | Change 2017-2016 |
|--|-------------------------|---------------|----------------------|-------------------------|---------------------|
| Specialised lending institutions (SLIs) | 35 | 0 | 4 | 31 | -4 |
| Hybrid SLIs and payment institutions | 8 | 1 | 1 | 8 | 0 |
| Mutual guarantee and reguarantee companies | 22 | 1 | 3 | 20 | -2 |
| Appraisal companies | 37 | 0 | 2 | 35 | -2 |
| Currency-exchange bureaux | 12 | 3 | 1 | 14 | 2 |
| Payment institutions | 41 | 0 | 2 | 39 | -2 |
| Hybrid payment institutions | 3 | 0 | 0 | 3 | 0 |
| Electronic money institutions | 4 | 1 | 0 | 5 | 1 |
| Branches of EU payment institutions | 15 | 2 | 3 | 14 | -1 |
| Branches of EU electronic money institutions | 2 | 0 | 0 | 2 | 0 |
| Banking foundations | 14 | 0 | 0 | 14 | 0 |
| | 193 | 8 | 16 | 185 | -8 |

SOURCE: Banco de España.

OTHER PROCEDURES PERFORMED BY THE BANCO DE ESPAÑA RELATING TO OTHER INSTITUTIONS

TABLE 2.9

Number of procedures in 2017

| | Payment institutions | Electronic money institutions | Specialised lending institutions | Mutual guarantee companies | Appraisal compa- nies | Currency- exchange bureaux | Sareb | Banking foundations | Total other institutions |
|--|-------------------------|-------------------------------------|--|----------------------------------|-----------------------------|----------------------------------|-------|------------------------|--------------------------------|
| Qualifying holdings, merger, spin-off and other significant acquisitions | 1 | | 2 | 3 | 4 | | | | 10 |
| Cross-border activity of Spanish institutions | | | | | | | | | 112 |
| Branches in the EU | 8 | | | | | | | | 8 |
| Branches in third countries | | | | | | | | | 0 |
| Freedom to provide services | 103 | 1 | | | | | | | 104 |
| Cessation of business | 2 | | 2 | | | | | | 4 |
| Suitability of senior officers | 75 | 19 | 62 | 85 | 23 | 5 | | | 269 |
| Procedures relating to own funds | 1 | 1 | | 1 | | | | | 3 |
| Amendments of articles of association | 17 | 1 | 2 | 6 | | | | | 26 |
| Communications with other supervisory authorities or institutions | | | 1 | | | | | | 1 |
| Authorisation of management and financial protocols | | | | | | | | 10 | 10 |
| Other procedures | 5 | | 2 | 1 | | | | | 8 |
| TOTAL | | | | | | | | | 443 |

SOURCE: Banco de España.

LETTERS ADDRESSED TO OTHER INSTITUTIONS

TABLE 2.10

| Number | 2017 |
|----------------------------------|-----------|
| Specialised lending institutions | — |
| Appraisal companies | 6 |
| Mutual guarantee companies | 3 |
| Payment institutions | 2 |
| Currency-exchange bureaux | — |
| Electronic money institutions | — |
| Banking foundations | — |
| SAREB | 2 |
| TOTAL | 13 |

SOURCE: Banco de España.

In 2017, a total of 8 requests to open institutions and 16 deletions in the register were processed, according to the breakdown in Table 2.8.

Similarly, in 2017, a further 443 procedures relating to supervisory powers over those institutions were performed, as detailed in Table 2.9.

Following the supervisory actions, 13 letters were sent to these institutions, addressed to the parties detailed in Table 2.10. Ten of the letters relate to the outcome of monitoring actions and three to inspections.

2.3.3 COMPLIANCE WITH VETTED ACCESS TO ACTIVITY

Spanish legislation establishes that certain financial activities are subject to vetted access to activity, i.e. they can only be carried out by the institutions legally authorised to do so. The Banco de España's functions include overseeing compliance with this legislation, taking action on persons seeking to break into the financial market without meeting the conditions of access, whether it be through the exercise of activities legally restricted to credit institutions, payment service providers or other types of supervised institutions, or through the use of generic names restricted to those institutions or any other name that may cause confusion with them.

2017 saw the initiation of supervisory actions relating to seven natural or legal persons which might be carrying out restricted activities without authorisation, the outcome of which might lead to the adoption of penalties. Additionally, six legal persons were investigated resulting in three notifications which were made to the CNMV for assessment by the latter.