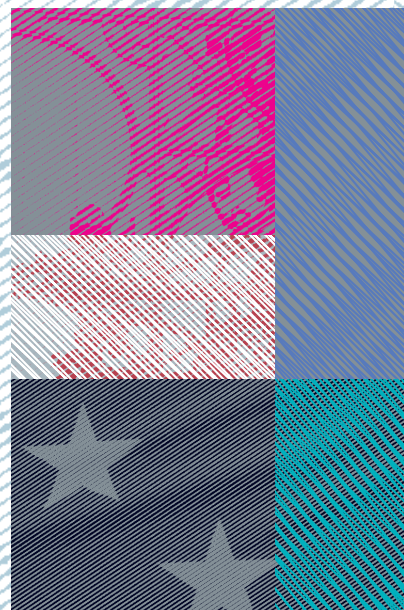


REPORT ON BANKING SUPERVISION IN SPAIN

2008

BANCODE **ESPAÑA**
Eurosistema



REPORT ON BANKING SUPERVISION IN SPAIN 2008

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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
CGs	Consolidated groups of CIs, DIs, etc.
CII	Collective investment institution (also CIU)
CIs	Credit institutions (DIs, SCIs, and the ICO)
CNAE	Clasificación Nacional de Actividades Económicas (Spanish National Classification of Economic Activities)
CNMV	National Securities Market Commission
COREP	CEBS COMmon REPorting Working Group
CRD	Capital Requirements Directive
DGF	Deposit Guarantee Fund
DGTPF	Directorate General of the Treasury and Financial Policy
DIs	Deposit institutions
EC	European Commission
ECB	European Central Bank
ECOFIN	EU Council of Ministers of Economy and Finance
EEA	European Economic Area
EIF	European Investment Fund
EFAs	Earning financial assets
EMU	Economic and Monetary Union
ESCB	European System of Central Banks
EU	European Union
FCs	Financial conglomerates
FASB	Financial Accounting Standards Board
FESCO	Forum of European Securities Commissions
FVC	Financial vehicle corporation (also SSPE)
GdC	Groupe de Contact
GDP	Gross domestic product
GTIAD	Working Group on the Interpretation and Application of the Banking Directives
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBFLs	Interest-bearing financial liabilities
ICBS	International Conference of Banking Supervisors
IFAC	International Federation of Accountants
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
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)
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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BANCO DE **ESPAÑA**
Eurosystem
Internal Audit Department

20.03.2009

**REPORT ENVISAGED IN LAW 44/2002 ON FINANCIAL SYSTEM REFORM MEASURES.
2008**

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 2009 Internal Audit Plan of the Banco de España, approved by the Governor on 30 December 2008 and notified to the Executive Commission on 22 January 2009, 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. 2008 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.

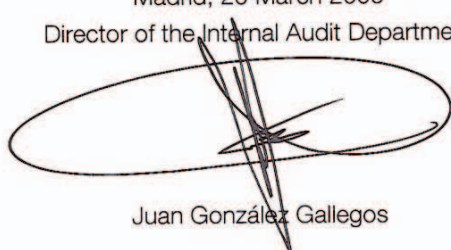
The examination was performed by stratified sampling in nine strata or types of decision taken by the Directorate General of Banking Supervision and in ten strata or types of decision taken by the Directorate General of Banking Regulation. Different sampling fractions (100%, 10%, 5% or 1%) were applied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

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

3. Opinion

In our opinion, the decisions taken by the governing bodies of the Banco de España in 2008 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, 20 March 2009
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

1 Structure and evolution of credit institutions

1.1 Types of credit institution

At the end of 2008 there were 361 registered credit institutions (CIs), three more than in 2007 (see Table 1.1). Yet another year, this net increase was basically due to the continued opening of branches of foreign CIs. Specifically, 10 new branches were added, all from EU countries, and there was a deregistration due to absorption by Ixis Corporate & Investment Bank of Natixis, also from the EU. An electronic money institution was included in the register for the first time. There was a net decrease of seven institutions in other types of CIs.

In Spanish banks, the net decrease of four institutions was due to two processes of absorption and to the transformation of a credit cooperative (Caja Caminos) into a bank. Banco de Crédito to Balear, Banco de Castilla, Banco de Vasconia and Banco de Galicia, which belong to the Popular group, were absorbed by their parent, Banco Popular, and Banco de Depósitos absorbed Banco Condal.

The decrease of two credit cooperatives was due to the aforementioned transformation of Caja Caminos into Banco Caminos and to the effective removal from the official registers of C.R. del Duero, as a result of its absorption by C.R. Cajamar at the end of 2007.

The other movements were in the specialised financial institutions (SCIs) category, the subsidiaries of foreign banks and savings banks undergoing no change. There were two new registrations and three deregistrations of SCIs. Two of the deregistrations were due to absorptions, one between SCIs in which Santana Credit was absorbed by Santander Consumer, and the other by a foreign institution, in which the branch in Spain of UBI Banca International absorbed Financiera Veneta.

The market shares of credit institutions in the total balance sheet of business in Spain (see Chart 1.1.A) underwent the following changes: Spanish banks showed an increase of one percentage point at the expense of the other categories of institutions, basically savings banks and foreign branches. In regard to total business and the total balance sheet plus managed assets (see Chart 1.1.B), the changes in market share were even smaller.

1.2 Operating resources

The number of operational offices¹ of the 355 CIs active in 2008 increased slightly (1.2%) to 46,161 at the end of the year. Regarding the types of institutions, this increase was concentrated mainly in savings banks and credit cooperatives, with growth of 1.6% and 2.9%, respectively. In banks, the offices of subsidiaries and of foreign branches grew by around 6%, while Spanish banks reduced their operating network slightly by 0.4%. The SCI network shrank by 2.8%. However, mention should be made of the change of trend in June, centred on Spanish banks and savings banks. In the third quarter Spanish banks began to close branches (18) and continued to do so in the fourth quarter, in which 68 were closed. Savings banks joined this trend in the fourth quarter, with a decrease of 16 offices. Only credit cooperatives continued expanding their geographical network throughout the whole year.

The density of the office network remained at the high reached in 2007, namely 12 offices per 10,000 inhabitants over 16 years of age, bringing to a halt the successive increases seen up to now.

1. Of the total institutions registered, only those effectively carrying on operations at the end of 2008 are considered here.

CIs REGISTERED IN SPAIN, CONSOLIDATED GROUPS AND MIXED GROUPS

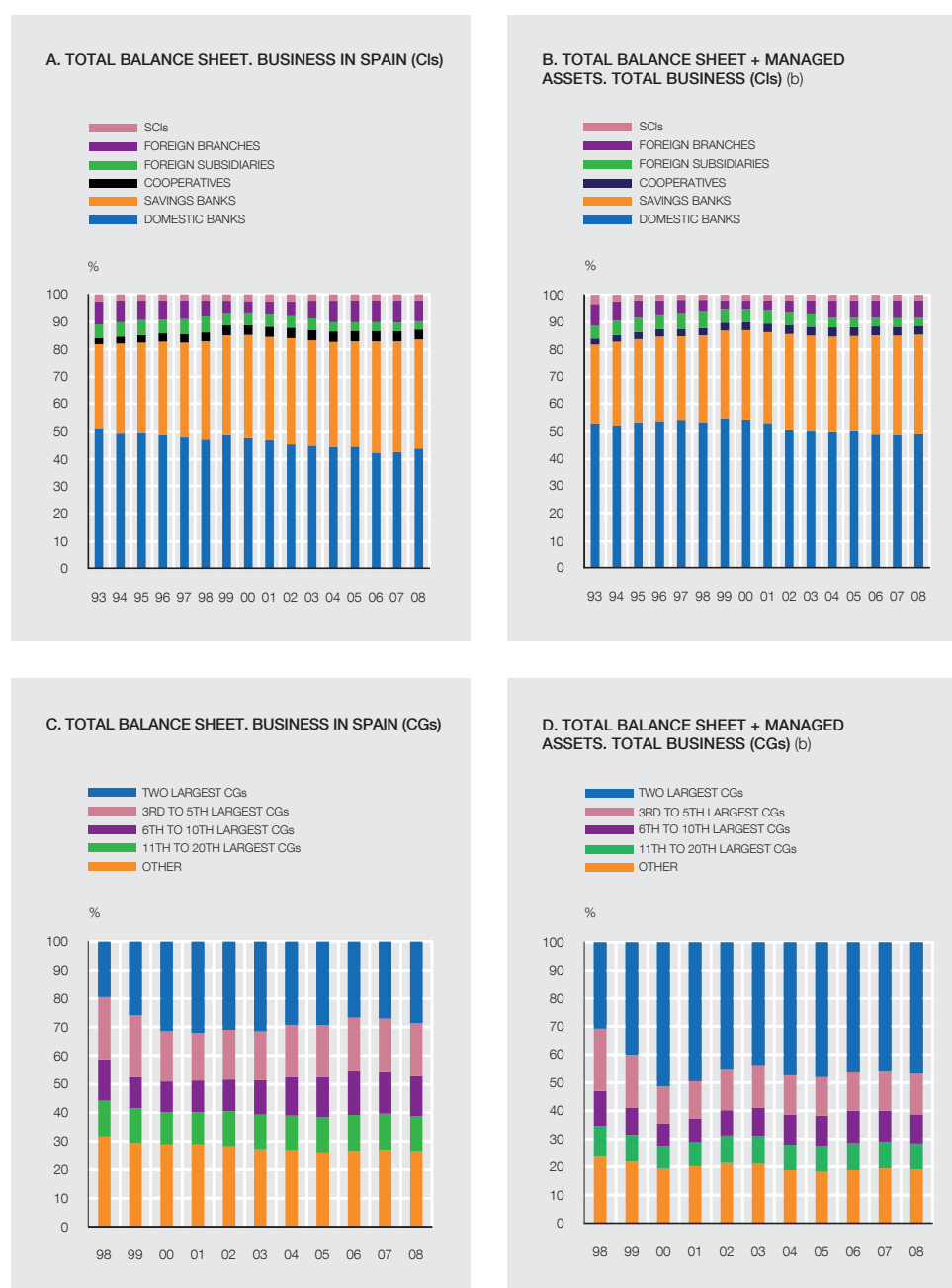
TABLE 1.1

Year-end data (number)

	2005	2006	2007	2008
CREDIT INSTITUTIONS REGISTERED IN SPAIN (a)	350	355	358	361
Deposit institutions	272	276	282	285
Banks	140	144	151	156
Domestic	53	54	53	49
Foreign	87	90	98	107
<i>Branches</i>	65	71	80	89
<i>Subsidiaries</i>	22	19	18	18
Savings banks	47	47	46	46
Cooperatives	85	85	85	83
Specialised credit institutions	78	79	76	75
Electronic money institutions	0	0	0	1
MEMORANDUM ITEMS:				
Mergers and acquisitions (b)	3	2	7	4
Between banks	1	1	3	2 (7)
Between saving banks	—	—	1	—
Between credit cooperatives	—	—	1	—
Between SCIs	1	—	—	1
SCIs acquired by or merged with deposit institutions	1	1	2(4)	1
CONSOLIDATED GROUPS EXISTING AT YEAR-END (c)	95	99	101	99
Parent credit institution	83	86	88	87
<i>Spanish banks</i>	13	13	14	16
<i>Savings banks</i>	46	47	46	46
<i>Cooperatives</i>	13	16	18	15
<i>Specialised credit institutions</i>	—	—	1	1
<i>Foreign CIs</i>	11	10	9	9
Other consolidated groups	12	13	13	12
<i>Spanish parent</i>	6	6	6	6
<i>Foreign parent</i>	6	7	7	6
MIXED GROUPS AND FINANCIAL CONGLOMERATES	36	42	43	43
Supervised by Banco de España	33	40	41	41
Supervised by DGS including CIs	3	2	2	2
MEMORANDUM ITEM:				
Bank offices abroad	8.680	8.664	9.493	10.661

SOURCE: Banco de España. Data available at 30 March 2009.

- 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 involved when the mergers/absorptions are between more than two CIs, i.e. when the number of CIs involved is not twice the number of operations.
- c. A consolidated group (CG) is considered as such provided it includes, in addition to the parent (or failing this the reporting institution), another or other fully or proportionally consolidated financial institutions. The CG classification is given by the nature and nationality of the parent (ultimate holder).



SOURCE: Banco de España. Data available at 6 April 2009.

a. Year-end data relating to credit institutions registered in Spain and consolidated groups existing at each date.

b. Assets managed both by institutions themselves and by third parties.

The number of bank offices abroad of consolidated groups increased significantly by 12.3% to stand at 10,661. That said, 96% of this increase was accounted for by the Santander group due to acquisitions of foreign institutions in 2008.

The headcount of serving employees of credit institutions grew slightly (0.4%) as a result of an increase of 3.6% in central services staff and a decrease of 0.7% in office network staff. The decrease in office network staff was concentrated, as in 2007, in Spanish banks (–6.5%), which continued to strengthen their central services while at the same time undertaking the aforementioned downsizing of their operational network. Savings banks continue to increase

office staff numbers, although at rates well below those of the previous year (1.8% against 6.6%).

As a result of the aforementioned opposing tendencies at Spanish banks and savings banks in the number of operational offices and in the office network staff, the number of staff per office of these two types of institutions continue to converge. In national banks it decreased to 4.9 employees per office and in savings banks it held at the level of 4.3 employees per office reached in 2007. In CIs as a whole, the number of staff per office held at 4.4, with a decrease of 0.1 pp with respect to the previous year.

The increase in the number of agents seen in the last few years reversed in 2008, with a decrease of 9% to 10,783. The subsidiaries of foreign banks, which account for 55% of CI agents, reduced their number of agents by 11% and Spanish banks reduced theirs by 8%.

The ATM network increased yet another year. In 2008 it expanded more slowly (1.9%) than in previous years, with 1,119 new ATMs. At end-2008, the ratio of ATMs per 10,000 inhabitants was 16.0, with an annual increase of 0.1 pp. The institutions most active in enlarging their ATM network were: foreign subsidiaries, with an increase of 10%, and credit cooperatives, with the rise of 5%. Spanish banks, in step with the closure of operational offices, removed 0.3% of their ATMs.

Point-of-sale (POS) terminals expanded further to more than 1.4 million for total CIs. The overall pace of increase of 4.5% was fairly similar to that of Spanish banks (4.7%), savings banks (4.2%) and credit cooperatives (4.4%).

The number of credit and debit cards increased slightly more quickly than in the previous year, by 5.8% against 4.6%. The number of cards rose to 99.6 million, equivalent to 2.6 cards per inhabitant over 16 years of age. The growth was concentrated in all categories of banks, in credit cooperatives and in SCIs, with growth rates between 7% and 10%, while savings banks saw a change of 1.2%.

1.3 Consolidated groups

At end-2008 there were 99 consolidated groups (CGs),² two fewer than at end-2007. This net decrease resulted from the following deregistrations and new registrations. CGs of Spanish banks saw two new registrations, namely Banco Cetelem and Banco Caminos, the latter due to conversion from a credit cooperative. The number of savings bank CGs did not change with respect to 2007, remaining at 46, the same as the existing savings banks. The number of consolidated groups of credit cooperatives decreased by three, due to the deregistrations of C.R. de Almendralejo and Credit Valencia and the aforementioned conversion of Caja Caminos into a bank. There were no movements in groups with an SCI parent. Lastly, the groups headed by a parent other than a credit institution underwent, in net terms, one deregistration, as a result of the deregistrations of ING Lease and the Scania group and the registration of the Volkswagen group.

The number of mixed groups (MGs) and financial conglomerates (FCs)³ amounted to 43, of which only two are supervised by the Directorate General of Insurance (Bilbao Hipotecaria S.A. and the Bankpyme group). The total number remained unchanged in the year, although there were three new registrations which were offset by the same number of deregistrations.

2. 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. 3. Mixed groups and financial conglomerates, which include both credit institutions and insurance undertakings, are governed by the provisions of Royal Decree 1332/2005 of 11 November 2005, which implements Law 5/2005 of 22 April 2005 on the supervision of financial conglomerates.

At the end of the year there were six financial conglomerates (Santander, BBVA, Bankpyme, Caixa Terrassa, La Caixa and Caixa Sabadell), one fewer than in 2007, due to the deregistration of Caja Madrid.

2 EXERCISE OF SUPERVISORY FUNCTIONS

2 Exercise of supervisory functions

The sections of this chapter are as follows. First, an account is given of the supervisory action taken, indicating the supervised institutions, the on-site inspections made and the requirements and recommendations letters sent to institutions as a result of such action. The second section explains what was involved in the exercise of sanctioning powers in 2008 and states the number of proceedings initiated and resolved for each type of infringement. Third, reference is made 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 fourth and last section of this chapter explains succinctly the Banco de España's system of continuous supervision.

2.1 Supervisory activity

At 31 December 2008, the Banco de España had under its supervision a total of 505 institutions of a diverse nature, of which 361 were credit institutions.

The Banco de España's supervision consists of continuous monitoring and analysis of their situation, supported by a programme of information checks conducted via on-site inspections (see Section 2.4). In 2008 it made 166 inspection visits, of which 48 were under way at 31 December 2008, as detailed in Table 2.1.

In supervisory planning, inspection visits can be either full-scope or limited to certain matters. Full-scope inspections are intended to obtain up-to-date information on the institution in question. Partial inspections have a limited scope and seek to obtain sufficient knowledge of one or more areas of the institution or group (e.g. loan portfolio or the treasury or custody activity) or to monitor more specific matters (e.g. the degree of compliance with requirements previously formulated by the Banco de España, the relevant circumstances for the year-end closing of accounts, etc.).

The decline in the figures in Table 2.1 reflects the changes the Banco de España is making in how it conducts the continuous supervision of institutions, with a view to achieving more intense and efficient supervision. Traditional on-site inspection, the only activity reflected in the statistics of the above table, is being increasingly complemented by very intense and close continuous monitoring. This has been favoured by the off-site availability of regular information and of increasingly extensive and better quality management, as well as closer interaction with supervised institutions. These developments have enabled analysis and monitoring activities to be broadened to obtain a better and more continuous and up-to-date knowledge of institutions' risk profiles. Also, the review type known as "on-site continuous monitoring", which entails the permanent presence at institutions of inspection staff combining analysis and verification tasks and was put into practice by the Banco de España to meet supervision needs at the two large banking groups, has recently been extended to other institutions whose size and complexity call for such monitoring. Continuous monitoring, whether on-site or off-site, now accounts for a significant proportion of the available supervisory resources, although it is not reflected in statistics on inspection visits.

In regard to 2008 in particular, most supervisory activity was influenced by the crisis which began in summer 2007. Hence inspection visits have looked more carefully at the matters that are most crucial in properly assessing the position of institutions in the current economic context. This has led to a comprehensive review of loan and mortgage foreclosure portfolios, with the related impact on the duration of inspections. Particular attention was also paid to analys-

Number

	INSPECTION VISITS					
	COMPLETED			UNDER WAY		
	2006	2007	2008	2006	2007	2008
Credit Institutions	69	125	98	80	44	37
Banks	36	63	52	37	12	20
Savings banks	11	17	19	21	18	10
Credit cooperatives	10	18	8	12	4	0
Foreign branches	1	6	7	2	1	1
<i>EU credit institutions</i>	<i>1</i>	<i>6</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>1</i>
Specialised credit institutions	11	21	12	8	9	6
Other Institutions	12	22	20	16	11	11
Appraisal companies	2	8	8	6	7	8
Mutual guarantee companies	3	5	1	5	1	0
Currency exchange bureaux and money transfer agencies	7	9	11	5	3	3
TOTAL	81	147	118	96	55	48

SOURCE: Banco de España.

ing and assessing the liquidity risk of credit institutions, their risk measurement and control systems, their capacity to generate earnings and their solvency.

The validation of internal models designed to calculate regulatory capital for credit risk was completed, and eight groups of Spanish credit institutions were authorised to use, for regulatory purposes, internal ratings based (IRB) approaches once Circular 3/2008 on the determination and control of minimum own funds was published. The validation process included systematic review of methodologies and documentation, databases, quantitative and qualitative procedures and the technological environment, as well as assessment of the degree of implementation and effective use of advanced management systems and of the existence of an appropriate control environment (including the role of the validation and internal audit functions) in order to ensure the appropriate functioning and maintenance of the models in the future. Additionally, three exercises were conducted to analyse the quantitative impact of IRB approaches on solvency levels and, in regard to operational risk, guidelines were published on the application of the standardised approach to determine regulatory capital for this risk.

To carry out its monitoring and analysis activities and on-site inspections, the Banco de España's Directorate General Banking Supervision had a staff of 431 as at end-2008, as detailed in Table A.1.4. An increasingly significant and growing part of this staff (around 20% on overall estimates) do not work directly on the continuous supervision of institutions, but rather engage in internal advisory tasks, supervisory policy design, definition of methodology and procedures, and participation in international fora, etc.

As a result of the knowledge acquired by it in the continuous supervision of institutions, the Banco de España is qualified to take various types of measures provided for by law, such as: i) recommendations and requirements; ii) approval of restructuring plans; iii) initiation of disciplinary proceedings against institutions and their boards of directors and management; and iv) interven-

SUPERVISORY ACTIVITY

TABLE 2.2

Number

	LETTERS SENT TO INSTITUTIONS		
	2006	2007	2008
Credit Institutions	80	97	63
Banks	24	31	21
Savings banks	14	17	19
Credit cooperatives	20	22	8
Foreign branches	9	11	2
<i>EU credit institutions</i>	4	7	1
<i>Non-EU credit institutions</i>	5	4	1
Specialised credit institutions	13	16	13
Other institutions	17	18	14
Appraisal companies	5	7	5
Mutual guarantee companies	4	4	1
Currency exchange bureaux and money transfer agencies	8	7	8
TOTAL	97	115	77

SOURCE: Banco de España.

tion or director-replacement measures. In 2008 it was not necessary to take any precautionary intervention or director-replacement measures in respect of supervised institutions.

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

In 2008, the Banco de España sent 77 recommendation and requirement letters to credit and other institutions supervised by it, either as final addressees or as the heads of consolidated groups. The distribution of these letters is given in Table 2.2.

The 77 letters to supervised institutions contained a total of 357 remarks or observations on the matters set out in Table 2.3.

As usual, the main matter addressed in recommendations was the accounting for and control of credit risk with around 50% of the total. In 2008, the Banco de España continued to require adequate provisioning for the less solvent obligors and improvements in the quality of controls over the origination and monitoring of loans.

The second most common matter, with 59 recommendations, was the internal control of institutions, which broadly encompasses the need for institutions appropriately to manage all their risks and improve their internal control procedures. Finally, the strict monitoring of compliance with solvency rules gave rise to 23 requirements and recommendations, and this issue thus ranked third by number of requirements, in a year in which, as mentioned above, the new solvency regulations (Basel II) came into force.

SUBJECT MATTER OF LETTERS SENT TO SUPERVISED INSTITUTIONS

TABLE 2.3

Number

	2006	2007	2008
Credit risk	145	231	177
Accounting for credit risk, borrower weakness and higher coverage requirements	96	164	130
Quality of credit risk controls (origination, monitoring and other procedures)	49	67	47
Management and internal control	102	147	79
Management and internal control in general	84	120	59
Capital market activities	18	27	20
Capital and solvency	30	41	23
Solvency ratio	30	41	23
Other regulations	146	162	78
Failure to comply with rules on transparency and customer relations	31	35	19
Deficiencies in information reported to the CCR	22	30	13
Requirements for authorisation of non-credit institutions	13	14	15
Other	80	83	31
TOTAL	423	581	357

SOURCE: Banco de España.

It should be mentioned that, depending on the nature of the deficiencies detected, some of these non-compliances gave rise to the appropriate communications to other financial supervision authorities in Spain and to the supervisory authorities of the foreign parents of Spanish credit institutions, within the framework of current legislation and of the Banco de España's cooperation agreements.

In the field of supervisory cooperation, 2008 saw continued fluid cooperation with European, Latin American and North American supervisors. Noteworthy in Europe was the work carried out with the UK host supervisor (United Kingdom Financial Services Authority) and the Portuguese supervisor (Banco de Portugal), while in Latin America mention should be made of the validation work in coordination with the Mexican supervisor (Comisión Nacional Bancaria y de Valores). Also, within the framework of European cooperation, the Banco de España participated in a CEBS project in which international teams of supervisors reviewed the economic capital models of a number of international banks, including a Spanish banking group.

In regard to "colleges of supervisors", understood as permanent, albeit flexible, fora for cooperation and coordination between the authorities responsible for supervising the members of international banking groups, in the last quarter of 2008 the Banco de España organised the respective meetings relating to two Spanish banking groups. These meetings were attended by representatives of the supervisory authorities of Germany, Argentina, Brazil, Chile, United States, Italy, Mexico, Norway, Panama, Paraguay, Peru, Poland, Portugal, United Kingdom, Switzerland, Uruguay and Venezuela, and by managers of these banking groups. The basic aim of these meetings was to exchange information on the risk profile of these banking groups, share the supervisory approach adopted in each country and become apprised of the supervision plans envisaged for these banking groups in 2009. Additionally, these meetings also seek to strengthen the ongoing multilateral and bilateral communication and cooperation between the various supervisors. Fur-

thermore, as the host supervisor of foreign banks, in 2008 the Banco de España attended various meetings of “colleges” in countries such as Germany, United States and France, and participated in an internal college of US supervisors on subsidiaries of a Spanish banking group and in another college in Holland relating to the acquisition of a banking group in that country.

Lastly, the Banco de España entered into four new cooperation agreements: with SEPBLAC (to replace the agreement of June 2005), with the financial supervisory authorities, central banks and finance ministries of the EU, with the Commissioner of Financial Institutions of Puerto Rico and with four supervisory authorities of the United States (Federal Reserve System, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and Office of Thrift Supervision).

2.2 Exercise of the sanctioning power

The sanctioning power exercised over the financial institutions and markets 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 pointed out 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 stipulated conditions of access, whether it be through the exercise of activities legally restricted to duly registered institutions 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 2008

In 2008, in view of the matters disclosed during on-site inspections by the Banco de España and of other circumstances, it was decided to initiate 14 disciplinary proceedings.

Classified by type of supervised institution, the proceedings initiated in 2008 by the Banco de España were as follows: three were brought against licensed appraisal companies and 10 against their directors and managers; six were brought against currency-exchange and mon-

Number

INSTITUTIONS	2005	2006	2007	2008
Banks	1	1	1(a)	—
Branch of EU foreign credit institutions	—	1	—	—
Savings banks	1	—	—	—
Owner of significant holdings in credit institutions	—	—	—	1
Non-compliance with ECB minimum reserve requirements	3	5	2	2
Use of names or pursuit of activities reserved for credit institutions	—	—	—	1
SCIs	—	1	—	—
Appraisal companies	5	2	2	3
Appraisal company revocation	1	—	—	—
Currency-exchange bureaux and money transfer agencies	5	5	6	6
Unauthorised currency-exchange bureaux	—	2	—	1
Currency-exchange bureaux revocations	163	1	1	3
Total	179	18	12	17

SOURCE: Banco de España.

a. Agreement on lifting suspension.

ey-transfer bureaux and 23 against their senior officers; one was brought against a natural person and a legal person for the presumed acquisition of significant holdings in the capital of a specialised credit institution without having previously informed the Banco de España; one against a company and its sole director for engaging in activities restricted to credit institutions; and one against an entity which was engaging in the activity of cross-border money transfers without the required authorisation.

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. Two of the proceedings initiated in 2008 were of this nature.

Lastly, mention must be made of the three proceedings initiated to withdraw authorisation of the respective currency-exchange bureaux due to them having relinquished such authorisation, since they had requested deregistration from the register of owners of currency-exchange and/or money-transfer bureaux. Strictly speaking, proceedings of this type do not involve the exercise of the Banco de España's sanctioning power, but they do form part of its supervisory and market oversight powers, since these proceedings provide a form of control over supervised institutions insofar as these can be prevented from forming part of the system if they give cause for revocation of their authorisation under existing regulations.

The foregoing figures are not particularly different from those of previous years in regard to the number of proceedings and the types of supervised institutions sanctioned by the Banco de España, although notably the institutions against which proceedings were brought in 2008 include some which had already been sanctioned in the past for failing to comply with organisational and disciplinary regulations. Repeat infringements are considered particularly undesirable in a regulated sector such as the financial market, where con-

fidence in the lawfulness of the relationships established in that market is vital for it to function properly.

2.2.2 PROCEEDINGS RESOLVED IN 2008

Together with the data on the number of proceedings initiated in 2008, reference should also be made to those resolved in that period. In this respect, the competent bodies resolved in 2008 disciplinary proceedings against nine supervised institutions and 42 members of their boards of directors and management. In these resolutions, 12 sanctions were imposed on institutions and 26 on directors or managers for the commission of very serious infringements. Twenty-six sanctions were imposed on institutions and 87 on their senior officers for serious infringements. Six sanctions were imposed for minor infringements, in this case only on institutions, since Spanish law does not envisage imposing sanctions on directors or managers for the commission of minor infringements.

Also resolved in 2008 were three proceedings against the respective credit institutions for non-compliance with the minimum reserve ratio. As mentioned above, proceedings of this type are brought and resolved by the European Central Bank, and are heard by the Banco de España.

Lastly, one proceeding for the pursuit of activities restricted to credit institutions, brought against a company and its sole director, was resolved in 2008, with only the latter being sanctioned.

Along with the information on sanctioning activity in the strict sense, we also report here the resolution in 2008 of three proceedings 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 bureaux themselves for deregistration from the official register.

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.

Credit institutions

First, mention should be made of the proceeding conducted against 1 bank and 16 individuals formerly holding directorships or management positions in the institution. In this proceeding a serious infringement was found to have been committed relating to non-compliance with rules on accounting and on preparation of balance sheets and income and other financial statements that have to be reported to the competent administrative authority.

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

Appraisal companies

In regard to disciplinary proceedings against institutions supervised by the Banco de España other than credit institutions, the proceeding conducted against one appraisal company and its five directors was resolved in 2008. A sanction was issued for a very serious infringement due to non-compliance with the authorisation requirement of having the organisational and internal control resources necessary to carry on the activity of appraisal. In the same proceeding sanctions were also imposed for serious infringements relating, respectively, to the issuance of appraisal certificates and reports which lacked concordance with the data and evidence obtained in the company's appraisal activity or which departed, without saying so

PROCEEDINGS RESOLVED, BY TYPE OF INFRINGEMENT

TABLE 2.5

Number

	NUMBER OF PRO- CEEDINGS	SANCTIONING PROCEDURES				OTHER PROCEEDINGS				
		INFRINGEMENT			PROCEEDING DISMISSED	NON-COMP- LIANCE WITH ECB MINIMUM RESERVE REQUIRE- MENTS	RESERVED NAME/ ACTIVITY (ARTS. 28-29 LDI)	APPRAISAL COMPANY REVOCATIONS (RD 775/97)	UNAUTHOR- ISED CURR. EXCH. BUREAUX	CURR. EXCH. BUREAUX REVOCATIONS
		VERY SERIOUS	SERIOUS	MINOR						
Against institutions										
2005	232	5	16	2	—	3	1	1	1	220
2006	18	13	33	13	—	5	—	—	—	1
2007	14	12	24	7	—	1	—	—	2	1
2008	16	12	26	6	1	3	1	—	—	3
Against particular directors of institutions										
2005	87	14	47		2	—	—	—	—	63
2006	56	39	132		2	—	—	—	—	—
2007	46	27	91		3	—	—	—	—	—
2008	43	26	87		8	—	1	—	—	—

SOURCE: Banco de España.

expressly, from the procedures, checks and instructions envisaged in the applicable legislation, and to the failure to report data to the Banco de España. A third infringement consisted of non-compliance with the requirement to have liability insurance meeting certain conditions to which institutions of this type are subject under the applicable sectoral regulations. This conduct (which, in isolation, could be considered to constitute a minor infraction) was, however, regarded as serious because it was a repeat offence, since the institution had been sanctioned for the same type of infringement in the preceding five years.

Currency-exchange and money-transfer bureaux

Proceedings against seven currency-exchange and cross-border money-transfer bureaux and their directors and managers (21 in total) were resolved in 2008. The infringements which were considered very serious refer, in two cases, to the keeping of accounting records with fundamental irregularities preventing the establishment's net worth and financial position from being known. In another eight cases the infringements were considered to be very serious since a serious infringement had been committed and in the previous five years a firm sanction had been imposed for the same type of infringement (failure to comply with: current rules on accounting and on preparation of financial statements that have to be reported to the competent administrative authority; the requirement of exclusivity in the use of bank accounts through which money transfers are made; the rules regulating insurance against liability; regulations on agents; and rules on the transparency of transactions and the recording of transactions). In one case a very serious infringement was considered to exist due to the omission of information which must be reported to the Banco de España and whose absence made it difficult to appreciate the bureau's net worth and financial position.

Serious infringements resulted from the failure to comply with: regulations on minimum capital requirements of currency-exchange bureaux (six cases); rules on accounting and on preparation of balance sheets and income and other financial statements that have to be reported to the competent administrative authority (one case); the compulsory insurance coverage of liability which might arise from money transfers (4 cases); transaction recording and money

transfer obligations (four cases); regulatory provisions on transparency and the protection of customers (three cases); the existence of omissions or inaccuracies in the information which must be reported to the Banco de España (three cases); and the requirement of exclusivity in the use of bank accounts through which money transfers are made (two cases). Also considered a serious infraction was the isolated non-compliance with regulatory provisions on transparency and the protection of customers, since the institution had been sanctioned for the same infraction in the preceding two years.

Finally, there were four minor infringements relating, respectively, to isolated non-compliance with regulations on agents; to transparency and the protection of customers; to the performance, on an isolated basis, of activities outside the scope of the exclusive corporate purpose; and to the failure to comply with the required timely remittance of certain documentation to the Banco de España.

Pursuit of activities reserved to supervised institutions

As noted above, the Banco de España's sanctioning activity also covers those individuals or legal entities which, without having obtained the required authorisation and having been registered in the corresponding registers, pursue activities reserved to credit institutions. One proceeding of this type was resolved in 2008. It was brought against a company and its sole director for the taking of repayable funds from the public in the form of loans and resulted in the sole director being fined. He was also sent a requirements letter instructing him to cease the unauthorised activity and noting that, if he failed to do so, he could be sanctioned again. This practice is considered particularly culpable because it directly affects not only the public's trust in the financial system, the proper functioning of which is altered by the unauthorised activity of the offender, but also the interests of the owners of the funds contributed, who assume the risk of loss in the event of insolvency of the recipients of the funds.

2.2.3 SANCTIONS AND CONCLUSION

Lastly, the sanctions imposed in 2008, which fall within the range available under the disciplinary regulations, consisted mainly of fines. However, sometimes the decision was taken to impose another type of sanction since it was considered more in keeping with the ultimate aim of the exercise of the disciplinary power which, as noted, is not so much the punishment of unauthorised conduct but rather the protection of the system, the prevention of future non-compliance and the reinstatement of the legal order. Thus, in certain cases it was deemed advisable to opt for sanctions of public reprimand, disqualification from serving as a senior officer and even, on three occasions, it was considered necessary to revoke the authorisation given to three foreign-currency bureaux since it was thought that the seriousness and persistence of the infringements committed made the offenders unsuitable for remaining in the system.

As a conclusion to what has been said above, it can be said that in 2008 the Banco de España continued to exercise its sanctioning power broadly within the parameters and trends of previous years, as regards the number of proceedings conducted and resolved and the types of sanctioned institutions. In this respect, it should be noted that in all disciplinary proceedings 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 responsibility in the commission of these infringements was proven.

There were no significant changes in the infringements found and sanctions imposed in comparison with previous years, nor were significant changes noted with respect to previous years. The only noticeable difference was the higher frequency of repeat infringements, which are deemed to be more serious than first-time offences.

2.3 Other supervisory activities of the Banco de España

2.3.1 TRANSPARENCY AND INFORMATION FOR BANK CUSTOMERS

The Banco de España is also entrusted with overseeing other aspects of the activity of CIs. Following is a brief review of those functions along with comments on the most notable matters arising in 2008.

The Banco de España 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. These verification tasks are restricted by law to checking that the brochure reflects maximum prices and the conditions governing their application in a clear and orderly fashion. Such checking does not include securities transactions since these are the competence of the CNMV.

In 2008 the largest number of changes to brochures of fee and commission charges was aimed at incorporating in them the provisions of Law 41/2007, amending Law 2/1981 of 25 March 1981, on mortgage market regulation and other mortgage and financial system regulations. Among other things, Law 41/2007 amended the regime applicable to early repayment of mortgage loans taken out since its entry into force, when the borrower is an individual and the mortgage is on a house. This regime also applies to transactions of this nature in which the borrower is a legal entity taxed under the small-companies regime.

The other changes to brochures relate, as usual, to alterations in the prices of bank services and to the inclusion of new services.

The proposals processed in 2008 numbered 1,205, compared with 1,104 in the previous year. This broke the downward trend of recent years in which there had not been any regulatory changes requiring adjustments to the brochure of fee and commission charges.

Another function entrusted to the Banco de España in regard to transparency is the authorisation, prior to publication, of CIs' advertising projects that refer to cost or return to the public.

This authorisation is intended to ensure only that advertising reflects clearly, accurately and in a manner respectful of competition, the features of financial offers, and that the cost or the return offered has been calculated in keeping with the rules regulating the annual percentage rate (APR). This measure seeks to harmonise that calculation so that different offers can be compared.

In 2008 the number of applications for authorisation of advertising projects was practically unchanged from the previous year (6,525 applications, against 6,528 in 2007). This represents a change of trend, since over the past decade the number of applications processed had been increasing significantly and systematically.

Although the number of applications processed containing offers of loans again exceeded the offers of deposits, the former decreased, losing ground to the offers of deposit products. In regard to the media used, the presence of advertising by CIs in the print media decreased by around 30%.

Another function relating to transparency is that of verifying the customer protection rules regulating the activity of the Customer Service Department and ombudsman,¹ except in the

1. The requirements in this respect were laid down by Ministerial Order ECO/734/2004 of 11 March 2004.

case of savings banks and local and regional credit cooperatives, the verification of which is carried out by the competent body of the regional (autonomous) community in which their registered office is located. In any event, the Banco de España must be informed of the designation of the head of this service or department and, where applicable, of the ombudsman.

As stated in the 2007 report on banking supervision, the task of initial verification of these rules was practically completed in 2006. Hence the work in 2008 consisted of checking the rules of institutions newly registered in that year and the changes proposed to existing rules.

The Bank Customer's Portal

The bank customer's portal is a specific section of the Banco de España website intended to provide information and guidance to non-business customers of credit institutions.

In 2008 portal page viewings numbered 2,529,171, an increase of 25% with respect to 2007. October was the month with the highest number of viewings, at 388,398. The most visited sections were the simulators, banking products, glossary, interest rates and frequently asked questions.

The 2,776 queries received through the portal's "contact us" facility numbered practically twice those in 2007 (1,379). Much the same happened with telephone inquiries, which amounted to 3,585, compared with 1,887 in 2007.

2.3.2 OFFICIAL REGISTERS AND INSTITUTIONAL INFORMATION

Under Spanish law the Banco de España is responsible for various public registers in which not only CIs and other financial intermediaries and auxiliaries, but also certain elements of their corporate governance and organisational structure, have to be registered. These registers are as follows:

Register of Institutions

Institutions 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 the diverse institutions operating on Spain's financial markets; and second, it aims to publicise the fact that those institutions are subject to supervision by the Banco de España.²

Table 2.6 gives the number of institutions supervised by the Banco de España and included in the register,³ as well as the number of institutions from other EU countries that operate in Spain under the freedom to provide services.

The changes in the register of institutions in 2008 were minimal. Perhaps most noteworthy was the restructuring of the Banco Popular group mentioned in Chapter 1.1 and, in particular, the registration as a CI of the first Spanish electronic money institution: Yunique Money, EDE, SA.

Apart from this, the only other development calling for comment is the increase in the number of branches of EU institutions, which rose by 12.5% to stand at a total of 81 branches, reflecting the typical cross-border movements of the European single market.

². 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. The register of institutions is available not only as it currently stands, but as it stood at past dates, and selective searches can be made on the basis of different criteria. ³. 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 REGISTER OF INSTITUTIONS

TABLE 2.6

Year-end data (number) (a)

	2005	2006	2007	2008
Institutions with an establishment (b)	542	550	558	561
Credit institutions	350	355	358	361
Representative offices	53	54	57	55
Mutual guarantee companies	23	24	24	24
Reguarantee companies	1	1	1	1
Currency-exchange bureaux and money transfer agencies (c)	57	59	59	62
Appraisal companies	58	56	57	56
Controlling companies of credit institutions	—	1	2	2
Credit institutions operating without establishment	383	404	433	480
Of which: EU CIs operating without an establishment	378	398	428	475
Of which: financial subsidiaries of EU CIs	3	3	2	2

SOURCE: Banco de España. Data available at 31 December 2008.

- a. The number of institutions also includes those that are non-operational and in the process of deregistering.
- b. Including electronic money institutions (one in 2008) and ICO.
- c. Not including foreign currency purchasing establishments.

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 data 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 accrediting the commercial and professional experience and standing required of the senior officers of financial institutions; and, secondly, acting as a specific instrument for checking the restrictions and incompatibilities applicable to senior officers of banks and credit cooperatives which the Banco de España has to supervise in regard to the holding of similar posts in other companies.

The steadiness shown by the total number of senior officers entered in the related registers,⁴ and in the number of registrations and deregistrations, accurately reflects the minimal alterations in the number of institutions. Within that total, the percentage of women recorded in the registers of senior officers with respect to the total individuals registered stood at 13% at the end of 2008.

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,⁵ for the dual purpose of supporting the basic

4. All the statistical information in this section other than that relating to the number of registered institutions is included in Annex 4.2 of the version published on the Banco de España website. 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. 5. These institutions are required to report data quarterly on all their shareholders or holders of contributions that are deemed to be financial institutions, and on those who, while not deemed to be such, hold shares or contributions representing a percentage of the share capital of the institutions greater than or equal to 0.25% in the case of commercial banks, 1% in credit cooperatives and 2.5% in SCIs.

supervisory tasks of the Banco de España, in which it is essential for the latter to know the share ownership structure of the institutions under its supervision, and of checking compliance with the legal provisions which bring under control of the Banco de España any equity holdings in these institutions exceeding certain thresholds.

Two changes in this register in 2007 call for comment. First, the increase in the number of bank registered shareholders who are natural persons, which was due to the conversion of a credit cooperative (Caja Caminos) into a bank (Banco Caminos). This event had the opposite effect on the register of credit cooperative shareholders. Second, the increase in the number of SCI registered shareholders. This increase took place among resident credit institutions as a result of the creation of a new SCI by 25 savings banks which are registered as its shareholders.

Reporting of agents

CIs operating in Spain and, since the beginning of 2002, also the currency-exchange bureaux licensed to make cross-border money transfers, are obliged to report to the Banco de España those agents whom they have authorised to operate habitually with their customers, in the name of and on behalf of the principal, in negotiating or entering into transactions typical of their activity. In addition, Spanish CIs must report to the Banco de España the list of foreign CIs with which they have entered into agency agreements or, where applicable, agreements to provide financial services to customers.

In 2008 the number of registered agents of currency-exchange bureaux licensed to make transfers kept up the notable pace of growth shown in previous years (above 25%), related above all to immigration. However, the degree of concentration continues to be high, since 58% of agents work for only five bureaux.

By contrast, the number of agents of CIs decreased by 9% to stand at the levels of 2006. Banks, which continued to account for 95% of the agents of CIs, proceeded to reduce them in a very general manner.

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

The Banco de España also keeps a register of articles of association of supervised institutions in which the successive amendments are recorded to ensure continuity in the exercise of prudential control over supervised institutions.

On occasions these amendments are subject to administrative authorisation by the Ministry of Economy and Finance or the corresponding body of the regional (autonomous) government, in which case a prior report from the Banco de España is mandatory. In 2008 there were 24 applications to amend articles of association. This was 35% fewer than in 2007, mainly as a result of the virtual completion of the process of adaptation of articles of association of institutions to the changes in the principles of corporate governance and to the regional regulatory framework for Valencian credit cooperatives. Accordingly, the number of changes to articles of association decreased by 17% to 184.

2.3.3 OTHER AUTHORISED ELIGIBLE CAPITAL FOR SOLVENCY PURPOSES

The capital instruments eligible as own funds include, along with the subordinated debt recognised as own funds in 1985, other elements known as hybrids which, along with the typical features of debt financial instruments, have features characteristic of equity instruments: they can be set off against losses without the need to liquidate the institution, they will remain on the institution's balance sheet for an indefinite period of time and the returns on them depend on the existence of sufficient profits and on the issuer's solvency. These instruments include perpetual subordinated debt and preference shares, in many cases issued by special-purpose entities that are subsidiaries of CIs.

Yearly data (€m)

	NUMBER				AMOUNT			
	2005	2006	2007	2008	2005	2006	2007	2008
TOTAL	63	79	60	36	8,471	16,078	21,592	3,747
Subordinated debt	51	65	45	32	5,587	13,942	11,962	2,597
Fixed-term	48	60	41	27	5,222	12,728	10,458	2,497
Banks	11	24	29	14	1,865	8,853	9,189	1,259
Savings banks	28	25	9	9	2,870	3,724	1,224	1,233
Credit cooperatives	3	3	3	1	403	23	45	2
SCIs	6	8	—	3	85	128	—	3
<i>Of which:</i>								
Loans	9	12	4	7	202	297	420	678
No agreed maturity	—	—	—	3	—	—	—	19
Credit cooperatives	—	—	—	1	—	—	—	3
SCIs	—	—	—	2	—	—	—	16
<i>Of which:</i>								
Loans	—	—	—	2	—	—	—	16
Undated	3	5	4	2	365	1,214	1,504	81
Banks	1	2	1	—	15	64	1,019	—
Savings banks	2	3	3	—	350	1,150	485	—
SCIs	—	—	—	2	—	—	—	81
Preference shares	12	14	15	4	2,884	2,136	9,630	1,150
Banks	3	6	7	1	1,800	1,602	9,239	1,000
Savings banks	8	8	7	3	995	534	389	150

SOURCE: Banco de España.

There are no restrictions on the issuance of such instruments, which is subject to the securities market regulations and, in the case of preference shares, to the provisions of Law 13/1985, as reworded under Law 19/2003 of 4 July. Also, as a prerequisite for their eligibility as own funds of the issuing institution or of its consolidated group,⁶ the Banco de España must verify that these instruments meet the conditions established by bank solvency law.

To correctly analyse the eligible debt issued in 2008, any comparison with that of previous years must take into account the exceptional nature of the securities obligatorily convertible into shares issued in 2007 by Banco Santander (€7,000 million) in the acquisition (together with the Belgian-Dutch group Fortis and the UK bank Royal Bank of Scotland) of the Dutch bank ABN AMRO, NV. In order to avoid the distortions which this exceptional issue would cause in a study of the time series of eligible debt instruments, it is disregarded in the following analysis.

In overall terms, the total amount subscribed in 2008 in the issues verified by the Banco de España was €3,747 million, which represents a decrease of more than 74% with respect to 2007. This decline was more pronounced in subordinated debt (78%) than in preference

6. Such eligibility is for the purpose of compliance with certain prudential requirements such as the solvency ratio or the limits on large exposures.

shares (56%). The decline was particularly significant in perpetual subordinated debt, which, although starting from relatively low levels, decreased practically to zero.

It should also be noted that the bulk of the issues was subscribed in the second half of 2008, since, overall, in the first half only €465 million (a little more than 12% of the total) were placed.

The decrease of 29% in the number of subordinated debt issues was less sharp than the decrease in their amount, indicating that there was not only a fall in the total volume issued, but also in the average amount of each issue. Regarding preference share issues, although their small number does not allow definitive conclusions to be drawn (particularly in view of the large amount of one of them), it can be said that the average amount of the issues by savings banks was in line with that of previous years.

All these developments reflect the complex situation prevailing in 2008 in the international financial markets, which even ceased to function for a good part of the year. That is why, unlike in previous years, most of the issuances took place, either totally (74%) or partially (89%) in Spain. In 2007 only 7% of issues were wholly in Spain.

The target public was also different, since while in 2007 96% of the issue amount was directed exclusively at institutional investors, in 2008 52% was placed, at least partially, among retail investors and 39% wholly with them. 32% of the total issued was placed wholly with Spanish individuals.

The issues launched by operating subsidiaries of Spanish CIs subject to specific own funds requirements in their country of origin amounted to €265 million in 2008. This represented 7% of the total, similar to the percentage of the previous year.

In 2008 the predominant type of issue was euro-denominated 10-year subordinated debt with optional early repayment from year 5 subject to prior authorisation of the supervisor and interest tied to 3-month EURIBOR with a spread which was around 3% in October and above 4% in the last part of the year, and a step-up of 75 percentage points if the early repayment option was not exercised. This issue was typically quoted in the AIAF market. The main difference from the previous year was the wider spread on EURIBOR, since in 2007 it was normally less than 1% (with a step-up of only 50 bp).

Lastly, although it is not an instrument the Banco de España is responsible for verifying, we mention here that the first issue of non-voting equity units (*cuotas participativas*) was made in 2008 by Caja de Ahorros del Mediterráneo, for an amount of €100 million.⁷

2.4 Supervisory policies: The Spanish system of continuous supervision

2.4.1 INTRODUCTION

In the 2001, 2002 and 2003 reports on banking supervision in Spain, the Banco de España explained the development, extensive application and further building-up of its methodology for risk-based supervision. Since then, there have been notable regulatory changes, including the release of Circular 4/2004 of 22 December 2004 to credit institutions on public and confidential financial reporting rules and formats and, more recently, Circular 3/2008 of 22 May 2008 to credit institutions on the determination and control of minimum own funds.

Circular 3/2008, in addition to replacing the old system of determining own funds by a more complex one that is more sensitive to banking risks, introduces new features relating to the

7. This issue is not reflected in Table 2.7.

function of supervisors. Their risk control responsibility is broadened in accordance with the requirements of so-called Pillar 2, which stipulates that institutions must have a procedure for assessing capital adequacy on the basis of their risk profile, which shall be examined and assessed by the supervisor.

In this connection, the Banco de España published its Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) of credit institutions in June 2008, conducted a general pilot trial to assess the suitability of these processes and commenced work to up-date its supervisory model, which, although constantly under revision as a result of the ongoing interaction between supervisor and supervised institutions, must now incorporate the most recent regulatory changes, such as the ICAAP and the Supervisory Review and Evaluation Process (SREP).

Hence, although the Banco de España's present-day supervisory system maintains the essential ideas expressed in the aforementioned banking supervision reports, it is now a good time to explain this system again and look at the new features included in it.

2.4.2 SUPERVISION OF CIs AND THEIR CGs: RISK PROFILE AND CONTINUOUS SUPERVISION

The basic delimitation of the Banco de España's competence in the supervision of CIs and their CGs continues to be based on Article 43.bis of Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions and on Article 7.6 of Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España.

In exercise of the legal mandate received, the Banco de España, like the other supervisory authorities of developed systems, focused its attention on the solvency and conduct of CIs and CGs considered separately, in the knowledge that the aim of financial system stability set out in Article 7.3.b) of Law 13/1994 requires the implementation of due protection against the risk of contagion and that no public supervision system can completely eliminate the possibility of a CI failing as a result of poor management.

Given a dynamic banking system such as that in Spain, the traditional supervisory model based on a knowledge of the present accounting and financial situation and on the administrative control of regulatory compliance is not sufficient and must be supplemented by a risk-based approach to incorporate time dynamics, improve the assessment of institutions' future viability and strengthen the preventive measures that may be adopted. The Banco de España's supervisory system shares this risk-based approach with those of the supervisors of countries with highly developed banking systems, but it also has distinctive features derived, *inter alia*, from the importance of inspection visits in the supervisory process, from the retention of accounting regulatory competence, and from an organisation designed for frequent contact with institutions through teams charged with off-site analysis and monitoring functions, as well as inspection visits. That is to say, it is a supervision system which is in close touch with the institutions' business reality and, additionally, is supported by a system of periodic and highly detailed reporting by supervised institutions which makes it possible to hold an expert and up-to-date opinion at all times on the situation and performance of institutions.

2.4.3 STRUCTURE AND ORGANISATION OF SUPERVISION AT THE BANCO DE ESPAÑA

In recent years the Banco de España's supervision has been strengthened through the incorporation of specialists in widely diverse fields. Lawyers, economists and information technologists have been joined by others with statistics and mathematics training in order to smooth the adaptation to the new solvency framework. All of them form part of the Directorate General Banking Supervision, in the following areas (see also Table A.1.2):

- a) The three inspection departments, entrusted with the analysis, monitoring and inspection of institutions and composed of a variable number of divisions, each

under its respective head. These divisions consist of inspectors with general training (which enables a comprehensive view and knowledge of the institutions examined by them), support technical staff and IT auditors. Each of these divisions has assigned to it specific credit institutions at which it conducts off-site analyses and the related inspection visits and engages in dialogue and direct contact with management. In this way supervisory tasks are unified in a single group of people and the process of continuous supervision, i.e. up-to-date knowledge of each institution and banking group, is strengthened.

- b) The Associate Directorate General Banking Supervision, with its cross-sectional and specialised support divisions, which assist in activities ranging from analysis and monitoring in specialised matters to direct participation in inspection work on those matters. These divisions, which also carry out other functions, such as the coordination of supervisory policy and of the Banco de España's international activities in the area of supervision, are: Technical Secretariat and Institutional Relations, International Coordination and Advice, Latin America and United States, Off-Site Analysis, Credit and Operational Risk Management Models, and Market and Liquidity Risk Management Models and Custody.
- c) Supervision Planning, which consists of the Innovation and Technology Division and the Methodology and Quality Division.

2.4.4 SUPERVISORY ACTIONS AND ACTIVITIES

The Banco de España pursues three lines of action within its continuous supervision:

- Off-site monitoring and analysis based on confidential returns and other information received periodically at the Banco de España, supplemented, as appropriate, by additional information requested from the institutions, by information gathered in contacts with institutions and by any other available information considered useful.
- Full or partial inspection visits, which enable direct verification of information provided to the Banco de España and of the level of compliance with the various rules, a deeper knowledge of risk management and asset valuation practices and direct assessment of qualitative matters (policies, organisation, management, controls) impinging on the situation of credit institutions.
- On-site continuous monitoring, which, in the case of the larger, more complex groups of credit institutions, enables the Banco de España to obtain information promptly and hence take supervisory measures earlier.

Within the framework of these supervisory lines of action, the Banco de España carries out the following activities:

- Accounting review: this is a basic activity in supervision, since the other supervisory activities mentioned below require the assurance that the institutions' accounting records are accurate. Accordingly, the Banco de España devotes substantial resources to checking compliance with accounting rules, particularly the valuation of assets, liabilities and off-balance-sheet items, and, in addition, draws on information gathered in the institutions' own review work (internal audit) and that of external auditors (audit report and supplementary audit report).

- Economic and financial analysis: the strength of a credit institution is based on an appropriate lending and deposit structure, sufficient net interest margins, closely controlled costs and realistic write-downs enabling the generation of high recurring income and adequate capitalisation. This makes it important to undertake this analysis in the framework of supervisory action.
- Review and assessment of risks and solvency: the aforementioned reviews are completed by this supervisory activity which, like the economic and financial analysis, has a clear prospective component. The assessment of an institution's corporate governance and of its management and control of risks and of own funds provides a knowledge of its true solvency situation, which, being linked to the risks assumed, gives an idea of the future risks that institutions may have to face.

Additionally, the Banco de España performs reviews of general regulatory compliance within its area of competence.

These supervisory lines of action and activities make for a supervisory system in close touch with institutions which enables knowledge, information and opinions in respect of each supervised institution to be kept up-to-date. It thus enables the supervisor to determine institutions' strengths and weaknesses, anticipate as far as possible any potential problems, assess corporate governance and management and risk control policies, assess solvency and detect areas requiring stronger supervisory action.

To help it carry out these actions and activities, the Banco de España has developed a large body of analysis and management tools which, inter alia, allow: the consultation and processing of financial information received by the Banco de España from CIs and their CGs; the handling of risk information received via the Central Credit Register; documentary management of inspections; monitoring of institutions and administrative procedures relating to them, etc.

2.4.5 RISK MATRIX

As noted above, the objective of the Banco de España's supervisory model is to obtain comprehensive up-to-date knowledge of the situation of supervised institutions and of how that situation is changing. This knowledge is used to build a supervisory risk profile of each institution which summarises, in a single variable, the probability with which the Banco de España considers that a credit institution will have solvency problems in the future. Based on this profile and on the systematic importance of each institution, priorities and a supervisory strategy are established for institutions and are reflected in the supervisory framework, which is used to prepare the tentative annual plan action.

To ensure that the supervisory risk profile is constructed on a consistent and reasoned basis, the Banco de España has developed an institution assessment methodology known as a SABER (the Spanish acronym for a risk-based approach to banking supervision). This methodology provides a uniform and structured framework for assessing institutions which is summarised in the form of scores assigned in the risk matrix. These scores are determined by drawing on all the information and knowledge obtained in all supervisory actions and activities and reflect the opinion held on the institutions at the time. Once these scores have been determined, the risk matrix acts, in addition, as the common language which, in the annual planning phase of supervisory tasks, enables institutions to be compared and priorities to be established in an objective manner.

The new solvency regulation and the implementation of Basel Pillar 2 have posed the question of whether it is appropriate to include in SABER methodology the conclusions drawn from the ICAAP and SREP and from the risk matrix review.

	TYPE OF RISK	INHERENT RISK	CONTROL	RESIDUAL RISK
Credit				
Market				
Business				
Liquidity				
Interest rate				
Foreign exchange				
Operational				
Institution's risk profile				
Cross-sectional assessment of corporate governance				
Solvency assessment				
Supervisory risk profile				

SOURCE: Banco de España.

The 2002 Report on Banking Supervision (Box II.3, page 95) explained the methodology for preparing the following risk matrix:

The new features the Banco de España intends to include shortly in this risk matrix are:

- A revised risk list conforming to the risk categories used by Basel 2 and reflected in the IPAAC Guidelines. Accordingly, legal risks are included in operational risk and provision is made for the assessment of other risks not included in the main list (strategic, reputational, etc.).
- A vertical assessment of the institution's internal governance, i.e. of the manner in which the Board of Directors or equivalent body takes responsibility for the nature, level and management and control of the risks assumed. This assessment is additional to the cross-sectional assessment of corporate government regarding the relationship of the institution's governing bodies with third parties (shareholders, investors, depositors customers, etc.).
- An assessment of the systemic nature of the institution.

Lastly, the possible assessments of the various facets (inherent risk, internal governance, management and control, residual risk, corporate governance, solvency and supervisory risk) were reduced from five categories to four.

Despite these new features, the structure and rationale of the existing risk matrix are unchanged. Accordingly, the process started by successively assessing for each risk the following: the risk inherent in or intrinsic to the institution's activity, internal governance, and risk management and control, i.e. policies and systems of risk measurement, origination, communication, control and monitoring. The result of these analyses is a judgement based on the residual risk level of each type of risk, working on the principle that the controls mitigate but do not eliminate the inherent risk, which is consequently the component with most weight in the residual risk.

The weighted aggregate of the various residual risks determines, along with external corporate governance, the institution's risk profile, which is a key factor for the Banco de España, since, in the near future, it will determine the level of capital the Banco de España considers the institution has to have in application of Article 10 bis, Section 1.c of Law 13/1985 on investment ratios, own funds and reporting requirements for financial intermediaries.

Lastly, the adjustment of the institution's level of own funds to the risks assumed, the quality of those own funds and the reasonableness of the capital target and planning are assessed. All this information and the assessment of the institution's risk profile are used to obtain the supervisory risk profile, which, as mentioned above, summarises in a single variable the probability that, in the Banco de España's judgement, a credit institution will have solvency problems in the future. The assignment of a value to this variable concludes the Banco de España's assessment of institutions by the SABER methodology.

3 REGULATORY CHANGES IN PRUDENTIAL SUPERVISION

3 Regulatory changes in prudential supervision

This chapter includes the most significant legal changes which, from a prudential supervision standpoint, were made in 2008 in the regulation of the activity of CIs and other financial intermediaries and auxiliaries subject to supervision by the Banco de España. This chapter is devoted to organisational and disciplinary rules and omits other regulatory changes of a more technical and operational nature which do not address the solvency of institutions or their interaction with markets or customers.

3.1 Community provisions

Despite the intense regulatory debate at international level in general and in the EU in particular, in 2008 there was only one new piece of EU legislation in the field with which we are concerned.

Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC

The purpose of this Directive is to reduce the differences between the laws of the various Member States in the field of consumer credit in order to create a genuine internal market in consumer credit. It therefore determines first the information which the creditor and, where applicable, the credit intermediary (although not suppliers of goods and services that act only as credit intermediaries in a secondary capacity) must provide to consumers before the credit agreement is concluded. This information is provided in the so-called Standard European Consumer Credit Information, although there are specific provisions on distance marketing. The Directive also regulates how this information must be reflected in the contractual documents.

The Directive grants certain rights to consumers: (i) right to be informed of any change in the borrowing rate before the change enters into force, (ii) right to make full or partial early repayment of credit, for which the creditor is entitled to receive compensation which may not exceed 1% of the amount of credit repaid early (0.5% if the credit is repaid no more than one year early), (iii) right to withdraw from the credit agreement, which, except in certain circumstances, may be exercised within a period of 14 calendar days without giving any reason, (iv) right to be informed of any assignment of rights under a credit agreement, retaining vis-à-vis the assignee the same exemptions and defences as with the original lender.

In regard to linked credit,¹ the Directive provides that, in the event of withdrawal from a contract for the supply of goods or services, the consumer shall no longer be bound by the linked credit agreement. Also, in the event of breach of contract by the supplier, the consumer shall have the secondary right to pursue remedies against the creditor.

The Directive devotes particular attention to the calculation of the annual percentage rate of the transaction and introduces the obligation to assess the credit status of the consumer using either the information furnished by him or the relevant databases. As a corollary to this obligation, it requires the Member States to ensure that creditors have access to these databases regardless of their nationality.

1. That which serves exclusively to finance an agreement for the supply of specific goods or the provision of a specific service, such that the two agreements form, from an objective point of view, a commercial unit.

The Directive excludes the following credit agreements, among others, from its scope of application: (i) those secured either by a mortgage on immovable property or by delivery of an asset to the creditor, (ii) those relating to deferred debit cards under the terms of which the credit is repayable within three months free of interest, (iii) those in which the total amount of credit is less than €200 or more than €75,000 and (iv) those in the form of an overdraft facility and where the credit has to be repaid within one month (those in which the credit has to be repaid within three months have to meet only certain information requirements).

3.2 National provisions

3.2.1 PRUDENTIAL REGULATION

Royal Decree 216/2008 of 15 February 2008 on the own funds of financial institutions

The Basel II Capital Accord was written into Community law in the form of two directives, both dated 14 June 2006: Directive 2006/48/EC on the taking up and pursuit of the business of credit institutions and Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions. These two directives were partially included in Spanish law through Law 36/2007 of 16 November 2007 amending Law 13/1985 of 25 May 1985 on the investment ratios, own funds and reporting obligations of financial intermediaries and other financial system rules, and through Law 47/2007 of 19 December 2007 amending Law 24/1988 of 28 July 1988 on the securities market. Royal Decree 216/2008 continues this process of transposition. Set forth below are the main aspects of this process affecting the institutions supervised by the Banco de España.

The definition of the components of CIs' own funds includes, along with other minor changes in the conditions for their eligibility and in the items deducted in calculating them, such notable new features as the introduction of so-called ancillary capital and the setting of new limits for traditional categories.

In regard to capital requirements, the Royal Decree stipulates different treatment according to the type of risk. Thus, for credit and counterparty risk it holds unchanged the coverage of 8% of risk-weighted exposures, although the coverage of credit risk may now be calculated either by the so-called standardised approach or by the internal ratings-based (IRB) approach. Under the standardised approach, the risk weights are calculated, as before, on the basis of predetermined categories, although now in many cases credit ratings by eligible external ratings agencies or, in certain cases, by export credit agencies, may be used in this calculation. Under the IRB approach, the use of which requires prior authorisation from the Banco de España, the weightings are carried out using internal risk models based on the institutions' experience. Also, the Royal Decree continues to allow the value of exposures to be reduced through the use of collateral or guarantees, the latter being understood to include credit derivatives, and devotes particular attention to the calculation of exposures in securitisation transactions from the standpoints of both the originator and the investor.

Other types of risk addressed in the Royal Decree are: (i) those relating to possible unfavourable changes in exchange rates and in gold and commodity prices (for which internal calculation models may be used); (ii) those deriving from price changes affecting positions in the financial assets comprising CIs' trading portfolios and (iii) risk of loss due to events which might occur in an institution's internal processes (operational risk). To calculate the latter, which is the only new risk, three possible approaches are established: the basic indicator approach, the standardised approach (along with the variant which gives rise to the alternative standardised approach) and the advanced approach, based on an institution's own prediction systems.

The Royal Decree holds unchanged the existing regulation of limits on large exposures and eliminates the previous limit on property, plant and equipment, which had no equivalent in Community legislation.

The Royal Decree also introduces a series of organisational requirements which include: (i) a suitable organisational structure, (ii) compliance and internal audit functions, (iii) an internal capital adequacy assessment process (see Section 2.4.1 of both this and the 2007 Report) and (iv) definition of the policies for assuming, controlling, managing and mitigating risks, including interest rate and liquidity risk. Also specified are the general requirements and conditions under which credit institutions may delegate the provision of services or the exercise of functions forming part of their activity, thereby ensuring the consistent treatment of such delegation by credit institutions and investment firms.

Turning to market disclosure by credit institutions (Pillar 3), these are required to publish so-called “information of prudential significance” at least once a year as soon as it is feasible to do so. Where information is omitted because it is confidential, this must be stated and the reasons doing so must be given.

Lastly, the Royal Decree stipulates the measures to be taken by groups of credit institutions or by credit institutions individually should they fail to meet the requirements or limits in place. Accordingly, within one month the institution must submit for approval by the Banco de España a programme setting out the plans for returning to compliance.

In any event, a substantial part, if not all, of the technical matters relating to the own funds of financial institutions is delegated to the Banco de España or the CNMV, since the directives contain detailed provisions on them.

Other supervised institutions

The Royal Decree establishes specific own funds and risk diversification requirements for mutual guarantee and reguarantee companies (the previous ones were established by reference to those of credit institutions) and recognises that, under certain conditions, reguarantees are an instrument that reduces credit risk and should therefore entail the consequent reduction of capital requirements for commitments backed by reguarantees.

Banco de España Circular 3/2008 of 22 May 2008 to credit institutions on determination and control of minimum own funds

This Circular culminates the process of transposition of Community solvency legislation by establishing the technical specifications applicable to consolidable groups and sub-groups of credit institutions and to individual credit institutions of Spanish nationality. As a general obligation, the Circular mandates compliance with requirements and limits at both individual and consolidated level, although it provides that the Banco de España may grant certain individual exemptions provided that an adequate allocation of own funds and of risks within the group is assured and the inexistence of obstacles to the transfer of own funds or the repayment of liabilities between the parent and its subsidiaries is accredited. The Circular also applies to coordination groups controlled by a financial institution with registered office outside the EU that are not subject to equivalent consolidated supervision.

Eligible elements

A major new development in this respect is the limits set for the calculation of certain financial instruments as tier 1 capital of CIs. Thus preference shares and non-voting shares may not exceed 30% of tier 1 capital (15% including early redemption incentives). Also excluded is the aggregate amount of minority interests held as ordinary shares that exceeds 10% of the group

or sub-group's total tier 1 capital. In any event, ordinary capital, reserves and minority interests (less losses and own shares) must exceed 50% of tier 1 capital. The excesses resulting from the application of these limits shall be included in tier 2 capital.

The most significant new feature in the definition of eligible elements is, however, the ability to calculate, subject to certain conditions, the provisional profit as it is accrued during the year. Also, the scope of the so-called ancillary capital, valid only to cover position and foreign-exchange risk, is specified.

Credit risk

The capital requirements for credit risk remain at 8% of risk-weighted assets, including the credit risk associated with off-balance-sheet items and not yet deducted from own funds. To calculate credit risk, institutions can use the standardised approach or, if authorised by the Banco de España, the internal ratings-based (IRB) approach.

Under the standardised approach, the Circular specifies² the weights applicable to the different risk exposures, although it permits the use of external ratings provided that certain requirements are met.³ The main new developments in these risk weight specifications are the two new categories: that of retail, which will receive a weight of 75% and that of corporate, the weight of which will be 100% or that assigned by central government of the jurisdiction in which the company is incorporated, whichever is higher. Exposures secured by residential mortgages have a low weight provided they meet certain conditions, including the requisite that the loan amount does not exceed 80% of the collateral value (if it is more than 80% but not more than 95%, it is weighted at 100%, and if it is more than 95% of the collateral value, it is weighted at 150%), and exposures secured by commercial mortgages are reduced to 50% under certain conditions. Doubtful loans (more than 90 days past-due) shall receive a weight of up to 150%, as shall regulatory high-risk categories (including non-permanent variable-rate exposures).

Under the IRB approach, the use of which requires prior authorisation from the Banco de España, risk exposures are weighted using the institution's own risk models, which may also use own estimates of conversion factors of loss given default.

In any event, the Circular allows the calculation of credit risk-weighted exposures to be changed through the application, either separately or in combination, of so-called credit risk mitigation techniques, which may be based on collateral, on guarantees provided by protection providers or on single-name or basket credit derivatives. Certain general and specific requirements for each group have to be met before these techniques can be used.

The Circular also pays particular attention to exposures resulting from securitisation transactions⁴ the calculation of which has to take into account, as a general principle, whether or not

2. In the case of risk exposures to the public sector, this is done by Royal Decree 216/2008. 3. External ratings can only be used to determine risk weights when the rating agency has been recognised by the Banco de España, for which purpose it must meet the requirements of objectivity, independence, continuous revision of the methodology applied and transparency. The credit ratings that may be recognised for the purpose of determining the risk weights of an exposure to central government or central banks also include those performed by Compañía Española de Seguros de Crédito a la Exportación (CESCE) and other export credit agencies recognised by the Banco de España. 4. The Circular defines securitisation as a financial transaction or scheme whereby the credit risk associated with an exposure or pool of exposures is divided into two or more separately transferable tranches (in which the subordination of tranches determines the distribution of losses), the payments of which are dependent upon the return on the exposure or pool of securitised exposures. In addition to traditional securitisation (which entails the economic transfer of the securitised exposures), the Circular provides for synthetic securitisation (securitisation where the tranching of credit risk and its transfer are achieved by the purchase of credit protection for the securitised exposures) and multi-assignor securitisation (in which there is more than one originator credit institution).

there is significant credit risk transfer. Securitisation exposures are calculated as the sum of the products of the exposure value of each position by its respective risk weight.

Counterparty risk

In order to complete the calculation of credit risk-weighted exposures, the Circular holds virtually unchanged the systems previously established for calculating the counterparty default risk before final settlement of the agreed flows, which is present in certain off-balance-sheet transactions.

Foreign exchange risk

As has been the practice so far, capital requirements for foreign exchange risk shall be calculated by the standardised approach, linked to the overall foreign currency position, although, for the total position or for a pool of positions in foreign currencies, this approach may be replaced by internal models upon prior authorisation from the Banco de España. Nevertheless, a new development is that the Circular sets a minimum threshold below which there will be no requirement.

Trading book risk

The trading book is composed of all the positions in financial instruments and commodities held by the CI with the intention of trading or which serve as a hedge of other items in this portfolio. As a new development, hedges of non-trading book positions (internal hedges) to also be included under certain conditions.

The capital requirements for the trading book continue to be the sum of the position risk requirements⁵ for positions in fixed-income securities, in shares and other equity (including holdings in collective investment institutions) and in commodities, as well as the credit and counterparty risk requirements linked to the trading book, those relating to settlement and delivery risk and to foreign exchange and gold position risk. If CIs have a significant level of trading book activity, they may, upon prior authorisation from the Banco de España, calculate their capital requirements using their own internal risk management models. As before, the treatment stipulated for risks of this type shall not apply if the trading book does not reach certain thresholds.

Operational risk

Three methods can be used to calculate the new capital requirements for operational risk: (i) basic indicator approach, which uses the main income items in the income statement; (ii) standardised approach, based on the main income items of certain lines of business defined in the Circular, although those of commercial and retail banking may be replaced by normalised relevant income (alternative standardised approach); and (iii) advanced approaches, based on the own measurement systems of each institution. The Circular permits CIs to use a combination of various methods in exceptional temporary circumstances, subject to prior authorisation from the Banco de España.

Limits on large exposures

The limits on large exposures (those exceeding 10% of a CI's own funds) do not undergo any significant changes. The amount of all the exposures of a CI to a single third-party client or economic group may not exceed 25% of its own funds; if the risk exposure is to unconsolidated institutions of the reporting institution's own economic group, this limit shall be 20%. Additionally, the overall large exposures may not exceed eight times its own funds. However, for the purposes of calculating these limits, the exceptions envisaged by the Circular include a wide variety of exposures.

Internal governance and internal capital adequacy assessment requirements

To implement the so-called Pillar 2 of the Basel Accord (internal capital adequacy assessment and supervisory review process), the Circular includes a wide range of measures designed to

5. Position risk can, in turn, be divided into a general risk, derived from a price change in trading book items due to general movements in markets, and a specific risk, due to factors related to the issuer of the security or of its underlying instrument.

improve the internal management of institutions and, in particular, of their risks. Thus credit institutions and consolidable groups and sub-groups of credit institutions should have a clear organisational structure with well-defined, transparent and consistent reporting lines. They should also have adequate internal control mechanisms and appropriate processes to prevent conflicts of interest and to identify, manage, monitor and report risks (including interest rate risk). These procedures should be reviewed regularly.

Additionally, both CIs and consolidable groups of CIs should carry out an internal capital adequacy assessment process. This process should enable institutions to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and of own funds they consider adequate to cover all risks, depending on their nature and level, to which they are or may be exposed. In order to measure them, institutions may use their own methodologies or, alternatively, the criteria provided for this purpose by the Banco de España in its guidelines for this purpose. These strategies and procedures shall be summarised in a yearly internal capital adequacy assessment report to be sent on a confidential basis to the Banco de España for review in accordance with the provisions of Article 10.bis of Law 13/1985.

Market disclosure

To further define market disclosure requirements (Pillar 3), the Circular specifies the minimum content of the document entitled Information of prudential relevance in order that the disclosures are comparable from one institution to another. This document must be made public, at a minimum, when the financial statements are published, although the Banco de España may set a higher frequency or establish disclosure schedules.

Non-compliance with solvency requirements

The Circular, without prejudice to other measures that institutions may have to take, specifies the limitations on income distribution to which institutions are subject if they fail to comply with solvency requirements. Thus, if a CI or a consolidable group or sub-group of CIs has a regulatory capital shortfall exceeding 20% of the minimum requirement, or if its core capital falls below 50% of that minimum requirement, the institution or each and every member of the group or sub-group must allocate to reserves all its or their net profit or surplus, unless the Banco de España authorises some other course of action in the framework of a programme to return to compliance with the required levels. If the capital shortfall is equal to or more than 20%, the individual institution or each and every member of the group or sub-group shall submit to the Banco de España for authorisation an income distribution proposal setting out the minimum percentage to be allocated to reserves. Nevertheless, the limitations on the distribution of income shall not apply to certain subsidiaries.

Banco de España Circular CBE 5/2008 of 31 October 2008 to mutual guarantee companies on minimum own funds and other obligatory reporting

The purpose of this Circular is to define the new solvency regime applicable to mutual guarantee companies, which was incorporated in Royal Decree 2345/1996⁶ by the aforementioned Royal Decree 216/2008. Thus the requirements to be met by these companies are equal to the sum of those established to cover the risks associated with their ordinary activities, whether arising from credit risk (8% of the outstanding exposure from credit guarantees and 4% of other commitments, without prejudice to possible reduction if backed by reguarantees) or operational risk (15% of annual net interest income).⁷ The risks associated with non-habitual

6. Royal Decree 2345/1996 of 8 November 1996 on the administrative authorisation rules and solvency requirements for mutual guarantee companies. 7. Annual net interest income is defined as the sum of total interest income, fees for all guarantees provided, income from the provision of services or any other source and income from financial instruments net of expenses.

commitments or investments shall also be taken into account, this being done in accordance with the criteria set for CIs.

Like CIs, mutual guarantee companies have to establish internal procedures, proportionate to the nature, scale and complexity of their activities, to control and manage the risks arising in their operations. If the Banco de España perceives significant deficiencies, it may, after consulting the interested party, require a remediation plan to be set in place and, until that plan has been effectively implemented, require additional capital to be held, up to a maximum of 25% of the minimum capital requirement.

Mutual guarantee companies shall continue to comply with the limits on large exposures, on property, plant and equipment, on shares and other equity and on investment of own funds, which were already included in the aforementioned Royal Decree 2345/1996.

3.2.2 PURSUIT OF ACTIVITY

Royal Decree 217/2008 of 15 February 2008 on the legal regime of investment firms and of other investment services entities

Insofar as the areas of relevance to this chapter are concerned, this Royal Decree sets out rules of internal organisation and of conduct applicable to institutions providing investment services, among which credit institutions predominate. Thus, in regard to general organisational requirements, the Royal Decree stipulates that institutions providing investment services must employ sufficiently qualified staff, keep orderly and appropriate records, ensure functions are properly carried out and safeguard business continuity in the event of systems interruption. They also have to set up a separate unit responsible for regulatory compliance and establish risk management procedures and policies. They must regularly assess the internal control mechanisms in place.

The Royal Decree systematises the measures to be taken to prevent and manage conflicts of interest, for which purpose it uses the concept of competent persons for whom it establishes a list of prohibited activities. Additionally, it regulates the outsourcing of services, paying particular attention to essential functions, to delegation to service providers located in third countries, to the custody of financial instruments and to the deposit of customer funds.

In regard to rules of conduct, the Royal Decree specifies that permitted incentives shall be those delivered to, or offered by, customers or persons that act on their own behalf, provided that they are communicated to customers in a clear, complete, precise and understandable manner and their payment increases the quality of the service provided. Also considered to be permitted incentives are the appropriate fees that are necessary and that, by their nature, cannot conflict with the optimum interest of customers.

In addition, the Royal Decree sets out the conditions to be met by information directed at customers, including advertising, for it to be considered impartial, clear and not misleading. Also addressed is the content of the information and the manner in which it must be presented to customers. Moreover, the Royal Decree specifies which information must be obligatorily provided and when this is to be done, paying particular attention to the contractual conditions and to the provision of portfolio management services.

Lastly, the Royal Decree specifies various matters relating to the provision of investment services: assessment of the suitability of the recommended transaction when financial advisory services are provided, how appropriate the offered service or product is for the customer profile, the “best execution” criteria and the general principles to be observed in processing or-

ders. Additionally, it regulates, at all times in conformity with the principle of free market pricing, the regime applicable to fee and commission charges.

Royal Decree 322/2008 of 29 February 2008 on the legal regime of electronic money institutions

This Royal Decree completes the transposition into Spanish law of Directive 2000/46/EC of the European Parliament and of the Council of 18 September 2000, establishing the legal regime governing a new type of entity called electronic money institutions (ELMIs). The main activity of ELMIs, which currently have the status of credit institutions, consists of issuing electronic money, defined as the monetary value accepted as a means of payment by undertakings other than the issuer, stored on an electronic device, issued on receipt of funds not less in value than the monetary value issued.

ELMIs are authorised by the Ministry of Economic Affairs and Finance upon a prior report from the Banco de España and from the Commission for the Prevention of Money Laundering and Monetary Offences. To obtain this authorisation, ELMIs must meet all the requirements applicable to CIs, particularly those relating to their corporate form, the suitability of significant shareholders, the integrity and experience of Board members and the existence of an appropriate administrative organisation and means of internal control. Their capital stock may not be less than €1 million and their own funds (in the form defined for other CIs) must not be less than 2% of the current amount or the average of the preceding six month's total amount of their financial liabilities related to outstanding e-money.

Also, they are subject to investment requirements whereby, in order to safeguard the funds received from customers for the issuance of e-money,⁸ an amount not less than the outstanding e-money must be invested by them in certain liquid, low-risk assets specified in the Royal Decree. In any event, the disciplinary regime applicable to ELMIs is that established in Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions.

The Royal Decree provides for a regime of partial exemption for those ELMIs issuing e-money which is accepted as means of payment only by entities of the group to which the ELMI belongs.

3.2.3 URGENT MEASURES

Various legal measures were adopted in late 2008 for the dual purpose of increasing financial system stability through enhanced investor and deposit confidence and of palliating the growing difficulties encountered by CIs as they seek to raise funds on capital markets strongly distorted by notable uncertainties over credit and counterparty risk. These include the following:

Royal Decree 1642/2008 of 10 October 2008 setting the guaranteed amounts referred to in Royal Decree 2606/1996 of 20 December 1996 on the deposit guarantee fund of credit institutions and Royal Decree 948/2001 of 3 August 2001 on investor compensation schemes

Within the framework of the initiatives undertaken by other Member States and of the EU Economic and Financial Committee resolution to raise the minimum coverage threshold of deposit guarantee schemes to €50,000, this Royal Decree increased to €100,000 the amount insured by Spanish deposit and investment guarantee system, which until then had been €20,000.

8. Note that ELMIs are not covered by any deposit guarantee fund.

Royal Decree-Law 6/2008 of 10 October 2008 creating the Fund for the Acquisition of Financial Assets

This Royal Decree-Law creates a Fund for the Acquisition of Financial Assets of €30 billion, extendable to €50 billion, to enhance the capacity of CIs to increase the supply of credit to firms and individuals. The Banco de España will act as the agent and depository of this Fund, which is financed out of the State budget, is attached to the Ministry of Economic Affairs and Finance and is only temporary. It will invest, by voluntary competitive selection procedures (consisting of auctions conducted in accordance with Ministerial Order EHA/3118/2008 of 31 October 2008 implementing the Royal Decree), in high quality financial instruments issued by CIs and special purpose entities, giving priority to those backed by new loans to individuals and non-financial corporations. The Fund will function according to the principles of objectivity, security, transparency, efficiency, profitability and diversification.

Royal Decree-Law 7/2008 of 13 October 2008 on urgent economic and financial measures in relation to the concerted action plan of the euro area countries

The heads of state and government of the euro area decided in October 2008 that governments could, temporarily and under market conditions, provide guarantees, insurance or similar instruments to underwrite new issues of medium-term bank debt. Royal Decree-Law 7/2008 is the means by which this decision has been implemented in Spain, since it authorises the State to guarantee new funding transactions (comprising, among other instruments, issues of notes and bonds admitted to trading on Spanish official secondary markets) launched by CIs resident in Spain with a maximum maturity of five years. The period in which guarantees may be granted ends on 31 December 2009 and the maximum amount to be guaranteed in 2008 is set at €100 billion.

Additionally, the Ministry of Economic Affairs and Finance is authorised to acquire, exceptionally and upon a prior report from the Banco de España, securities issued by CIs resident in Spain to bolster their own funds.

Royal Decree 1975/2008 of 28 November 2008 addressing the urgent adoption of economic, fiscal, employment and housing-access measures (BOE of 2 December 2009)

Against the background of unfavourable performance of the Spanish economy at end-2008, this Royal Decree introduced a number of labour, financial and fiscal measures aimed primarily at curbing job destruction and protecting those in danger of losing their job. For the purposes of this chapter, mention need only be made here of the moratorium introduced by the Royal Decree on payments of mortgages taken out prior to 1 September 2008 for an amount less than €170,000 solely for the purpose of purchasing a principal residence, provided they meet certain requirements relating mainly to the employment status of the debtor.

These measures envisage a moratorium, which is temporary (from 1 March 2009 to 28 February 2011)⁹ and partial (up to a maximum of 50%, with an upper limit of €500 per month), on the monthly instalments payable in that period. These amounts will be offset by prorating them

9. Following the enactment of Royal Decree 97/2009 of 6 February 2009 amending Royal Decree 1975/2008. Initially the deferral period was going to be from 1 January 2009 to 31 December 2010 and the offset period was going to start in January 2011 with a limit of 10 years.

from 1 March 2012 among the monthly instalments remaining for total repayment of the mortgage loan with an upper limit of 15 years.

3.2.4 SIGNIFICANT ACCOUNTING MATTERS

Spanish accounting rules

Banco de España Circular 6/2008 of 26 November 2008 to credit institutions amending Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats

The changes in Spanish corporate law and international financing reporting standards, and the undertaking by the Banco de España to adapt the rules of the general regime set in place by the Spanish Accounting and Audit Institute, made it necessary to adapt CBE 4/2004. Summarised below are the main changes made to it via CBE 6/2008:

- Change in the definition of group. In line with the provisions of the Commercial Code, a group is only deemed to exist when an entity controls or can control another entity, the concept of a group as a decision-making unit being abandoned. An important implication of this change is the disappearance, for the purposes of accounting consolidation, of so-called coordination groups, which are those formed by various entities with a non-consolidable parent or those in which a decision-making unit exists for any other reason.
- Full application of the fair value option, as permitted by IAS 39. As a result of this change, the fair value option can be applied in the following situations: when accounting mismatches are eliminated, when financial instruments are managed on a fair value basis and in hybrid instruments where separation is not prohibited.
- Possibility of new reclassification of financial instruments. New reclassifications, consisting mainly of reclassification out of the trading book in rare and exceptional circumstances, are permitted when the asset ceases to be held for the purpose of sale or repurchase in the short term.
- Additional accounting treatments for actuarial gains and losses arising from defined benefit pension plans. To the existing option of taking actuarial gains and losses to the income statement, either in full or using a corridor, is added the possibility of recognising them in full against reserves.
- Regulation of new transactions in which payment is made with equity instruments, as in the case of payments to employees with own instruments of a group company and payments to third parties other than employees.
- New treatment of borrowing costs arising in the purchase of tangible assets. Instead of the immediate recognition in the income statement required under CBE 4/2004, it is now obligatory to capitalise these costs if certain requirements are met.
- Changes in financial statements. The formats of public financial statements are adjusted and a new statement of changes in equity is created. Also, new confidential returns are created.
- New approach to treatment of the tax effect. The recording of this effect is now based on the balance sheet, as distinct from the previous approach based mainly on the income statement.

- Change in the treatment of general provisions. The minimum floor of 33% of the general credit risk provision is eliminated and now institutions themselves determine the minimum provision based on their specific circumstances and characteristics.

Other Spanish initiatives

Royal Decree-Law 10/2008¹⁰ amended Article 36.1.C) of the Spanish Commercial Code with a view to establishing the effectiveness for corporate-law purposes of the changes in value of hedging instruments used in cash flow hedges. This prevents fair value changes in cash flow hedges from being taken into account under corporate law for the purposes of capital reduction, profit distribution and situations of obligatory winding-up.

Additionally, the trend in international economic activity meant that the aforementioned Royal Decree-Law also amended the consolidated text of the Public Limited Companies Law and the Limited Liability Companies Law. Following this amendment, for a period of two years and solely for the purposes of determining losses for the mandatory reduction in capital stock, the impairment losses recognised in the annual accounts derived from property, plant and equipment, from investment property and from inventories will not be counted.

Lastly, the Spanish Accounting and Audit Institute decided to set up a working group to modernise and internationally harmonise the rules for preparing consolidated annual accounts set out in Royal Decree 1815/1991, applicable to corporate groups that do not use the international financial reporting standards adopted by the European Union. However, in January 2008 the IASB approved changes in international financial reporting standards regulating matters relating to business combination and to consolidated financial statements. Those changes in international financial reporting standards were not adopted by the European Union in 2008. Accordingly, the revision of the rules for preparing consolidated annual accounts was delayed and the only progress made was a memorandum¹¹ aimed at clarifying the criteria included in the rules for preparing consolidated annual accounts which are applicable under the current regulations, specifying the provisions tacitly repealed.

¹⁰. Royal Decree-Law 10/2008 of 12 December 2008 adopting financial measures to improve the liquidity of small and medium-sized companies and other additional economic measures. ¹¹. Memorandum from the Spanish Accounting and Audit Institute published in BOICAC No. 75 relating to criteria applicable to the preparation of consolidated financial statements pursuant to the Commercial Code for years starting from 1 January 2008.

4 DEVELOPMENTS IN INTERNATIONAL BANKING REGULATION AND SUPERVISION FORA

4 Developments in international banking regulation and supervision fora

One of the Banco de España's strategic objectives is to heighten its international presence and projection in order to widen its influence in the international fora where decisions are made on regulatory and supervisory matters of interest to Spanish credit institutions. The financial crisis, which began in summer 2007 and is affecting, to a greater or lesser extent, the financial stability of all countries, requires solutions designed, taken and implemented globally. This means that it is important for dialogue with the other central banks, supervisors and regulators to be appropriate and fluid.

In general terms, the work of international committees in 2008 has reflected the need to analyse the causes, consequences and lessons of the crisis, and to seek appropriate solutions which will restore confidence and financial stability and prevent a crisis as serious as this one from being repeated in the future (see Box 4.1).

The Financial Stability Forum report approved by the meeting of G7 ministers and central bank governors in April 2008 proposed specific actions and tasks to the various committees, including those of bank supervisors. The same can be said of the declaration of the G20 summit held in Washington on 15 November, which approved a specific action plan. In this summit a commitment was made to improve cooperation and work together to identify and implement the reforms needed to improve the functioning and solvency of world financial systems.

Europe has followed a parallel process to that in train at global level, albeit including certain additional features reflecting European needs. This additional work was included in the road-maps on market turbulence and on financial stability and crisis management established by the ECOFIN in October 2007, most of which were completed during the course of 2008. In addition, as a result of the G20 summit, the Economic and Financial Committee, under an ECOFIN mandate, prepared a work programme incorporating the points of the G20 action plan.. This programme is intended to contribute to the work carried out in different international fora and to prepare a European contribution to the coming G20 summits.

It has, thus, been decisions at the highest political level that have shaped the agendas of the international committees of financial regulators and supervisors, although much of the work requested had already been started by these committees.

The remaining sections of this chapter describe the work of the international committees of regulators and supervisors in which the Banco de España participates actively at European and global level, including that relating to regulation and supervision of both a prudential and an accounting nature. Also included is a description of the work carried out jointly by the committees of bank, securities and insurance supervisors, as well as an account of the financial stability work of the European Central bank and the work of the ASBA.

Table 4.1 gives information on the number of groups and subgroups (more than 70) which report to the various committees and which held 236 meetings in 2008, substantially (20%) more than in 2007. The fact that this was basically due to the increase in the meetings having to do with the BCBS evidences its leadership in the work on the lessons learned from the crisis. Nevertheless, the principal heading to which supervisory resources were devoted continued to be the Committee of European Banking Supervisors, since it accounted for 40% of the international meetings in which the Banco de España participated.

ACTIVITY OF SUPERVISORY COMMITTEES IN 2008

TABLE 4.1

Number (a)

	GROUPS	MEETINGS
Committee of European Banking Supervisors (CEBS)	26	95
Groupe de Contact (GdC)	7	33
Expert Group on Capital Requirements (EGCR)	9	22
Expert Group on Financial Information (EGFI)	6	27
Other	3	9
Interim Working Group on Financial Conglomerates (IWCFC)	6	20
Banking Supervision Committee (BSC)	12	31
Working Group on Macroprudential Analysis (WGMA)	3	7
Working Group on Banking Developments (WGBD)	3	9
Other	5	11
Basel Committee on Banking Supervision (BCBS)	25	80
Policy Development Group (PDG)	15	50
International Liaison Group (ILG)	2	4
Accord Implementation Group (AIG)	3	11
Accounting Task Force (ATF)	4	11
JOINT FORUM	3	10
TOTAL	72	236

SOURCE: Banco de España.

a. The numbers for each committee include the individuals in the groups reporting to the committee and the committee members.

Lastly, albeit no less importantly, was the increase in tasks to bolster international technical cooperation in banking supervision. These tasks included attending to and receiving delegations of foreign supervisors and those involving the participation of Banco de España members as speakers in national and international seminars for supervisors from other countries.

4.1 The work of the Committee of European Banking Supervisors (CEBS)¹

The CEBS further stepped up its activity in 2008, centred on the four areas described below.

Tasks involving technical advice to the European Commission accounted for, yet another year, a considerable portion of the CEBS's resources. Noteworthy were its contributions to the changes under way in banking solvency directives in regard to five matters for which specific recommendations are made: own funds (common understanding of the characteristics required of hybrid equity instruments qualifying for inclusion in tier 1); large exposures (substantial simplification of the regime, clarifying the elements which may not be compatible with the new solvency rules and reducing many of the existing national discretions); liquidity (recommendations on the management and supervision of this risk); options and national discretions in the new solvency rules (proposing the elimination of a large number of them to achieve the greatest possible convergence in their transposition to national law); and early intervention (the different measures and powers available to national supervisors of EU countries were analysed to ascertain the existing convergence options, particularly in the case of distress of a transnational bank).

1. Table A.6.1 of the Internet version of this Report on the Banco de España website lists the documents on advisory matters and the standards and guidelines published by the CEBS in 2007.

In regard to cooperation in and convergence of supervisory practices, the CEBS continued devoting efforts to real convergence of practices and closer relations between national supervisors. Guidelines were published on liquidity, transparency and valuation management, on operational risk (compendium), on common supervisory financial statements and on communication of bank passports.

Mention should be made of the work on colleges of supervisors. In this connection, the supervisory networks were strengthened, notably through the Subgroup on Operational Networks (SON, reporting to the CEBS), a template was approved for written cooperation and coordination agreements between supervisors and a tool was developed to monitor how well they function. Also, the CEBS is entrusted with monitoring and issuing operating guidelines for the colleges set up and with creating a network of colleges for internationally active banks.

Likewise, the CEBS continues working to achieve harmonised prudential statements for financial reporting (FINREP) and capital requirements (COREP). In this respect, 2012 has been set as the deadline for introducing a uniform report at European level, taking into account the transposition date of Solvency 2 and a certain period for adaptation of the procedures.

Further, peer reviews are considered an important convergence mechanism, for which the CEBS has created a working group – the Review Panel – whose purpose is to encourage supervisory convergence by assessing the application of guidelines. It carried out its first pilot assessment in 2008 of CEBS guidelines on the implementation, validation and assessment of advanced measurement approaches to credit risk and operational risk.

The work relating to the financial crisis has occupied much of the CEBS's agenda, particularly in regard to the monitoring of financial market developments and of national stabilisation plans. Noteworthy in this connection were, inter alia, the survey conducted at the beginning of 2008 on the impact of the financial turmoil on EU institutions, the report analysing the implications of national rescue plans, the creation of a risk management task force chaired by Spain and the publication of a report on the valuation of illiquid financial instruments and the comments on work by the IASB (see Box 4.1).

Also, the CEBS, like the other two supervisors' committees – the CESR for securities and the CEIOPS for insurance – was entrusted by the ECOFIN with preparing a six-monthly report identifying the trends, risks and vulnerabilities of the banking sector, particularly those with a potential impact on financial stability, and the possible measures to be taken. The CEBS prepared this report with the support of the ECB Banking Supervision Committee (BSC), with which it has been working on the design and implementation of a consistent analysis and operational framework encompassing the macro- and micro-prudential factors for this exercise.

Lastly, the CEBS has adapted its own functioning within the framework of the review of the Lamfalussy approach, as explained in detail in Box 4.2.

4.2 Work of the Basel Committee on Banking Supervision²

In the opening months of 2008, the Committee continued the work started in 2007 on implementing Basel II and analysing the causes, consequences and lessons of the financial crisis. Also, the April report of the Financial Stability Forum (FSF) proposed specific actions, some relating to the need to strengthen those elements of the Basel II framework in which, in light of the lessons drawn from the current situation, there was considered to be room for improve-

2. Table A.6.3 of the Internet version of this Report lists the documents published by the BCBS in 2008.

In October 2007, the G7 Finance Ministers and Central Bank Governors asked the Financial Stability Forum (FSF) to analyse the causes of the financial turmoil that appeared in July 2007 and make recommendations on how to strengthen the markets and institutions.

In its report published in April 2008, the FSF included a broad list of recommendations in five areas: i) strengthened prudential oversight of capital, liquidity and risk management; ii) enhanced transparency and valuation of financial products; iii) changes in the credit rating agencies; iv) strengthened authorities' responsiveness to risks; and v) agreements between regulators for dealing with stress in the financial system.

In 2008 the financial crisis intensified and spread to the emerging economies. Accordingly, a summit of the G20 countries (G7 plus emerging countries) was organised in Washington, on 15 November 2008, to search for global solutions to the crisis. In the closing statement, the G20 leaders undertook to work together to identify and implement the reforms necessary to enhance the functioning and solvency of the world's financial systems. A detailed action plan was included, with immediate tasks to be completed by end-March 2009 and other tasks for the medium term. Most of the points contained in the action plan already featured in the FSF's recommendations and were under discussion by the international banking, securities and insurance committees, accounting regulators and the financial services industry. Some of the points, however, represented new tasks.

On 2 April 2009, the G20 leaders met again at the London summit¹ to review the work scheduled to have been completed and the validity of the decisions taken in Washington. According to the final communiqué, work is under way to implement the action plan agreed in Washington and, in particular, the specific measures to: strengthen prudential oversight and international cooperation; extend regulation to all systemically important financial institutions, instruments and markets; establish effective supervision of the credit rating agencies; and improve remuneration systems and accounting standards. In addition, a new Financial Stability Board was created, as a successor to the FSF, comprising all the G20 countries, the FSF members, the European Commission and Spain.

In the area of banking regulation, the Basel Committee on Banking Supervision (BCBS) is responsible for implementing the FSF's recommendations and the plan of action contained in the G20 Declaration of November 2008 and confirmed in the G20 Declaration of April 2009. For this purpose, the Committee established the following priorities in its work programme: strengthen capital requirements; implement and enhance liquidity risk management; foment improvements in risk management and supervision at financial institutions; enhance market disclosure and transparency; improve supervisory cooperation for international banks; and, lastly, strengthen the macro-prudential approach to supervision.

In January 2009, the BCBS published a consultative package of measures. Under Pillar 1, higher capital requirements are proposed

for certain complex products, such as re-securitisations and liquidity lines extended to support ABCP conduits, and for instruments included in the trading portfolio. Under Pillar 2, standards are proposed to promote more rigorous supervision and management of risk concentrations, off-balance-sheet exposures, securitisations and the associated reputational risks. Improvements are also proposed in the valuation of complex instruments, in liquidity risk management and in appropriate stress testing practices in banking groups. Lastly, under Pillar 3, improvements are proposed in the market disclosure requirements for institutions on their securitisations and off-balance-sheet vehicles. Moreover, in December 2008, the BCBS's Bank Resolution Group published an interim report reviewing the regulations on bank resolution and their application beyond national borders.

The BCBS has not overlooked its medium-term tasks. The first objective is for banks to have higher liquidity and capital cushions; others are concerned with promoting healthier risk management and corporate governance practices, limiting risk concentrations within and between credit institutions and enhancing market disclosures.

In the accounting field, the IASB, which is not a supervisory committee but which plays an important regulatory role in the area of accounting standards, was obliged to give priority to the work relating to the recommendations included in the FSF's report. Specifically, these related to: 1) fair value accounting for financial instruments; 2) consolidation, to strengthen and improve the requirements for identifying which entities a company controls; 3) the criteria for derecognising instruments in the case of securitisation; 4) notes to financial statements, to improve the information available on fair value accounting for financial instruments and liquidity risk; 5) reducing the complexity of IAS 39; and 6) global convergence of accounting standards, for which purposes the IASB has set 2011 as the target date for completion of the projects included in the Memorandum of Understanding with the FASB.

Regarding the Trustees of the IASB, a strategy review was conducted in 2008, partly at the behest of the ECOFIN, to assure better representation of the European Union, and partly because reform of IASB governance, including a review of its membership to foster financial stability and transparency, formed part of the action plan that came out of the G20 summit in November.

In Europe, developments have paralleled those seen globally. Thus, in October 2007, the ECOFIN agreed on a series of measures and drew up a work programme, with a road map on the financial turmoil with similar objectives to those described above.

Following the G20 summit, the ECOFIN instructed the Economic and Financial Committee to draw up a new work programme to prepare the European presidency's contribution at the next G20 summits.

The Committee of European Banking Supervisors (CEBS) also adapted its work programme to reflect the points in the G20 action plan that affected it, working, among other matters, on colleges of supervisors, remuneration of employees, valuation, liquidity and procyclicality of capital.

1. Spain was invited to take part in both summits.

ment. The Committee naturally altered its work plan to include those proposals of the FSF which had not already been included.

Also in April it made public the matters considered most urgent, on which it planned to work rapidly to have its proposals ready by the end of the year. Hence in January 2009 the Committee published for public consultation a package of measures relating to the three pillars of the Accord. They are included in Box 4.1, which describes the measures taken to deal with the crisis.

In November the Committee announced its medium-term strategy to prevent the deficiencies which led to the crisis from being repeated in the future.

All this was not allowed to distract attention from the need to implement the new capital accord (Basel II) at international level and to monitor its impact on institutions' capital requirements and its possible procyclicality. The full implementation of Basel II will help to remedy many of the weaknesses of Basel I highlighted by the financial crisis. Thus the introduction of the three pillars provides more tools for supervisors and for the market, and ensures that the solvency regulators are better equipped to handle periods of rapid financial innovation and the resulting creation of new products.

Also, work continues on the means to improve cooperation between supervisors in the area of international bank supervision, through the implementation of colleges of supervisors, and in the analysis of problems arising in the implementation of Basel II. The importance of ensuring that supervisory standards and the Committee's recommendations/guidelines are implemented in practice was acknowledged. Accordingly, the Committee decided that the Accord Implementation Group (AIG), chaired by the Banco de España, would change its mandate and be renamed as the Standards Implementation Group (SIG).

In the area of accounting, the Committee continued working to ensure that international accounting and audit standards foster suitable risk management and to support market discipline through greater transparency of institutions. It worked on an accounting analysis of the implementation of Basel II, fair value, credit risk provisions, and the quality of bank external audits and their importance in market discipline and as supervisory support.

Lastly, the International Liaison Group (ILG), created to foster dialogue with supervisors not included in the BCBS, continued to act as a forum for discussion of issues relating to cooperation, information exchange and supervisory collaboration. Most notable in this group's work were its analyses of risk-based supervision, the importance of adequate accounting provisions and microfinance.

4.3 Joint work by banking, securities and insurance committees

The financial crisis has highlighted the growing interrelationships between sectors and between countries as a result of the activities of financial groups. It should thus come as no surprise that the volume of projects being analysed by supervisors of the three sectors grew notably in 2008.

Noteworthy in Europe are the projects on the supervision of financial conglomerates undertaken by the Interim Working Committee on Financial Conglomerates,³ which reports to the CEBS and to the CEIOPS. These projects focused on completing the joint analysis of the definition of capital in banking and insurance and on commencing the review of the financial conglomerates directive. Also, a stability report was drafted on financial conglomerates in the

3. In 2009 this committee changed its name to the Joint Committee on Financial Conglomerates.

The first full review of the functioning of the Lamfalussy approach¹ in the three financial sectors was completed in December 2007. As a result, several improvements were identified and included in the ECOFIN road map of 4 December, which was reviewed and updated in May 2008. The work conducted in the past year, which mainly affects the supervisory committees,² includes, in particular, the following:

- Amendment of the charters of the supervisory committees, to include the possibility of using qualified majority voting and to introduce the “comply or explain” mechanism, to oblige those not adopting the decisions taken to publicly explain why not. Moreover, application of the committees’ guidelines, recommendations and standards at the national level is strengthened through the peer review process.
- Strengthening of the accountability mechanisms, via submission to the Commission, the Council and the European Parliament of the annual work programmes of all three committees and the joint medium-term programme.
- Adoption of common formats for transposition and implementation at national level of Community legislation, including in particular the CEBS supervisory transparency framework used by the CESR and the CEIOPS for development of their own frameworks, and the drafting of transposition tables by the COM.
- Amendments to the Solvency 2 directives and the CRD proposed by the COM, requiring that Member States’ supervisory authorities consider the European dimension in the exercise of their duties, in terms of cooperation and convergence, and financial stability.
- Work conducted by the COM, with the backing of the supervisory committees, on the Member States’ sanctioning powers, on supervisory objectives and powers, on use of the voluntary delegation of tasks, on powers for ensuring cooperation and exchange of information between supervisors and on the possibility of including the funding of certain specific tasks of these committees in the European budget.

In parallel with this work, the COM reviewed the decisions taken to establish the supervisory committees, specifying their tasks in areas

such as mediation, information exchange or cooperation between financial sectors, and their role in identifying, monitoring and assessing risks to financial stability.

Nevertheless, and despite the progress made, as a result of the financial crisis it was decided to speed up supervisory reform in Europe. In October 2008, the COM president established a high-level group, made up of seven independent experts and chaired by Jacques de Larosière.³ The group was tasked with presenting specific proposals for strengthening European supervisory agreements in all the financial sectors, thus making for a more efficient, integrated and sustainable supervision system.

The report of the Larosière Group, published on 25 February 2009, analyses the causes of the crisis and the weaknesses of the present system and makes 31 specific recommendations on regulatory, supervisory and global aspects, the most important of which affect the future structure of European financial supervision at both the micro- and macro-prudential level.

In the area of micro-prudential supervision, the report proposes a gradual two-phase approach, to conclude with the establishment of a European System of Financial Supervision (ESFS), which would, in 2011/2012, transform the present level 3 committees into European supervisory authorities, with the power to make binding decisions in certain supervisory matters. Nevertheless, national authorities will retain responsibility for supervision of individual institutions.

In the case of macro-prudential supervision, which is directly connected to financial stability, the ECB is given an important role. The report proposes creating a European Systemic Risk Council (ESRC), under the auspices of the ECB, to reinforce the role of macro-prudential supervision and with the power to prioritise any risks detected so that steps are taken by the corresponding European authorities.

The report’s main conclusions include the need, revealed by the recent financial crisis, to strengthen macro-prudential supervision and its links with micro-prudential supervision, and to strengthen and make changes in the supervisory committees. However, there are still many aspects and details pending, and these will doubtless be a topic for discussion at future European supervisory fora in coming months.

1. See Box 4.1 of this Report on Banking Supervision in Spain, 2008. 2. The so-called level 3 committees: CESR (securities), CEBS (banking) and CEIOPS (insurance).

3. Managing Director of the IMF from 1978 to 1987 and governor of the Banque de France from 1987 to 1993.

European Economic Area and a survey was conducted of the main conglomerates in each country to ascertain whether the financial turmoil had led to an increase in transfers of liquidity within conglomerates. In addition, there was a notable increase in the volume of projects undertaken jointly by European supervisors of the three “level 3 committees” (3L3) from a cross-sectoral standpoint, which included delegation of tasks and/or responsibilities, rating agencies, corporate governance, financial conglomerates and the preparation of guidelines on mergers and acquisitions and on impact assessments.

In the global arena, the Joint Forum published several reports in 2008 analysing issues at the epicentre of the financial crisis: risk concentrations,⁴ which analyses the processes developed by financial groups to identify, measure and manage risk concentrations globally; and customer suitability in the marketing of financial products and services,⁵ which represents the first common approach to how banking, securities and insurance supervisors address the marketing of certain financial products to retail customers and the possible derived risks for institutions in the event that certain suitability criteria are not met. Lastly, mention should also be made of the work by the Financial Conglomerates Group on the degree of implementation of the 1999 principles in financial conglomerate supervision.

4.4 Work on financial stability in the ECB⁶

As a member of the European System of Central Banks (ESCB), the Banco de España continued to participate actively in the work of the various committees and working groups reporting to the ESCB, including the Banking Supervision Committee (BSC), which works in the field of financial stability.

Since inception of the BSC, financial system developments have heightened the importance of matters relating to financial stability and, consequently, led to an increase in this committee's workload. This trend became more marked in 2008 as a result of the financial crisis, which also largely shaped the BSC's agenda in 2008.

In the area of monitoring of structural and conjunctural developments in the financial system, the BSC prepared its regular reports on banking structures and banking sector stability and contributed to the ECB financial stability report. Deeper analyses were carried out of matters of special interest, including most notably the "originate and distribute" model, the behaviour of the covered bond market and the bank practices in regard to stress tests and contingency plans. In the area of analysis of the impact of prudential regulation on financial stability, the work done jointly with the CEBS on the procyclicality of the new Basel accord may be highlighted. In regard to cooperation between central banks and supervisory authorities, the BSC worked in concert with the CEBS to develop a common analysis framework to assess the systemic implications of a crisis. Finally, a joint initiative in conjunction with the Statistics Committee and the CEBS was undertaken to harmonise statistical and prudential reporting requirements for institutions.

4.5 ASBA

In 2008 the Banco de España further stepped up its cooperation with the ASBA, which groups together banking supervisors in the Americas. The Banco de España, as an associate member since October 2006, participates actively in the governing bodies of the Association and in its empowerment plans, working groups and other activities.

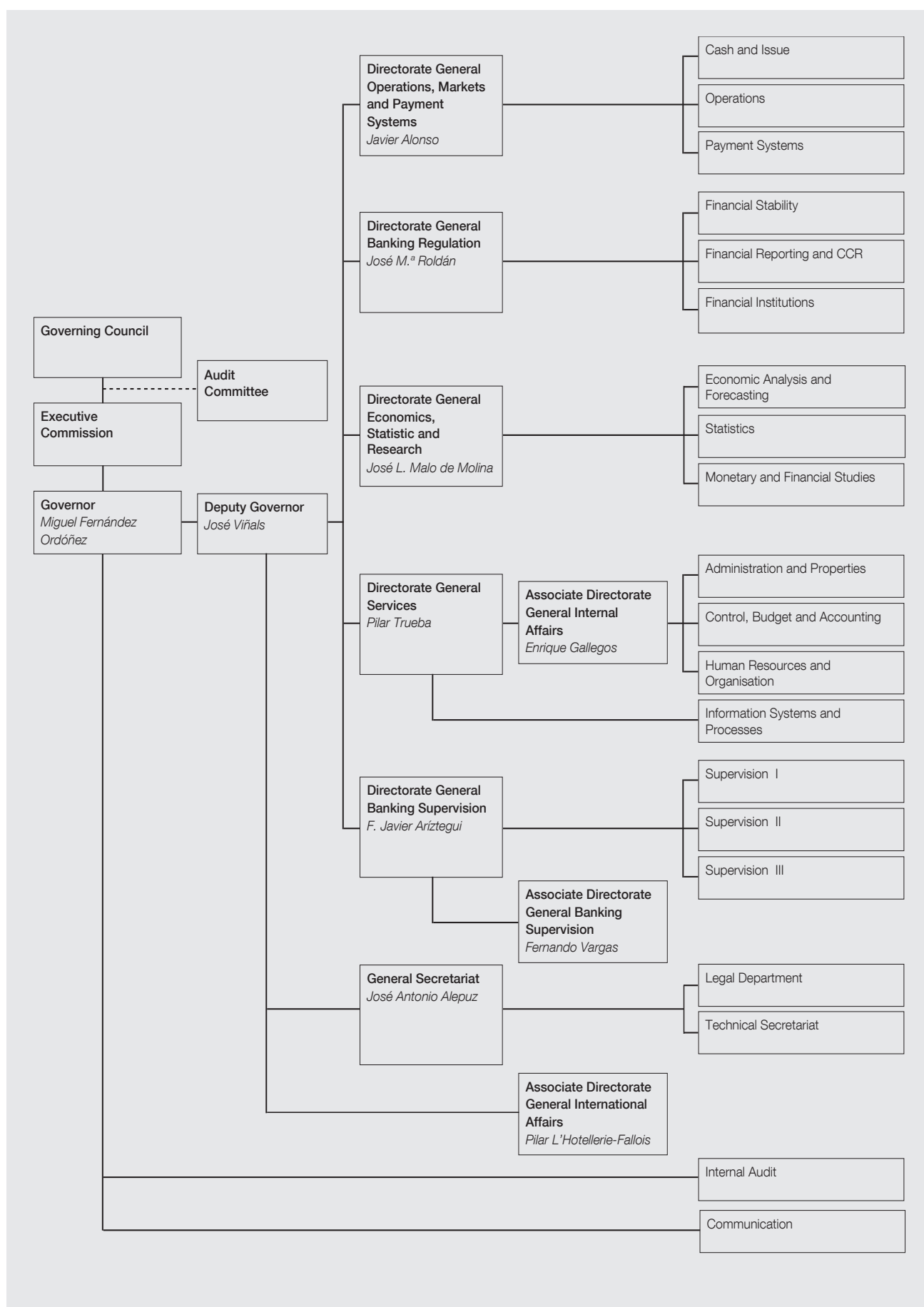
In 2008 the Banco de España participated in the ASBA working group on consolidated supervision entrusted with publishing the final document. In February 2008 a working group on operational risk in banks, chaired by the Banco de España, was set up. Its objective is to define general operational risk management guidelines to serve as a basis for the regulation and supervision of this risk in Latin America. Lastly, in June 2008 a group was created to develop a financial market information system for the region; the Banco de España is also a member of this group.

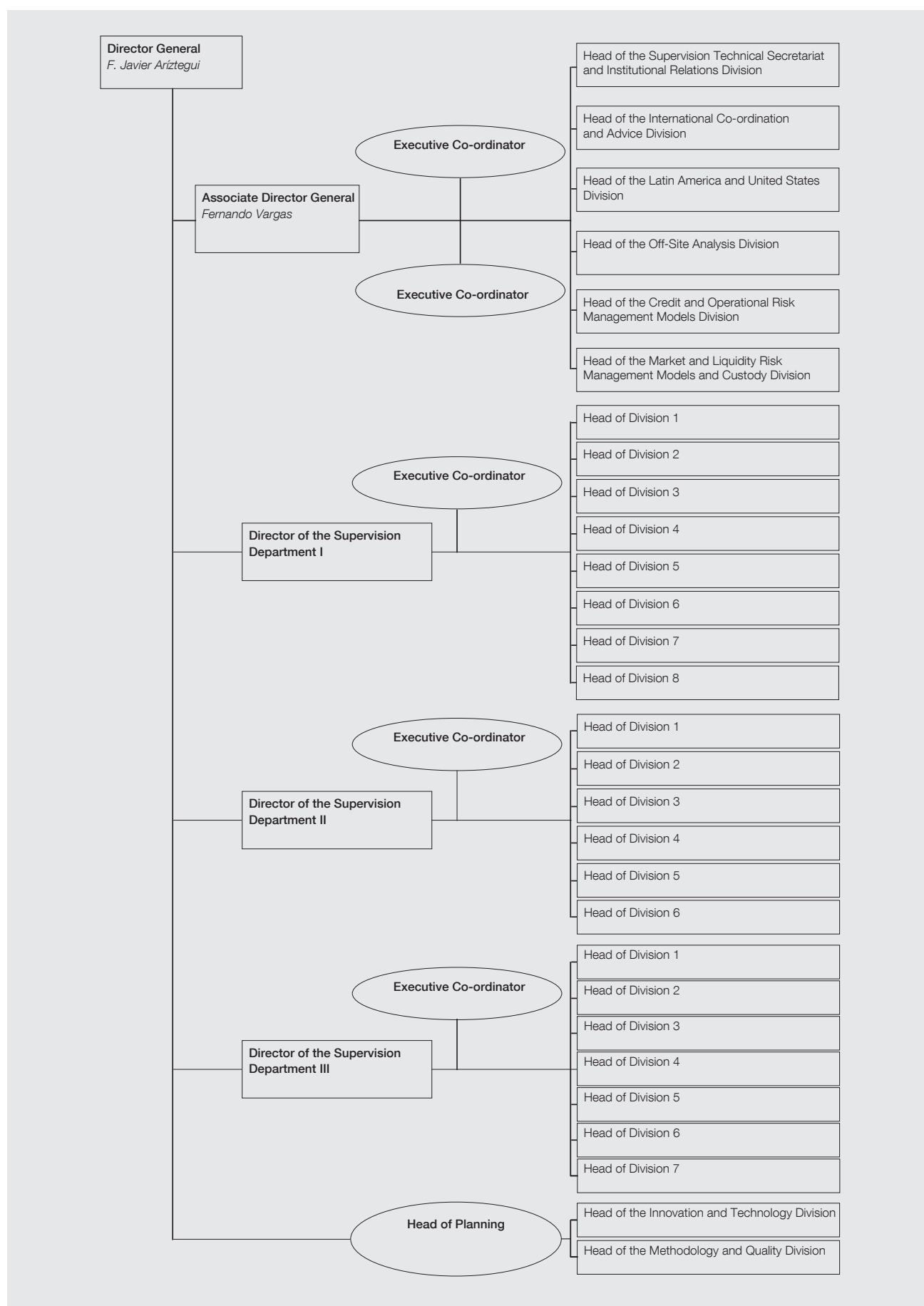
4. Report entitled "Cross-sectoral review of group-wide identification and management of risk concentrations" (April 2008). 5. Report entitled "Customer suitability in the retail sale of financial products and services" (April 2008). 6. Table A.6.2 lists the documents concerning financial stability published by the ECB in 2008.

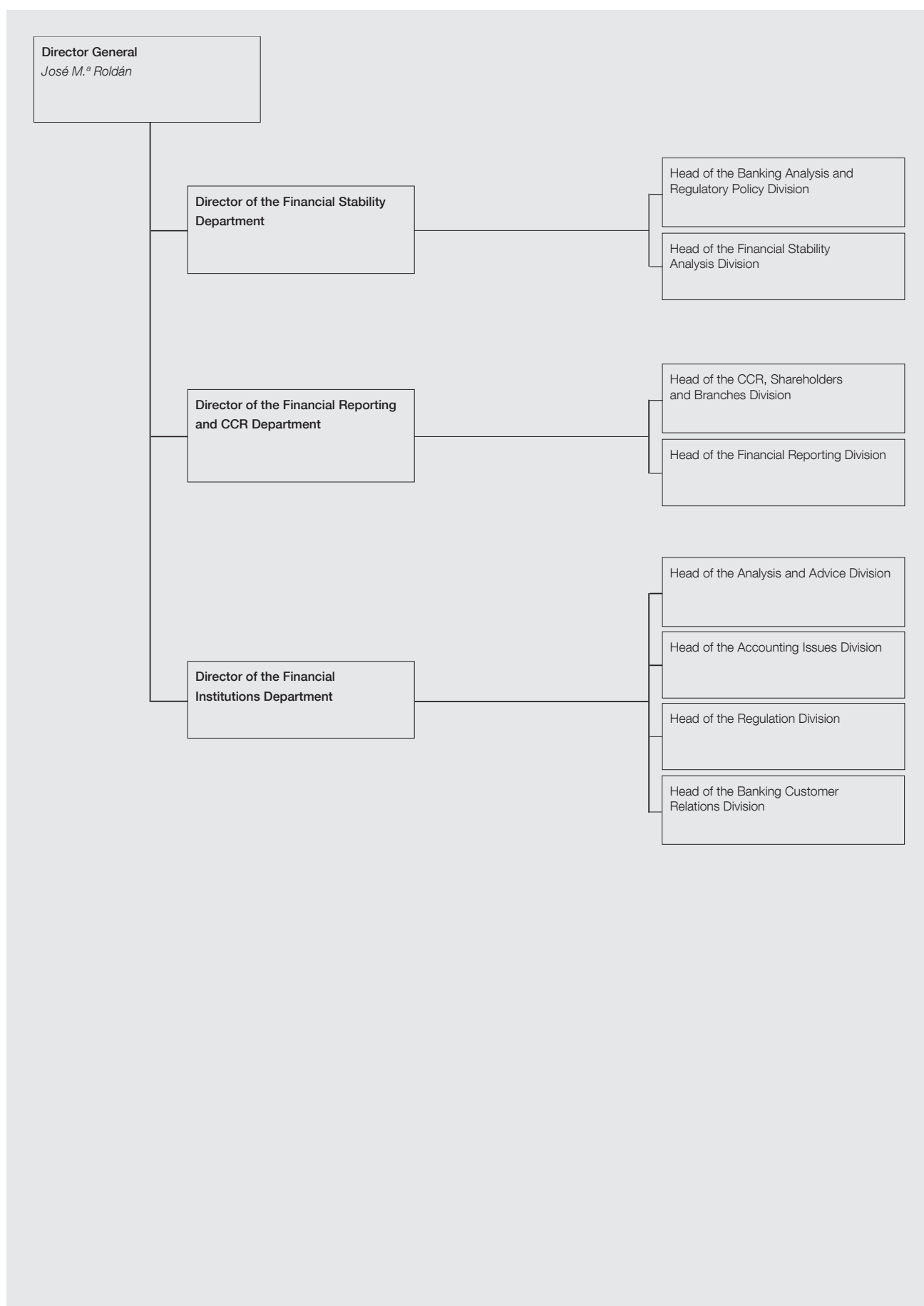
In the area of empowerment, seminars were held on the following four topics: international financial reporting standards, in Panama in February; validation of advanced credit risk models, in Colombia in April; keys to the implementation of Basel II standardised approaches, in Chile in June; and Basel Pillar 2, in Mexico DF in November.

Within the framework of cooperation with the ASBA on training, for the second time Latin American countries were offered five places on each course given under the continuous training programme of the Banco de España's Directorate General Banking Supervision. Supervisors of several Latin American countries attended courses organised under this programme.

ANNEX 1 ORGANISATION OF BANKING SUPERVISION AT THE BANCO DE ESPAÑA AT
31.12.08







SUPERVISION AND REGULATION STAFF IN 2008

TABLE A.1.4

Number

	GENERAL MANAGEMENT	
	SUPERVISION	REGULATION
Directors and other managers	40	22
Bank examiners	232	3
Senior analysts	16	16
IT auditors	41	—
Junior analysts	52	51
Administrative staff	50	47
TOTAL	431	139

SOURCE: Banco de España.

ANNEX 2 ACTIVITY, RESULTS AND SOLVENCY OF CREDIT INSTITUTIONS

Activity, results and solvency of credit institutions

In 2008, the activity and results of credit institutions (CIs) and their consolidated groups (CGs)¹ were affected by the global financial crisis. As discussed in the previous Report on Banking Supervision, the financial turmoil which arose in mid-2007 as a result of the surge in defaults on subprime mortgages in the United States strangled liquidity across the board on finance (money and capital) markets globally. The consequent increase in funding costs, and the growing mistrust among agents participating in financial systems (from investment banks and hedge funds to rating agencies) have caused enormous difficulties for the management and activity of financial institutions.

At the same time, throughout 2008 the financial crisis in combination with the deterioration of the real sector resulted in a strong deceleration of the world economy. The Spanish economy, the particular features of which were reflected in pronounced unemployment growth, was not spared these difficulties, and this compelled credit institutions to operate and manage their risks in an adverse environment. Similarly, projections indicating that the world recession will last longer than initially expected, with the consequent postponement of recovery, create a feed-back loop prolonging the financial crisis and making it more severe. The scope of this crisis and the speed at which it has spread have led central banks and regulatory authorities to design and apply urgent coordinated measures never seen before. The measures approved to support the Spanish economy aim mainly to mitigate the conjunctural effects of the crisis, but also to prevent the distortion of competition among Spanish financial institutions, in addition to minimising the potentially adverse consequences for competition of measures adopted abroad. In the case of Spain, the Fund for the Acquisition of Financial Assets (FAFA), started up in 2008 Q4, has become a new tool making it easier for entities to obtain liquidity through the sale of high-quality assets and has furthered the purpose of the public guarantees provided for their issues from 2009.

The difficult economic and financial climate has affected the composition of the balance sheet, slowing its growth and reducing the earnings of Spanish CIs. At the level of both individual CIs and CGs, activity and the principal margins of the 2008 income statement showed lower rates of change than in 2007.² Most noticeably, net interest income and gross income grew, despite showing signs of deceleration. By contrast, as a result of the higher financial asset impairment losses and provisioning expenses, there was a significant reduction in operating income and profit for the year. By institutional group, banks show the highest profitability levels. Concurrently, the still favourable efficiency ratio has worsened slightly, underlining the need for action to be taken in the future by CIs to improve their income statement components and, in particular, to adjust operating expenses.

The entry into force of Circular 3/2008 of 22 May 2008 to credit institutions on the determination and control of minimum own funds, replacing the previous solvency Circular 5/1993, was worth noting in relation to the solvency of Spanish credit institutions and their consolidated groups. Although the new Circular did not entail any major changes in the determination of eligible own funds, it did make considerable changes in the area of capital requirements.³ The

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. 2. The available information has been summarised in the tables in Annex 3 of the internet version of this Report. 3. See Chapter 3, Section 3.2.

internationally accepted line of thought behind these changes is that capital requirements should be more sensitive to the level of risk assumed and that new requirements have to be included. The CGs' solvency ratio improved in 2008 due to lower minimum regulatory capital requirements and higher eligible own funds. Although the growth of eligible own funds declined, its quality improved showing a higher weight of tier 1 capital in total own funds.

In addition to compliance with solvency requirements by CGs, the new rules include compliance with requirements at individual level for parents and Spanish subsidiaries included in consolidated groups. However, the possibility is envisaged that the Banco de España may exempt them if they meet certain conditions ensuring that capital is adequately distributed in the group and that flows and commitments can move freely between the group members. Also, in relation to requests for exemption submitted before 30 September 2008 on which no decision has been taken by the solvency reporting date, the new Circular provides that subsidiaries may continue to apply the reduction factors based on the parent's percentage of ownership of the subsidiary. At the date to which the data analysed refer, requests for exemption were still being assessed, so the 2008 solvency information for individual institutions will be affected by this situation. Minimum capital requirements for individual CIs included in CGs were comfortably met with a 164% level of coverage.⁴

Finally, the information sent by mixed groups and financial conglomerates supervised by the Banco de España (BE) indicates that insurance activities continued to strengthen the solvency of the CGs included in them, with a surplus of €60.6 bn in comparison with their CGs' surplus of €58.7 bn.

1 Activity of credit institutions and their consolidated groups

Against the difficult backdrop in Spain and abroad described above, in 2008 the growth rate of CIs moderated. Nevertheless, balance sheet volume increased by 8.6% and continued to be more dynamic than nominal activity (see Chart A.2.1 A). As for the major balance sheet groupings, liabilities grew at a higher pace (9.0%) and, consequently, the year-on-year growth rate of net equity moderated (3.2% - see Table A.3.2).

On the assets side, the lower growth of activity was mainly due to the deceleration of financing extended to the resident private sector (from 16.6% to 5.7%). Accordingly, mortgage lending and, in particular, the residential component, increased more slowly than assets, thus losing relative importance in the balance sheet. Therefore, the structure of credit to the resident private sector continued, albeit more smoothly, the trend initiated in 2006 and, consequently, credit for productive activities continued to increase at higher rates than credit to households (see Table A.3.4). Similarly, the difficulties experienced on financial markets were reflected in an annual decline in deposits at central banks and credit institutions and in investments and other equity instruments (down by -2.8% and -6.9%, respectively - see Chart A.2.1.1 B). In this respect, growth of cash and balances with central banks (7.6%) was amply offset by the fall in loans and advances to CIs and, likewise, the increase in investments (11.1%) was easily outstripped by the decline in other equity instruments. In contrast, debt securities (mainly issued by central government and other resident private sectors different to CIs) and derivatives posted very large year-on-year rises.

Doubtful assets, which started out from a historically very low level, grew 288% in 2008 (in comparison with 50% in 2007) due to the worsening of the real economy, to the impact on

4. Please note that, for the reasons given, this figure cannot be easily compared with the data published in previous editions of the Report on Banking Supervision in Spain.

ACTIVITY OF CREDIT INSTITUTIONS (a)

CHART A.2.1

Total business. Year-end data



SOURCE: Banco de España. Data available at 20 March 2009.

- a. The data in this chart refer to the institutions active at each year-end.
- b. The overall doubtful assets ratio is defined as doubtful assets as a percentage of total lending in the total business of CIs. The doubtful residential mortgage assets ratio is defined, for business in Spain, as doubtful assets as a percentage of credit to the resident private sector for house purchases. The overall coverage ratio is defined as the sum of allowances, provisions and valuation adjustments to total doubtful assets.

borrowers of rising interest rates for most of the year in a predominantly floating-rate system and to the fact that the deterioration of credit risk levels is rapidly reflected in CIs' accounts under bank accounting rules in Spain. The doubtful assets ratio for residential mortgages, which rose 167 bp (see Chart A.2.1 D), was especially affected by the brusque deceleration of this type of financing. Consequently, coverage ratios fell abruptly to levels closer to their historical average.

As for funding, retail business gained in importance to the detriment of wholesale funding, which was very limited given the problems on international funding markets. Deposits from other creditors (the main liabilities item) increased, with time deposits posting the highest rise

(16.7%),⁵ while sight deposits declined slightly (–3.0%), thus conferring a greater degree of stability on funding, as well as a higher cost. As a result, for the first time in the last 13 years, the growth of funds raised from the private sector exceeded that of funds lent to it (see Chart A.2.1 C). At the same time, debt certificates including bonds and other financial liabilities fell in year-on-year terms (see Chart A.2.1.1 B). Despite ongoing pressure on liquidity, funding obtained from the ECB and other CIs rose in line with liabilities (10.8%), at a lower rate than in the previous year.

In 2008 there were no major changes in the distribution by institutional group (see Table A.3.3) of loans and advances to other debtors and deposits from other creditors. Nevertheless, a slight redistribution was observed in specific items between Spanish banks, branches of CIs and savings banks, while cooperatives and SCIs did not experience significant changes. Accordingly, the weight of banks in cash and balances with central banks decreased considerably (–11 pp) and the weight of savings banks in loans and advances to credit institutions fell (–9.8 pp), whereas branches of foreign CIs increased their share of both captions. As for non-monetary financial assets, banks increased their share of other equity instruments and of other financial assets (14.7 pp), savings banks increased their share of debt securities (7.3 pp) and investments, and the share of branches of foreign CIs in the above-mentioned items declined, this decrease being particularly significant in the case of other financial assets (–13.5 pp). On the liabilities side, savings banks increased their share of funding from central banks and CIs, while banks were more active in the issuance of marketable securities other than mortgage securities.

As a result of the economic and financial situation, the issuance of securitisations stagnated, reflecting, on the one hand, the decline (–13.9%) in asset securitisations of CIs, which had shown accelerated growth in previous years, and, on the other hand, the boom in securitisation of CI liabilities (33.6%), basically covered bonds. The decline in asset securitisations of CIs is not as large if the effect of the ICO's one-off securitisation of €13.2 bn of interbank loans in 2007 is stripped out. In any event, in view of market conditions, the asset-backed securities stemming from securitisations were retained on a massive scale by originator credit institutions, thus increasing their capacity to manage liquidity risk (see Tables A.3.7 and A.3.8).

Covered-bond securitisations, which grew 29.1%, are very safe for investors and are used as collateral for operations with the ECB and also with the FAFA implemented by the government from 2008 Q4. The distribution by originator and issuer institution of the securitised liabilities shows once again, the predominance of banks and savings banks, which represented in each case around 47.4% of total issues.

The growth rate of CGs' activity decreased in 2008 to 8.8% (compared with 14.8% in 2007), while the total amount of their balance sheet exceeded €3.6 trillion. The balance sheet items followed the same pattern already mentioned at individual level. On the assets side, cash and balances with central banks rose 16.2% (80% in 2007), loans and advances to other debtors continued to moderate, growing at rates of 7.2%, and debt securities increased 10.7%, whereas investments fell (–29.8%). On the liabilities side, deposits from central banks and CIs were up by 9.5% (16.0% in 2007) and deposits from other creditors grew at much the same rate as the previous year (12%), while debt certificates including bonds declined. Likewise,

5. This rate of deposits growth is consistent with that published in the FSR, although the rates are somewhat different. The lower growth posted in the data in this report is because the FSR considers deposits from households and firms' business in Spain whereas in this report the definition is broader since, for example, it covers total business and includes, among others, general government.

ACTIVITY OF CONSOLIDATED GROUPS (a)

CHART A.2.2

Total business. Year-end data



SOURCE: Banco de España. Data available at 20 March 2009.

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

equity decreased 3.9%, due mainly to valuation adjustments (of a general nature and those made to minority interests), although own funds continued to grow at a slightly higher rate than the balance sheet, boosted by increases in capital and reserves (see Chart A.2.2 A and Table A.3.5).

The contribution to the total consolidated balance sheet of business in Spain decreased very slightly in overall terms, standing at 78.4% (–0.5 pp) at 2008 year-end. However, the annual appreciation of the euro against the major currencies (by between 20% and 30%) in which Spanish institutions have interests, masked on appreciable growth in the volume of business abroad. The above-mentioned fall in investments in consolidated business stemmed from a drastic reduction of investments in business abroad, since they increased in business in Spain from 53.6% in 2007 to 87.5% of the consolidated figure. As for geographical distribution, in CGs' business abroad financial assets grew to a lesser degree than financial liabilities, with the result that the net credit position of the “rest of the world” (excluding the EU and Latin America) increased, while the overall debit positions of activity in the EU and Latin America remained the same (see Chart A.2.1.2 B and Table A.3.6). The decrease in money market and other funds managed in the EU was worth noting.

2 Results of credit institutions and their consolidated groups

In 2008 the income statements of CIs performed less favourably at aggregate level than in previous years. As discussed above, the earnings of Spanish CIs were appreciably eroded by, on the one hand, the international financial crisis unleashed in 2007 and the subsequent paralysis of financial markets with its highly negative effects on the real economy and international trade, and, on the other, the deterioration of the Spanish economy, which was not immune to those external conditions or to the sharp contraction of real estate activity.

Specifically, the profits of CIs as a whole totalled €18.968 bn, down 26.5% on those obtained in 2007. Profits represented 0.63% of average total assets –ATA– (0.97% in 2007) and 11.3% of equity (17.7% in 2007). The efficiency ratio worsened slightly, rising to 44.3% (see Table A.3.9).

The difficult economic and financial conditions of the operating environment for CIs was reflected, albeit unevenly, in all income statement margins. Consequently, profit for the year dropped to the levels of the mid-nineties, coinciding with the phase of recovery that followed the last recession. However, the time series of profits must be analysed with due caution as a result of the successive entry into force of various legal provisions in the accounting field. The latest modification to accounting rules, with a moderate impact, was introduced at the end of last year through Banco de España Circular CBE 6/2008⁶ amending CBE 4/2004.

One of the most notable changes introduced by Circular 6/2008 concerns the definition and name of profit margins habitually used in profitability analysis. Thus, broadly speaking, the new definition of net interest income (NII) – the difference between financial income and financial cost – replaces the old definition of this first income statement margin. The newly defined gross income (GI) includes returns on equity instruments. The newly defined net operating income includes provisioning expenses and impairment losses on financial assets (previously included in profit before tax). Lastly, the calculation of profit or loss for the year includes income tax and the mandatory transfer to welfare funds.

Generally, the 2008 figures show that NIM stabilised in relation to previous years (see Chart A.2.3 A). By contrast, the gross margin (GM) decreased due to the poorer performance of gains or losses on financial assets and liabilities and exchange differences. Net operating margin (NOM) and profit before tax (PBT) are considerably lower than those previously obtained as a result of the performance of impairment losses on assets and provisioning expenses.

Specifically, NIM fell 2 bp as a percentage of ATA with respect to 2007, to 1.25%. This figure shows that the growth of financial income (24.7%), basically originating from loans and advances to other debtors, was offset by that of financial cost (30.4%), the largest item of which is deposits from other creditors. Notably, the cost associated with the latter increased as a result of the growing importance of time deposits in relation to sight deposits.

Although GI increased 3.2% in absolute terms, it fell 20 bp in relative terms (as a percentage of ATA) to 2.34%. By component, the return on equity instruments performed most favourably (up by 6.9%). Nevertheless, lacklustre net fees and commissions (down 2.5%), prompted by the decline in the activity of certain services, mainly those related to the marketing of non-bank financial products and securities services, and lower gains on financial assets and liabilities and exchange differences (20.8%) contributed to explaining the moderation of GI.

For CIs as a whole, NOI decreased in absolute terms (33.4%), as well as in relative terms (44 bp) to 0.63% of ATA. It is worth noting that these figures are the result of the divergent behaviour, on the one hand, of administrative expenses (mainly personnel expenses) and depreciation and amortisation, which experienced more moderate growth rates than in previous years and, on the other, of impairment losses on financial assets (92.9%) and provisioning expenses (145.7%), which made a highly significant contribution to the deterioration in NOI. In spite of the above-mentioned containment of administrative expenses, developments in GI cut short somewhat the positive trend shown in recent years by the efficiency ratio (see Chart A.2.4 C).

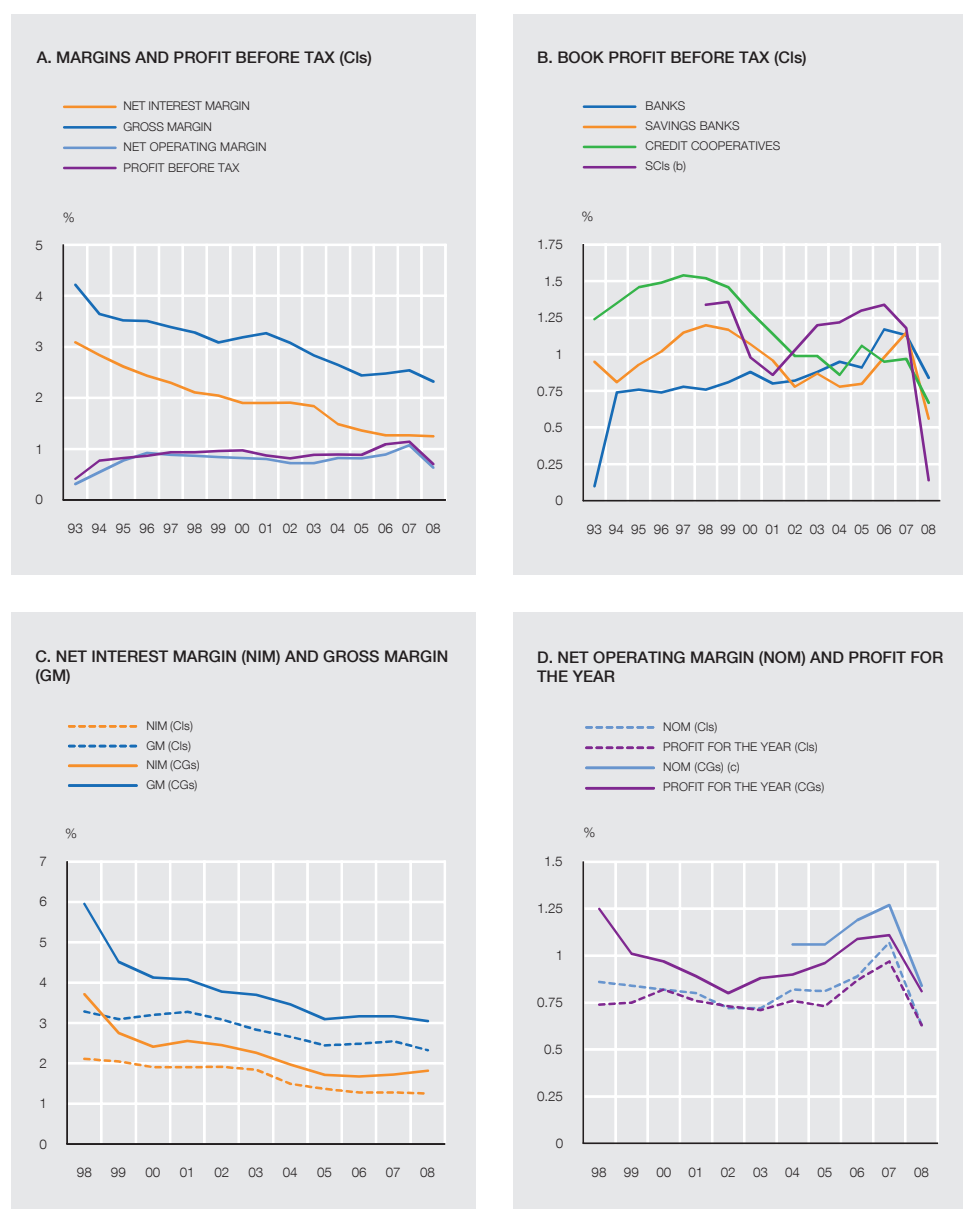
The decrease in PBT was very similar to that described above for NOI (30.1%), with the result that the former's weight in ATA fell from 1.14% in 2007 to 0.71% in 2008. These figures are accounted

6. Banco de España Circular 6/2008 of 26 November 2008 to credit institutions amending Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats.

PROFIT AND MARGINS OF CREDIT INSTITUTIONS AND OF THEIR CONSOLIDATED GROUPS (a)

CHART A.2.3

Percentage of ATA. Yearly data



SOURCE: Banco de España. Data available at 20 March 2009.

- The data in this chart refer to the institutions active at some time during each year. The label "CIs" denotes individual data and "CGs" denotes consolidated data, which include those relating to individual CIs not belonging to a CG.
- Uniform information is not available for the years prior to 1998 for the SCIs institutional group.
- Uniform information is not available for the NOM of CGs for years prior to 2004 due to the conceptual changes introduced by Circular 6/2008.

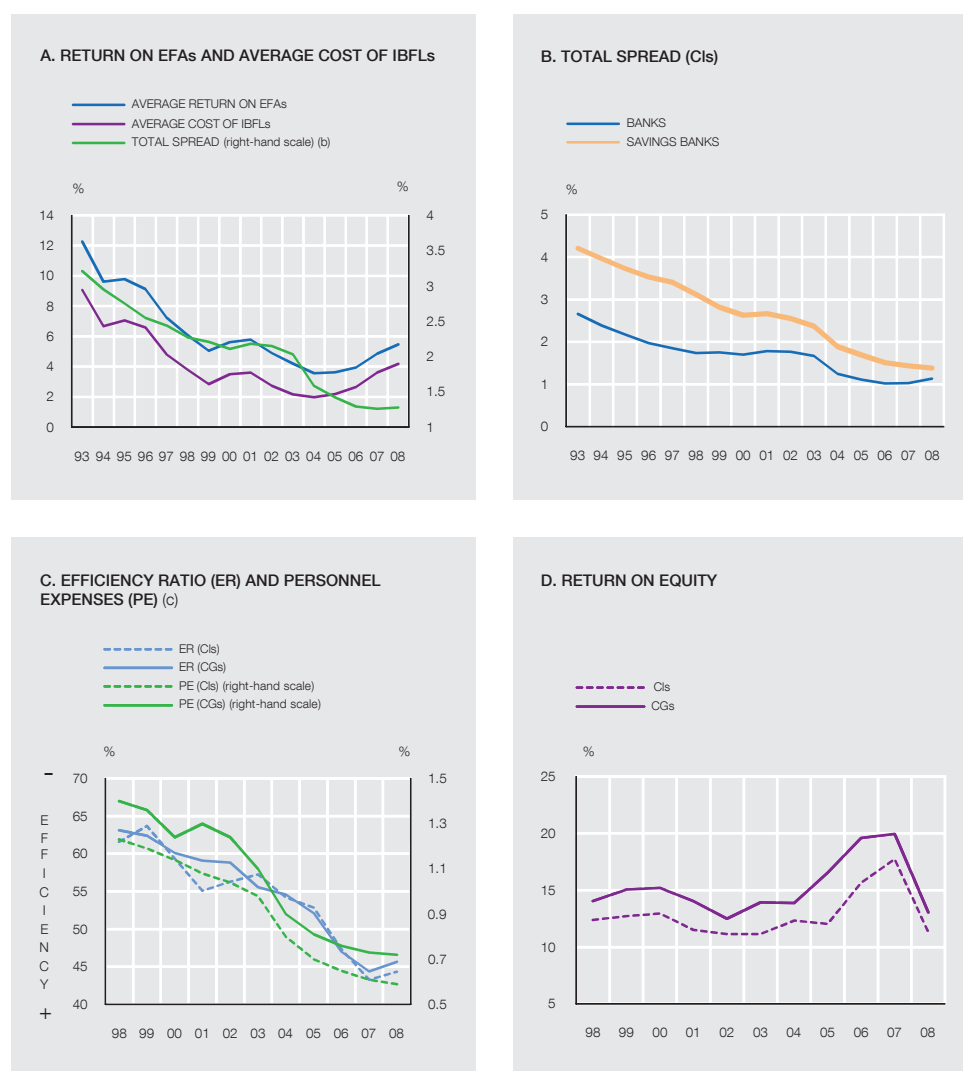
for by the decrease (23.3%) in losses associated with impairment of other financial assets (including goodwill) and the growth of gains on investments and other equity instruments (157.6%).

By institutional group (see Table A.3.10), there was a notable degree of convergence in the process of adjustment undergone by all income statement margins. Chart A.2.3 B shows the correction in PBT in 2008, which is more pronounced in the case of savings banks (down 59 bp to 0.56%) than in the case of banks (0.84%). Nevertheless, the differences detected in the analysis by institutional group focus mainly on the top part of the income statement (NII

RETURNS AND EFFICIENCY OF CREDIT INSTITUTIONS AND OF THEIR CONSOLIDATED GROUPS (a)

CHART A.2.4

Yearly data



SOURCE: Banco de España. Data available at 20 March 2009.

- The data in this chart refer to the institutions active at some time during each year. The label "CIs" denotes individual data, whereas "CGs" refers to consolidated data, among which are included those relating to individual CIs not belonging to any CG.
- Total spread is defined as the average return on EFAs minus the average cost of IBFLs.
- The efficiency ratio is defined as operating expenses over gross income and personnel expenses are expressed as a percentage of ATA.

and GI). In both cases the values for SCIs in recent years have been more than 1 pp higher than those for banks.

The performance of the income statement of CGs was characterised by the same combination of patterns (adjustment and deceleration) already discussed for CIs individually (see Tables A.3.11 and A.3.12). Notably, the more favourable figures for CGs in the analysis of developments in margins, profits and efficiency in prior years, remained relatively constant in 2008 (see Chart A.2.3 C, Chart A.2.4 C and Chart A.2.4 D). This suggests that there is a correlation between the monetary and financial conditions of the various geographical markets where Spanish institutions are present, and that, circumstantially, this correlation is more pronounced due to the effects of the global financial crisis.

Consolidated profit for 2008 decreased 23.0%, 3.9 pp less than the fall posted by individual CIs as a whole. By contrast, the volume of CGs' ATA rose 9.4%, in comparison with 12.4% for CIs. This relative moderation of the figure for CGs is explained, among other factors, by developments on currency markets in 2008. Specifically, in the last four months of the year, there was a significant devaluation against the euro of the national currencies of markets in which Spanish institutions have a larger presence.

3 Solvency of consolidated groups of credit institutions

In 2008 the entry into force of the new Banco de España circular CBE 3/2008 of 22 May 2008 introduced significant changes (see Chapter 3, Section 3.2 of this Report). This gave rise to a certain break in the data analysed in this section, since those relating to 2008 were reported by consolidated groups and individual institutions not belonging to any group of credit institutions (CG) in accordance with the new Circular, while prior year data were reported in accordance with CBE 5/1993. This break affects both the broad solvency data items and the breakdowns resulting from the entry into force of the new Circular. Accordingly, the pre-2008 figures constitute what has been considered a best approximation in terms of both amount and item description. For breakdowns relating to completely new items (for example, the IRB approach), the series of course start in 2008.

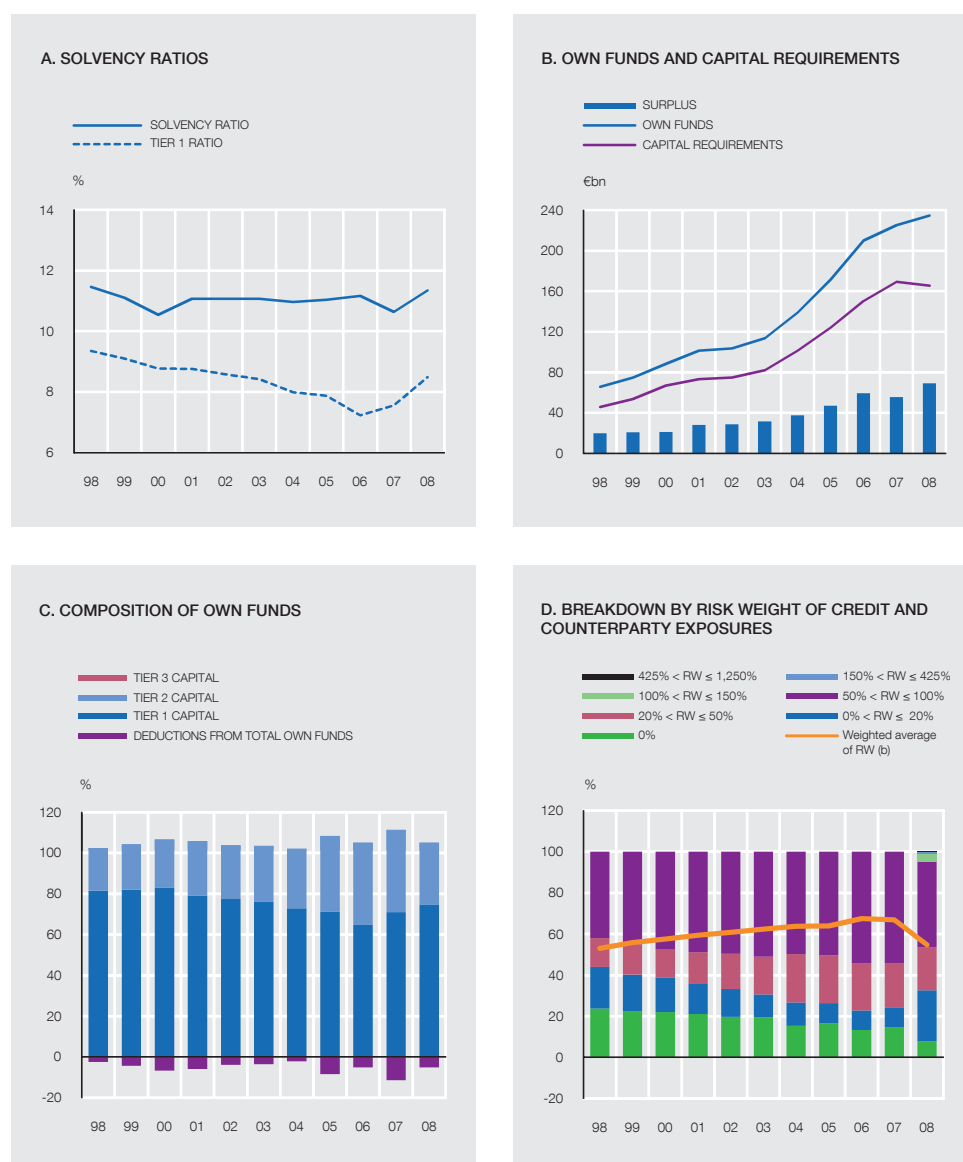
The behaviour of the broad solvency data items reveals the following significant developments (see Table A.3.13). First, the solvency ratio of CGs at end-2008 was 11.3%, up from 10.6% the previous year, as a result of an increase in eligible own funds and slightly lower capital requirements, which left the own funds surplus at €69 bn, a historical high (see Chart A.2.5 A and Chart A.2.5 B). Although eligible own funds increased by less than in 2007, the overall quality of CG capital improved despite the unfavourable economic environment during the past year. Tier 1 capital continued to grow faster than total own funds in 2008 and, within tier 1 capital, the captions representing higher quality capital (capital stock and reserves) held at the same growth rate as in 2007, quadrupling the rate shown by total own funds. As a result, the weight of tier 1 capital in total own funds increased by nearly 4 pp to 74.8% (see Chart A.2.5 C) and the tier 1 solvency ratio rose by nearly 1 pp to 8.5%. It is important to realise that this strengthening is not principally attributable to the new Circular, since this did not introduce very significant changes in own funds.

The changes introduced by the new Circular mainly concern capital requirements. The slight decrease in these requirements in 2008 (by 2.2%) is in line with the expected effect of the changes made by Basel II to make the capital requirements for credit risk more commensurate with the credit risk profile assumed. The expected fall in the credit risk capital requirements is largely offset by new operational risk capital requirements not so far considered and by some transitional requirements applied in the period 2008-2009 to smooth the transition in those CGs authorised to apply internal models.

Turning again to own funds, despite the aforementioned improvement in their quality, various factors limited their growth to an overall rate of 4.3% in 2008. First, the difficult international and national environment in which CGs had to operate in 2008 significantly reduced profits, as explained in the preceding section. This, together with the losses on available-for-sale asset portfolios, constrained the growth of tier 1 capital. Second, tier 2 capital fell by 21.5%, mainly due to the absence of gains on debt securities and on equity instruments accounted for as available-for-sale financial assets, a certain proportion of which can be counted as capital since the entry into force of CBE 2/2006.⁷ Additionally, one of the most important components

7. Note that gains and losses on these portfolios are treated asymmetrically, since gains (net of losses) qualify, subject to limits, as tier 2 capital, whereas losses are deducted in full from tier 1 capital.

Year-end data



SOURCE: Banco de España. Data available at 23 April 2009.

a. The data in this chart refer to the CGs and to the individual CIs not belonging to any CG existing at year-end.

b. Using exposure values as weights.

of tier 2 capital, namely general provisions, also fell significantly due to the greater need to record specific provisions. This led to a drop of 10 pp in the weight of tier 2 capital in total eligible own funds. All these developments contributed to moderating the growth of total own funds. It was notable, however, that, in addition to the strength of capital stock and reserves, a factor which helped to counter the aforementioned negative effects was the decrease in deductions from overall own funds, which returned to more normal levels as a result of the decrease in CGs' holdings in other credit and financial institutions amounting to more than 10% of their capital and in their participations of more than 20% in insurance undertakings, reinsurance undertakings and insurance holding companies.

Capital requirements decreased by 2.2% in 2008 as a result of the declines in requirements for credit and counterparty risk (down 10.8%) and market risk (down 15.8%). However, it should

be pointed out that the new Circular introduced operational risk requirements which, as mentioned above, contributed, along with the temporary requirements, to offsetting those decreases.

As defined in Basel II, operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events,⁸ and includes legal risk but not strategic or reputational risk. Under Circular 3/2008 three possible methodologies can be used to calculate requirements for operational risk: a) the basic indicator approach; b) the standardised or alternative standardised approach, which requires the segmentation of CIs' activity by business lines; and c) the advanced approach, whereby to the latter are added the in-house measurement systems of each institution. In 2008 most CGs applied the basic indicator approach, but the major CGs in the Spanish banking system chose the standardised approach, which calls for a more demanding level of management of this risk. Thus, of the €12.7 bn of requirements for operational risk of CGs as a whole in 2008, €8.5 bn were recorded in the standardised approach category, since no institution reported under the alternative standardised approach. Lastly, the advanced approach was only used by three subsidiaries whose foreign parent had been recognised for this purpose by the competent authority in its EU Member State. The data of these institutions reflect decreases of some importance in the application of the advanced approach with respect to the other approaches.

With regard to so-called "other and transitional capital requirements", which amounted to €2.3 bn compared with €0.2 bn in 2007, most of this increase (€1.9 bn) stemmed from the introduction of limits (known as floors) below which it is not permitted to reduce the capital requirements of institutions applying the IRB approach in 2008 and 2009. This prohibition is a prudent measure taken by the regulator to prevent the increased flexibility permitted by the new Circular in calculating capital requirements from being reflected in a sharp drop in requirements.

The main new development in the capital requirements for credit and counterparty risk is the introduction of the internal ratings-based approach as an alternative to the standardised approach. In 2008, 14 CGs were authorised to use these internal models for one or more of their portfolios.⁹ These models introduced changes in regard to the weights used to calculate risk-weighted exposures, so the analysis of the distribution by risk weight of credit and counterparty risk from 2008 onwards has to be made using ranges instead of fixed weights, as shown in Chart A.2.5 D. This chart shows a significant decrease in the proportion of exposures weighted at 0% and at 100%, and an increase in those weighted at between 0% and 20%. There is thus a significant increase in the proportion of exposures assigned weights up to 20%, which are exposures basically corresponding to external credit ratings in the range AAA to AA-. As regards the other type of risk for which total requirements decreased (market risk, which is of marginal importance in the Spanish banking system), it should be mentioned that the increase in requirements under internal models is basically due to an increase in the number of institutions which used these models in 2008 (4) compared with 2007 (3), since if their number had remained unchanged, these requirements would have grown only by 7.1%, as against the rise of 85.4% recorded.

8. For more details about the history and development of the regulation of operational risk, and about measurement methodologies, see Nieto Giménez-Montesinos, M.A.: "El tratamiento del riesgo operacional en Basilea II". *Revista de Estabilidad Financiera* No. 8 (May 2005), BANCO DE ESPAÑA. 9. Of these 14 CGs, 8 are Spanish and 6 are subsidiaries of EU groups. In the Spanish CGs, the internal models were validated by the Banco de España. In the latter, they were validated by the supervisors in their respective home Member States; nevertheless, certain parameters of the models are consistent with the Spanish context.

SERVING EMPLOYEES, OPERATIONAL BRANCHES, ATMs AND AGENTS OF CIs (a)

TABLE A.3.1

Year-end data (number, unless stated otherwise)

ACTIVE INSTITUTIONS (b)	SERVING EMPLOYEES				OPERATIONAL OFFICES	ATMs	CARDS (000)	POINT-OF-SALE TERMINALS (000)	AGENTS	EMPLOYEES PER OPERATIONAL BRANCH	PER 10,000 INHAB. OVER 16 YEARS OLD (c)				CARDS PER INHAB. OVER 16 YEARS OLD
	TOTAL	OF WHICH: AT OFFICES	HOURS WORKED (MILLIONS)	SERVING EMPLOYEES							OPERATIONAL OFFICES	ATMs	POINT-OF-SALE TERMINALS		
TOTAL CIs															
2005	345	254,121	193,693	418	42,074	55,610	82,564	1,124	5,239	4.6	69.3	11.5	15.2	307	2.3
2006	350	263,383	200,469	432	43,783	57,804	89,989	1,312	11,163	4.6	70.7	11.8	15.5	352	2.4
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	2.5
2008	355	278,073	204,153	457	46,161	61,447	99,579	1,414	10,783	4.4	72.5	12.0	16.0	369	2.6
Banks															
2005	138	111,298	82,830	189	14,577	19,602	29,122	501	4,824	5.7	30.4	4.0	5.3	137	0.8
2006	141	113,059	83,700	189	15,132	19,995	33,933	612	10,339	5.5	30.4	4.1	5.4	164	0.9
2007	150	117,559	81,785	196	15,575	20,443	35,615	669	11,465	5.3	31.0	4.1	5.4	177	0.9
2008	153	115,114	77,751	193	15,612	20,506	39,061	702	10,398	5.0	30.0	4.1	5.3	183	1.0
Domestic															
2005	52	95,585	75,595	160	13,267	18,382	24,358	492	4,430	5.7	26.1	3.6	5.0	134	0.7
2006	53	97,107	76,625	163	13,835	18,796	28,036	602	4,624	5.5	26.1	3.7	5.0	162	0.8
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	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	0.8
Foreign subsidiaries															
2005	21	11,150	6,541	20	1,181	1,203	4,022	8	356	5.5	3.0	0.3	0.3	2	0.1
2006	19	10,819	6,305	18	1,160	1,181	4,646	10	5,670	5.4	2.9	0.3	0.3	3	0.1
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	0.1
2008	18	11,326	6,552	19	1,264	1,364	5,731	11	5,889	5.2	3.0	0.3	0.4	2.8	0.1
Foreign branches															
2005	65	4,563	694	8	129	17	742	—	38	5.4	1.2	—	—	—	—
2006	69	5,133	770	9	137	18	1,250	—	45	5.6	1.4	—	—	—	—
2007	80	6,492	1,058	11	181	48	1,462	—	109	5.8	1.7	—	—	—	—
2008	87	6,712	1,232	11	190	48	1,659	—	125	6.5	1.7	—	—	—	—
Savings banks															
2005	47	118,072	94,483	191	22,443	31,585	34,663	544	294	4.2	32.2	6.1	8.6	149	0.9
2006	47	124,139	99,459	200	23,457	33,187	36,174	618	689	4.2	33.3	6.3	8.9	166	1.0
2007	46	131,933	106,050	210	24,637	35,051	37,434	592	258	4.3	34.8	6.5	9.2	156	1.0
2008	46	134,867	107,972	218	25,035	35,864	37,869	617	259	4.3	35.2	6.5	9.4	161	1.0
Credit cooperatives															
2005	83	18,395	14,285	28	4,657	4,423	4,367	79	71	3.1	5.0	1.3	1.2	22	0.1
2006	83	19,382	14,966	31	4,771	4,622	4,477	81	68	3.1	5.2	1.3	1.2	22	0.1
2007	82	20,428	15,651	34	4,953	4,834	4,659	91	64	3.2	5.4	1.3	1.3	24	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
SCIs															
2005	77	6,356	2,095	10	397	—	14,411	0	50	5.3	1.7	0.1	—	—	0.4
2006	79	6,803	2,344	11	423	—	15,406	0	67	5.5	1.8	0.1	—	—	0.4
2007	76	7,107	2,163	11	429	—	16,409	0	62	5.0	1.9	0.1	—	—	0.4
2008	75	7,152	2,302	12	417	—	17,504	0	74	5.5	1.9	0.1	—	—	0.5

SOURCE: Banco de España. Data available at 26 March 2009.

a. CIs existing at each date.

b. Those of the registered institutions which were actually performing transactions at end-2008.

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 is the total business of CIs 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 %)

	2005	2006	2007	2008	MEMORANDUM ITEM: 2008		
					STRUCTURE		% ANNUAL Δ
					%	CHANGE IN PP	
BALANCE SHEET TOTAL	2,126,090	2,478,395	2,892,836	3,142,439	100.0	0.0	8.6
ASSETS:	2,126,090	2,478,395	2,892,836	3,142,439	100.0	0.0	8.6
Cash and central banks	24,368	29,408	61,341	66,003	2.1	0.0	7.6
Deposits in credit institutions	293,033	320,302	347,702	331,659	10.6	-1.5	-4.6
Of which: interbank	207,012	226,683	261,158	260,828	8.3	-0.7	-0.1
Loans and advances to other debtors	1,265,934	1,594,656	1,860,631	1,986,506	63.2	-1.1	6.8
Resident general government	41,337	41,862	43,889	54,403	1.7	0.2	24.0
Resident private sector	1,173,827	1,475,468	1,720,429	1,817,494	57.8	-1.6	5.6
Of which: commercial credit	75,393	85,387	90,859	74,233	2.4	-0.8	-18.3
Of which: secured by a mortgage	709,716	883,989	1,018,956	1,064,718	33.9	-1.3	4.5
Non-residents	50,769	77,326	96,313	114,609	3.6	0.3	19.0
Debt securities	285,540	233,872	266,275	322,407	10.3	1.1	21.1
Other equity instruments	48,530	67,915	65,079	39,594	1.3	-1.0	-39.2
Trading derivatives	36,184	45,894	68,638	131,611	4.2	1.8	91.7
Other financial assets	17,092	26,354	26,996	30,623	1.0	0.0	13.4
Hedging derivatives	19,394	14,076	13,113	27,544	0.9	0.4	110.1
Investments	76,538	83,574	116,632	129,610	4.1	0.1	11.1
Insurance contracts linked to pensions	9,854	10,252	9,965	9,991	0.3	0.0	0.3
Fixed assets	25,225	26,816	28,116	30,161	1.0	0.0	7.3
Tax assets	17,126	16,580	18,930	20,544	0.7	0.0	8.5
Other assets	7,271	8,696	9,417	16,187	0.5	0.2	71.9
LIABILITIES AND EQUITY:	1,996,708	2,330,793	2,719,829	2,963,959	94.3	0.3	9.0
Central banks	38,975	30,539	82,987	117,539	3.7	0.9	41.6
Deposits from credit institutions	502,000	519,437	560,939	589,842	18.8	-0.6	5.2
Deposits from other creditors	1,078,908	1,294,232	1,467,725	1,606,021	51.1	0.4	9.4
Resident and non-resident general government	59,234	68,955	79,633	82,564	2.6	-0.1	3.7
Resident private sector	929,806	1,137,031	1,282,705	1,400,238	44.6	0.2	9.2
Unadjusted overnight deposits	400,601	452,358	442,449	429,020	13.7	-1.6	-3.0
Current accounts	222,140	259,866	259,396	246,165	7.8	-1.1	-5.1
Savings accounts	173,753	186,439	179,435	179,820	5.7	-0.5	0.2
Other deposits	4,707	6,053	3,618	3,035	0.1	0.0	-16.1
Time deposits and redeemable at notice	437,024	594,774	749,930	875,313	27.9	1.9	16.7
Repos	84,324	83,482	85,557	83,804	2.7	-0.3	-2.0
Non-residents	89,867	88,246	105,387	123,219	3.9	0.3	16.9
Debt certificates including bonds	221,811	304,425	381,516	369,794	11.8	-1.4	-3.1
Of which: mortgage securities (b)	90,390	133,556	156,245	172,639	5.5	0.1	10.5
Trading derivatives	37,335	48,680	73,772	129,222	4.1	1.6	75.2
Subordinated liabilities	61,977	71,241	85,869	86,952	2.8	-0.2	1.3
Other financial liabilities	29,066	34,275	38,319	34,472	1.1	-0.2	-10.0
Other liabilities	502,000	519,437	560,939	589,842	18.8	-0.6	5.2
Provisions	26,637	27,964	28,701	30,116	1.0	0.0	4.9
Of which: provisions for pensions and similar	20,510	21,794	20,629	21,008	0.7	0.0	1.8
EQUITY:	129,382	147,602	173,008	178,480	5.7	-0.3	3.2
Valuation adjustments	7,814	11,249	10,130	-13	0.0	-0.4	—
Own funds	121,567	136,353	162,878	178,493	5.7	0.0	9.6
Of which: capital and reserves (including share premium)	111,306	120,866	135,363	158,858	5.1	0.4	17.4
MEMORANDUM ITEMS:							
Unadjusted earning financial assets	1,940,725	2,270,877	2,628,990	2,787,152	88.7	-2.2	6.0
Unadjusted securities portfolio	410,158	386,106	450,635	495,085	15.8	0.2	9.9
Equity portfolio	125,434	152,396	183,970	171,839	5.5	-0.9	-6.6
Investments in the group	71,643	76,768	89,269	117,714	3.7	0.7	31.9
Other investments	5,260	7,713	29,622	14,531	0.5	-0.6	-50.9
Other equity securities	48,530	67,915	65,079	39,594	1.3	-1.0	-39.2
Contingent exposures and liabilities	266,120	392,835	401,511	336,476	10.7	-3.2	-16.2
Variable-rate credit	910,532	1,173,776	1,387,448	1,465,476	46.6	-1.3	5.6
Asset transfers	100,806	142,594	213,761	279,457	8.9	1.5	30.7
Of which: securitised (c)	36,642	33,630	34,673	29,455	0.9	-0.3	-15.1
Total mortgage covered bonds issued (d)	156,902	227,663	275,055	319,452	10.2	0.7	16.1

SOURCE: Banco de España. Data available at 20 March 2009.

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 balance sheet and thus classified as "transferred". For total asset securitisations originated by CIs, refer to Chart A 3.8 under the item "transfer of assets due to securitisation".

d. Figure taken from the confidential return "Supplementary 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 GROUP OF CIs (a)

TABLE A.3.3

Total business. December 2008 (%)

	DEPOSIT INSTITUTIONS										
	BANKS								SAVINGS BANKS	CO- OPERATIVES	SCIs
	TOTAL	TOTAL	DOMESTIC	FOREIGN							
				TOTAL	SUBSIDIARIES	BRANCHES					
						TOTAL	EU	NON-EU			
BALANCE SHEET TOTAL	97.7	54.7	44.2	10.5	3.0	7.5	7.3	0.2	39.4	3.6	2.3
ASSETS:	97.7	54.7	44.2	10.5	3.0	7.5	7.3	0.2	39.4	3.6	2.3
Cash and central banks	99.9	52.6	45.5	7.2	3.8	3.4	3.2	0.1	44.4	2.9	0.1
Deposits in credit institutions	98.9	82.9	59.3	23.7	3.9	19.7	19.3	0.5	14.2	1.8	1.1
Of which: interbank	98.7	85.5	59.1	26.3	3.1	23.3	22.7	0.6	11.0	2.2	1.3
Loans and advances to other debtors	96.7	46.1	38.3	7.8	3.4	4.4	4.1	0.2	45.9	4.8	3.3
Resident general government	92.8	57.4	44.6	12.8	11.8	1.0	1.0	0.0	33.9	1.5	7.2
Resident private sector	96.8	43.9	36.3	7.6	3.2	4.4	4.2	0.2	47.8	5.1	3.2
Of which: commercial credit	82.5	45.0	40.4	4.6	2.4	2.2	1.9	0.3	32.9	4.6	17.5
Of which: secured by a mortgage	99.0	36.3	32.2	4.1	2.8	1.3	1.3	0.0	56.4	6.4	1.0
Non-residents	96.5	75.1	66.9	8.2	3.4	4.8	4.4	0.5	21.0	0.4	3.5
Debt securities	99.9	56.9	35.9	21.0	2.0	19.0	19.0	0.0	41.7	1.3	0.1
Other equity instruments	99.9	61.2	46.7	14.5	1.3	13.3	13.3	0.0	34.5	4.3	0.1
Trading derivatives	100.0	88.6	83.0	5.6	0.5	5.0	4.8	0.2	11.3	0.1	0.0
Other financial assets	99.7	83.1	76.1	7.1	1.8	5.3	5.2	0.1	15.5	1.1	0.3
Hedging derivatives	100.0	44.5	40.0	4.5	1.4	3.1	3.1	0.0	54.8	0.7	0.0
Investments	100.0	75.0	72.9	2.1	0.5	1.6	1.6	0.0	24.7	0.2	0.0
Insurance contracts linked to pensions	99.9	70.5	69.3	1.2	1.1	0.1	0.1	0.0	29.4	0.0	0.1
Fixed assets	97.1	23.1	21.2	2.0	1.3	0.7	0.7	0.0	66.1	7.9	2.9
Tax assets	97.7	55.7	49.8	5.8	2.7	3.1	3.0	0.1	39.2	2.8	2.3
Other assets	95.8	54.0	40.4	13.6	1.5	12.1	12.0	0.1	37.4	4.4	4.2
LIABILITIES AND EQUITY:	97.7	54.5	43.7	10.9	3.0	7.9	7.7	0.2	39.7	3.5	2.3
Central banks	100.0	54.2	35.4	18.8	4.4	14.4	14.3	0.1	43.4	2.5	0.0
Deposits from credit institutions	91.1	72.9	37.2	35.7	5.6	30.1	29.3	0.8	17.0	1.2	8.9
Deposits from other creditors	99.4	44.1	39.5	4.6	2.7	1.8	1.8	0.0	49.7	5.6	0.6
Resident and non-resident general government	100.0	49.4	44.9	4.5	0.7	3.8	3.8	0.0	46.5	4.1	0.0
Resident private sector	99.9	40.5	36.5	4.1	2.4	1.6	1.6	0.0	53.2	6.1	0.1
Unadjusted overnight deposits	100.0	42.4	36.9	5.5	2.7	2.8	2.7	0.1	50.8	6.7	0.0
Current accounts	100.0	49.8	40.9	8.9	4.2	4.7	4.5	0.1	45.9	4.3	0.0
Savings accounts	100.0	32.0	31.2	0.8	0.7	0.1	0.1	0.0	57.8	10.2	0.0
Other deposits	97.8	56.4	47.0	9.5	5.5	4.0	3.8	0.1	38.0	3.4	2.2
Time deposits and redeemable at notice	99.9	37.5	34.7	2.8	2.0	0.8	0.8	0.0	56.0	6.4	0.1
Repos	100.0	63.6	53.3	10.3	5.8	4.5	4.5	0.0	35.7	0.7	0.0
Non-residents	92.8	81.1	71.0	10.2	7.5	2.6	2.5	0.1	11.2	0.5	7.2
Debt certificates including bonds	99.9	54.4	53.4	1.0	1.0	0.0	0.0	0.0	44.6	0.8	0.1
Of which: mortgage securities (b)	100.0	58.1	58.1	0.0	0.0	0.0	0.0	0.0	41.9	0.0	0.0
Trading derivatives	100.0	88.4	82.9	5.6	0.5	5.0	4.8	0.2	11.6	0.0	0.0
Subordinated liabilities	99.1	63.6	61.8	1.8	1.6	0.2	0.2	0.0	35.0	0.6	0.9
Other financial liabilities	92.2	67.4	58.5	8.9	2.7	6.2	6.0	0.1	22.4	2.4	7.8
Other liabilities	91.1	72.9	37.2	35.7	5.6	30.1	29.3	0.8	17.0	1.2	8.9
Provisions	99.0	67.7	65.9	1.8	1.2	0.6	0.5	0.1	30.4	0.9	1.0
Of which: provisions for pensions and similar	99.7	76.6	75.5	1.1	1.0	0.1	0.1	0.0	23.0	0.1	0.3
EQUITY:	97.3	57.0	53.3	3.7	2.6	1.1	0.6	0.5	35.5	4.8	2.7
Valuation adjustments											
Own funds	97.2	56.5	52.7	3.8	2.5	1.2	0.7	0.5	35.8	5.0	2.8
Of which: capital and reserves	96.9	55.6	51.4	4.2	2.8	1.5	0.9	0.6	36.0	5.3	3.1
MEMORANDUM ITEMS:											
Unadjusted earning financial assets	97.4	51.9	40.6	11.3	3.3	8.0	7.8	0.2	41.6	4.0	2.6
Unadjusted securities portfolio	99.9	62.1	46.7	15.4	1.5	13.9	13.9	0.0	36.6	1.3	0.1
Equity portfolio	100.0	71.8	66.8	4.9	0.7	4.3	4.3	0.0	27.0	1.2	0.0
Investments in the group	100.0	74.8	72.8	2.0	0.3	1.8	1.8	0.0	24.9	0.2	0.0
Other investments	100.0	75.6	73.2	2.4	2.4	0.0	0.0	0.0	23.2	1.2	0.0
Other equity securities	99.9	61.2	46.7	14.5	1.3	13.3	13.3	0.0	34.5	4.3	0.1
Contingent exposures and liabilities	99.9	78.9	67.5	11.4	2.3	9.1	8.8	0.2	19.3	1.6	0.1
Variable-rate credit	98.4	39.9	33.0	6.9	2.5	4.4	4.1	0.3	52.7	5.8	1.6
Asset transfers	95.1	51.5	46.5	5.1	4.3	0.7	0.7	0.0	37.6	5.9	4.9
Of which: securitised (c)	65.1	34.5	28.9	5.5	5.5	0.0	0.0	0.0	26.6	4.1	34.9
Total mortgage covered bonds issued (d)	100.0	36.7	36.6	0.1	0.0	0.1	0.1	0.0	61.3	2.0	0.0

SOURCE: Banco de España. Data available at 20 March 2009.

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 balance sheet and thus classified as "transferred". For total asset securitisations originated by CIs, refer to Chart A 3.8 under the item "transfer of assets due to securitisation".

d. Figure taken from the confidential return "Supplementary 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 (%)

	2005	2006	2007	2008
Lending to business	50.0	51.6	53.3	54.0
Goods	18.6	18.2	18.1	17.7
<i>Agriculture, fishing and extractive industries</i>	2.1	1.9	1.7	1.7
<i>Manufacturing</i>	6.8	6.2	6.0	5.9
<i>Energy and electricity</i>	1.3	1.3	1.7	2.0
<i>Construction</i>	8.4	8.8	8.7	8.1
Services	31.4	33.4	35.2	36.4
<i>Commerce, repairs and hotels and restaurants</i>	6.8	6.4	6.4	6.5
<i>Transport and communications</i>	2.8	2.5	2.3	2.4
<i>Real estate development</i>	13.5	16.4	17.3	17.1
<i>Financial intermediation</i>	1.1	1.2	1.8	2.4
<i>Other services</i>	7.1	6.9	7.4	8.0
Lending to households	48.2	46.7	45.1	44.2
Housing (purchase and refurbishing)	37.3	36.3	35.3	35.1
Consumer credit	3.8	3.4	3.2	2.9
Other purposes	7.1	7.0	6.5	6.2
Other	1.8	1.8	1.6	1.7

SOURCE: Banco de España. Data available at 20 March 2009.

a. Institutions existing at each date.

ACTIVITY OF CREDIT INSTITUTIONS AND THEIR CONSOLIDATED GROUPS (a)

TABLE A.3.5

Year-end data (€m and %)

	2005	2006	2007	2008	MEMORANDUM ITEM: 2008					
					STRUCTURE		% ANNUAL Δ	OF WHICH: BUSINESS IN SPAIN		
					%	CHANGE IN PP		%	CHANGE IN PP	% ANNUAL Δ
BALANCE SHEET TOTAL	2,536,681	2,912,644	3,343,367	3,637,912	100.0	0.0	8.8	78.4	-0.5	8.1
ASSETS:	2,536,681	2,912,644	3,343,367	3,637,912	100.0	0.0	8.8	78.4	-0.5	8.1
Cash and central banks	46,478	49,319	88,723	103,106	2.8	0.2	16.2	63.7	-4.9	7.9
Loans and advances to credit institutions	223,377	245,831	251,317	233,023	6.4	-1.1	-7.3	86.0	-1.3	-8.6
Loans and advances to other debtors	1,573,947	1,951,860	2,250,401	2,412,052	66.3	-1.0	7.2	79.4	-1.3	5.5
Debt securities	390,848	326,237	355,536	393,544	10.8	0.2	10.7	75.8	6.5	21.0
Investments	28,587	27,712	54,369	38,176	1.0	-0.6	-29.8	87.5	33.9	14.6
Tangible assets	34,556	36,230	35,936	40,996	1.1	0.1	14.1	85.5	-2.1	11.4
Other assets	238,889	275,455	307,085	417,015	11.5	2.3	35.8	73.4	-3.9	29.0
<i>Of which: consolidated goodwill</i>	<i>16,425</i>	<i>17,932</i>	<i>21,927</i>	<i>27,381</i>	<i>0.8</i>	<i>0.1</i>	<i>24.9</i>	<i>3.0</i>	<i>-0.1</i>	<i>22.6</i>
LIABILITIES:	2,385,402	2,736,639	3,132,773	3,435,587	94.4	0.7	9.7	77.9	-1.9	7.1
Central banks	57,194	43,464	92,183	134,484	3.7	0.9	45.9	81.8	-4.9	37.6
Deposits from credit institutions	443,728	454,276	485,323	497,785	13.7	-0.8	2.6	83.8	-1.3	1.0
Deposits from other creditors	1,231,164	1,390,865	1,574,998	1,764,349	48.5	1.4	12.0	75.1	-1.8	9.4
Debt certificates including bonds	386,555	554,927	663,048	643,610	17.7	-2.1	-2.9	81.7	-0.8	-3.9
Subordinated liabilities	75,807	83,676	91,713	96,236	2.6	-0.1	4.9	74.2	-1.2	3.3
Tax liabilities	14,285	17,924	18,719	13,733	0.4	-0.2	-26.6	60.7	-21.8	-46.0
Other liabilities	140,078	154,610	173,065	249,683	6.9	1.7	44.3	67.7	24.8	127.7
<i>Provisions</i>	<i>36,590</i>	<i>36,898</i>	<i>33,724</i>	<i>35,706</i>	<i>1.0</i>	<i>0.0</i>	<i>5.9</i>	<i>78.8</i>	<i>-4.8</i>	<i>-0.2</i>
EQUITY:	151,279	176,005	210,593	202,326	5.6	-0.7	-3.9	97.8	2.5	-1.4
Minority interest	6,274	5,703	10,953	9,853	0.3	-0.1	-10.0	74.4	-4.3	-15.0
Valuation adjustments	18,901	22,462	17,018	-9,816	-0.3	-0.8	—	-4.6	-112.2	-97.5
Own funds	126,104	147,841	182,622	202,289	5.6	0.1	10.8	94.0	-1.2	9.4
<i>Of which: capital and reserves (including share premium)</i>	<i>109,713</i>	<i>124,766</i>	<i>148,245</i>	<i>177,563</i>	<i>4.9</i>	<i>0.4</i>	<i>19.8</i>	<i>98.0</i>	<i>-1.2</i>	<i>18.4</i>
MEMORANDUM ITEMS:										
Interest-bearing financial liabilities	2,194,206	2,533,541	2,913,268	3,134,112	86.2	-1.0	7.6	78.3	-1.8	5.2
Off-balance-sheet customer funds	589,398	676,300	713,731	635,471	17.5	-3.9	-11.0	100.0	0.0	—
<i>Of which: managed by the group</i>	<i>473,718</i>	<i>519,631</i>	<i>541,468</i>	<i>479,282</i>	<i>13.2</i>	<i>-3.0</i>	<i>-11.5</i>	<i>76.7</i>	<i>1.0</i>	<i>-10.3</i>
Unadjusted securities portfolio	494,182	453,458	503,875	498,880	13.7	-1.4	-1.0	78.6	5.4	6.3
<i>Of which: equity portfolio</i>	<i>104,169</i>	<i>127,320</i>	<i>147,958</i>	<i>104,454</i>	<i>2.9</i>	<i>-1.6</i>	<i>-29.4</i>	<i>89.4</i>	<i>6.7</i>	<i>-23.7</i>
<i>Investments in the group</i>	<i>14,175</i>	<i>8,625</i>	<i>11,036</i>	<i>12,784</i>	<i>0.4</i>	<i>0.0</i>	<i>15.8</i>	<i>80.9</i>	<i>-2.0</i>	<i>13.0</i>
<i>Other investments</i>	<i>12,590</i>	<i>15,639</i>	<i>31,406</i>	<i>20,687</i>	<i>0.6</i>	<i>-0.4</i>	<i>-34.1</i>	<i>89.2</i>	<i>37.7</i>	<i>14.0</i>
<i>Other equity securities</i>	<i>77,404</i>	<i>103,056</i>	<i>105,516</i>	<i>70,983</i>	<i>2.0</i>	<i>-1.2</i>	<i>-32.7</i>	<i>91.0</i>	<i>-1.0</i>	<i>-33.4</i>

SOURCE: Banco de España. Data available at 20 March 2009.

a. These data refer to CGs, and to individual CIs which do not belong to a CG, existing at each date.

LOCAL BUSINESS ABROAD OF CONSOLIDATED GROUPS AND INDIVIDUAL INSTITUTIONS (a)

TABLE A.3.6

End-of-year data (€ m)

	2005	2006	2007	2008	MEMORANDUM ITEM: 2008		
					STRUCTURE		% ANNUAL Δ
					%	CHANGE IN PP	
Consolidated balance sheet abroad	598,904	635,173	704,244	784,996	21.6	0.5	11.5
LOCAL BUSINESS:							
Financial assets	504,218	521,867	590,900	653,443	18.0	0.3	10.6
<i>European Union</i>	<i>277,752</i>	<i>277,630</i>	<i>306,371</i>	<i>340,675</i>	<i>9.4</i>	<i>0.2</i>	<i>11.2</i>
<i>Latin America</i>	<i>171,800</i>	<i>180,385</i>	<i>196,853</i>	<i>228,356</i>	<i>6.3</i>	<i>0.4</i>	<i>16.0</i>
<i>Other</i>	<i>54,665</i>	<i>63,852</i>	<i>87,677</i>	<i>84,412</i>	<i>2.3</i>	<i>-0.3</i>	<i>-3.7</i>
Financial liabilities	462,696	480,048	544,041	639,771	17.6	1.3	17.6
<i>European Union</i>	<i>271,690</i>	<i>250,628</i>	<i>267,413</i>	<i>324,337</i>	<i>8.9</i>	<i>0.9</i>	<i>21.3</i>
<i>Latin America</i>	<i>135,565</i>	<i>157,269</i>	<i>168,483</i>	<i>197,336</i>	<i>5.4</i>	<i>0.4</i>	<i>17.1</i>
<i>Other</i>	<i>55,441</i>	<i>72,151</i>	<i>108,145</i>	<i>118,097</i>	<i>3.2</i>	<i>0.0</i>	<i>9.2</i>
MEMORANDUM ITEM:							
Funds managed (net asset value)	124,515	133,472	131,977	111,903	3.1	-0.9	-15.2
<i>European Union</i>	<i>16,968</i>	<i>20,044</i>	<i>23,155</i>	<i>15,694</i>	<i>0.4</i>	<i>-0.3</i>	<i>-32.2</i>
<i>Latin America</i>	<i>97,249</i>	<i>107,707</i>	<i>102,263</i>	<i>91,458</i>	<i>2.5</i>	<i>-0.5</i>	<i>-10.6</i>
<i>Other</i>	<i>10,298</i>	<i>5,721</i>	<i>6,558</i>	<i>4,751</i>	<i>0.1</i>	<i>-0.1</i>	<i>-27.6</i>
CIs abroad (number)	159	159	176	184			
Subsidiaries	108	106	122	128			
<i>European Union</i>	<i>30</i>	<i>41</i>	<i>44</i>	<i>44</i>			
<i>Latin America</i>	<i>36</i>	<i>28</i>	<i>30</i>	<i>36</i>			
<i>Other</i>	<i>42</i>	<i>37</i>	<i>48</i>	<i>48</i>			
Branches	51	53	54	56			
<i>European Union</i>	<i>36</i>	<i>37</i>	<i>38</i>	<i>39</i>			
<i>Latin America</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>0</i>			
<i>Other</i>	<i>14</i>	<i>15</i>	<i>15</i>	<i>17</i>			

SOURCE: Banco de España. Data available at 20 March 2009.

a. These data refer to CGs, and to individual CIs which do not belong to a CG, existing at each date.

SECURITIES ISSUED BY SPANISH SSPEs

TABLE A.3.7

Year-end data (€m and %)

					MEMORANDUM ITEM: 2008		
	2005	2006	2007	2008	STRUCTURE		% ANNUAL CHANGE
					%	CHANGE IN PP	
BREAKDOWN BY TYPE OF UNDERLYING BEING SECURITISED:							
Total	68,904	93,801	137,245	137,389	100.0	—	0.1
Assets of CIs (bond issuance)	43,961	64,193	115,032	99,030	72.1	−11.7	−13.9
Mortgage loans (not to SMEs or property developers)	29,617	38,889	62,975	63,807	46.4	0.6	1.3
Of which: Mortgage SSPEs (PH) (a)	6,850	5,050	5,926	7,000	5.1	0.8	18.1
Of which: Asset SSPEs (PH and CTH) (a)	22,767	33,839	57,049	56,807	41.3	−0.2	−0.4
Mortgage loans to property developers	730	—	—	—	—	—	—
SMEs	6,571	12,795	10,336	10,168	7.4	−0.1	−1.6
Consumer loans	—	5,527	1,566	7,434	5.4	4.3	374.6
Credit to general government	—	—	—	—	—	—	—
Auto loans	3,235	1,369	3,394	510	0.4	−2.1	−85.0
Interbank loans	—	—	13,169	—	—	—	—
Corporate loans	3,100	5,536	19,250	12,000	8.7	−5.3	−37.7
Other	796	77	4,342	5,112	3.7	0.6	17.7
Assets of CIs (commercial paper issuance) (b)	−1,327	904	−4,836	2,316	1.7	5.2	−147.9
Of which: receivables	−925	1,055	−4,771	—	—	—	—
Assets of non-financial corporations	145	1,032	394	427	0.3	0.0	8.6
Liabilities of CIs	26,125	27,673	26,655	35,615	25.9	6.5	33.6
Mortgage covered bonds	24,280	25,925	26,655	34,400	25.0	5.6	29.1
Territorial covered bonds	665	—	—	450	0.3	—	—
Treasury bonds	1,180	1,450	—	—	—	—	—
Uncovered bonds	—	—	—	765	0.6	—	—
Subordinated loans	—	298	—	—	—	—	—
MEMORANDUM ITEMS:							
Total securitised mortgage-backed assets (c)	34,895	48,546	76,661	76,096	55.4	−0.5	−0.7
Total issues linked to mortgage market (d)	59,175	74,471	103,316	110,496	80.4	5.1	6.9
Bonds issued on foreign stock markets	1,035	1,421	372	100	0.1	−0.2	−73.0
BREAKDOWN BY TYPE OF ORIGINATOR:							
Total	68,904	93,801	137,245	137,389	100.0	0.0	0.1
Banks	20,325	34,262	71,560	64,364	46.8	−5.3	−10.1
Savings banks	40,019	47,951	58,556	65,582	47.7	5.1	12.0
Cooperatives	5,463	6,792	4,990	4,981	3.6	−0.0	−0.2
SCIs	2,953	3,687	1,619	2,035	1.5	0.3	25.7
Unclassified financial institutions	—	77	126	—	—	−0.1	—
Non-financial corporations	145	1,032	394	427	0.3	0.0	8.6

SOURCES: CNMV, AIAF and Banco de España. Data available at 20 March 2009.

a. PH: Collateralised mortgage bonds (*participaciones hipotecarias*) as defined in Royal Decree 685/1982. CTH: mortgage transfer certificates (*certificados de transmisión hipotecaria*) as defined in Law 44/2002.

b. For this category in particular, the data provided are the change in the outstanding balance of securitisation in the year, which is equal to net promissory note issuance. Since the securitised assets are very short-term, institutions issue and redeem a large amount of promissory notes during the year. This also explains why there may be negative net issuance of the securities of these vehicles.

c. Sum of the items "Mortgage loans (not to SMEs or property developers)", "Mortgage loans to property developers", and the mortgage-backed part of those funds classified as "SMEs", "corporate loans" and "other".

d. Sum of the items "Total mortgage-backed assets" and "Mortgage covered bonds".

OUTSTANDING AMOUNTS OF SPANISH SECURITISATIONS

TABLE A.3.8

Year-end data (€m and %)

					MEMORANDUM ITEM: 2008		
	2005	2006	2007	2008	STRUCTURE		% ANNUAL Δ
					%	CHANGE IN PP	
BREAKDOWN BY TYPE OF UNDERLYING BEING SECURITISED:							
Total	173,592	243,163	350,207	444,853	100.0	—	37.7
Assets of CIs (bond issuance)	103,003	144,188	229,223	289,822	65.1	-0.3	109.2
Mortgage loans (not to SMEs or property developers)	68,969	93,330	141,152	189,069	42.5	2.2	34.3
Of which: mortgage SSPEs (PH) (a)	24,310	24,528	26,604	25,208	5.7	-1.9	-5.2
Of which: asset SSPEs (PH and CTH) (a)	44,658	68,802	114,548	163,861	36.8	4.1	43.5
Mortgage loans to property developers	992	697	475	353	0.1	-0.1	-25.7
SMEs	20,252	28,069	30,851	33,754	7.6	-1.2	7.7
Consumer loans	938	6,087	5,526	11,690	2.6	1.0	111.5
Credit to general government	2,126	1,749	1,481	1,167	0.3	-0.2	-21.2
Auto loans	5,213	5,337	7,588	6,127	1.4	-0.8	-19.3
Interbank loans	—	—	10,571	7,043	1.6	-1.4	-33.4
Subordinated loans - covered bonds	—	—	—	352	0.1	—	—
Corporate loans	3,100	7,625	24,370	30,139	6.8	-0.2	23.7
Other	1,413	1,293	7,209	10,129	2.3	0.2	40.5
Assets of CIs (commercial paper issuance)	4,284	5,255	613	2,959	0.7	0.5	382.8
Of which: receivables	3,581	4,703	—	—	—	—	—
Assets of non-financial corporations	656	397	393	729	0.2	0.1	100.0
Liabilities of CIs	65,650	93,323	119,978	151,343	34.0	-0.2	26.1
Mortgage covered bonds	62,405	88,330	114,730	146,535	32.9	0.2	27.7
Territorial covered bonds	2,065	2,065	2,065	1,115	0.3	-0.3	-46.0
Treasury bonds	1,180	2,630	2,885	2,630	0.6	-0.2	-8.8
Uncovered bonds	—	—	—	765	0.2	—	—
Subordinated loans	—	298	298	298	0.1	-0.0	0.0
MEMORANDUM ITEMS:							
Total mortgage-backed assets (b)	83,381	112,999	170,007	223,200	50.2	1.6	30.7
Total funding to mortgage market	145,786	201,329	284,737	369,735	83.1	1.8	29.5
Bonds issued on foreign stock markets	3,561	2,842	1,923	2,035	0.5	-0.1	5.8
Transfer of assets due to securitisation (c)	99,614	140,969	210,528	262,161	58.9	-1.2	24.5
Securitised assets held on the balance sheet	63,104	107,396	175,854	242,978	54.6	4.4	38.2
Assets transferred via securitisation	36,642	33,630	34,673	19,183	4.3	-5.6	-44.7
Of which: securitisations originated from 1.1.2004	3,631	7,477	12,709	1,571	0.4	-3.3	-87.6
as a % of total securitised assets of CIs	3.6	5.3	6.0	0.3	0.0	-0.0	-94.6
BREAKDOWN BY TYPE OF ORIGINATOR:							
Total	173,592	243,163	350,206	444,854	100.0	0.0	27.0
Banks	59,244	82,277	137,327	177,614	39.9	0.7	29.3
Savings banks	96,666	134,692	183,559	233,624	52.5	0.1	27.3
Cooperatives	10,305	16,615	19,420	22,480	5.1	-0.5	15.8
SCIs	6,004	8,083	8,189	9,291	2.1	-0.2	13.5
Unclassified financial institutions	716	1,099	1,319	1,115	0.3	-0.1	-15.5
Non-financial corporations	656	397	393	729	0.2	0.1	85.6
HOLDERS OF ASSET-BACKED SECURITIES (d):							
Total	178,791	248,516	356,793	...	...	...	...
Non-financial corporations and households	1,594	1,325	6,375	...	...	...	...
Financial institutions	45,583	42,385	...	...	...	...	...
Banks and savings banks	29,610	24,665	...	...	...	...	...
Money market funds (e)	2,938	—	...	...	...	...	...
Non-monetary CIUs	7,523	13,157	12,140	...	...	...	...
Insurance companies	7,220	8,156	8,253	...	...	...	...
Rest of the world	115,986	173,912	217,616	...	...	...	...
OTHER LIABILITIES: CREDIT EXTENDED TO SPANISH SSPEs:							
Total	4,000	4,000	4,200	...	...	...	...
Of which: by CIs	4,000	4,000	...	...	...	...	...

SOURCES: CNMV, AIAF and Banco de España. Data available at 20 March 2009.

a. PH: Collateralised mortgage bonds (*participaciones hipotecarias*) as defined in Royal Decree 685/1982. CTH: mortgage transfer certificates (*certificados de transmisión hipotecaria*) as defined in Law 44/2002.

b. Sum of the items "Mortgage loans (not to SMEs or property developers)", "Mortgage loans to property developers", and the mortgage-backed part of those funds classified as "SMEs", "corporate loans" and "other".

c. All the data provided under the caption "Transfer of assets due to securitisation" come from the confidential balance sheet of CIs under the new accounting regulations established in CBE 4/2004. The difference between the total of this caption and the sum of the captions "Assets of, and bonds issued by, CIs" and "Assets of, and promissory notes issued by, CIs" in this table, stems from the fact that in the former, the institutions report the outstanding balance of underlying securitised assets, while in the latter, the figure is the outstanding balance of the securities in the AIAF market.

d. Unlike the outstanding balances broken down by type of securitised asset and issuer, the figures in this section are market prices, since they are drawn from another statistical source. Nearly all asset-backed bonds not belonging to covered-bond securitisations pay a floating rate coupon and are therefore listed at 100% of their nominal value. The divergences thus arise in fixed-coupon asset-backed bonds.

e. Owing to the publication of the regulations implementing the Collective Investment Institutions Law (Royal Decree 1309/2005 of 4 November 2005), there were no funds in the money market fund category (FIAMM) at the close of 2006 and 2007.

BREAKDOWN OF THE INDIVIDUAL INCOME STATEMENT FOR CIs (a)

TABLE A.3.9

Data for each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Financial income	63,156	82,039	118,616	147,972	3.28	3.61	4.44	4.93	20.6	29.9	44.6	24.7
Financial cost	-36,983	-53,123	-84,583	-110,329	-1.92	-2.34	-3.17	-3.68	31.2	43.6	59.2	30.4
NET INTEREST INCOME	26,173	28,916	34,033	37,643	1.36	1.27	1.27	1.25	8.3	10.5	17.7	10.6
Return on equity instruments	6,052	9,359	11,260	12,041	0.31	0.41	0.42	0.40	-5.0	54.7	20.3	6.9
Non-interest income	14,744	18,128	22,638	20,404	0.77	0.80	0.85	0.68	18.0	22.9	24.9	-9.9
Fees and commissions (net)	11,277	12,771	14,182	13,831	0.59	0.56	0.53	0.46	13.6	13.3	11.0	-2.5
Collection and payment service (net)	5,802	5,659	6,003	6,459	0.30	0.25	0.22	0.22	9.0	-2.5	6.1	7.6
Securities service (revenue)	1,189	1,420	1,777	1,307	0.06	0.06	0.07	0.04	9.8	19.5	25.1	-26.5
Marketing of non-banking products (revenue)	3,369	4,113	4,486	3,899	0.17	0.18	0.17	0.13	17.3	22.1	9.1	-13.1
Contingent exposures and commitments (net)	1,283	1,536	1,586	1,605	0.07	0.07	0.06	0.05	14.4	19.7	3.2	1.2
Exchange of foreign currencies and banknotes (revenue)	51	52	59	58	0.00	0.00	0.00	0.00	-11.7	3.1	12.9	-2.1
Other fees and commissions (net)	-417	-10	271	504	-0.02	0.00	0.01	0.02	-22.1	-97.6	—	86.1
Gains or losses on financial assets and liabilities (net)	2,338	3,511	6,310	4,998	0.12	0.15	0.24	0.17	59.3	50.2	79.7	-20.8
Held for trading	1,118	923	795	1,910	0.06	0.04	0.03	0.06	53.1	-17.5	-13.8	140.2
Other financial instruments at fair value	-13	-79	35	223	0.00	0.00	0.00	0.01	—	517.2	—	536.5
Other gains or losses on financial assets and liabilities	1,233	2,667	5,479	2,864	0.06	0.12	0.21	0.10	67.3	116.4	105.4	-47.7
Exchange differences	339	970	1,289	812	0.02	0.04	0.05	0.03	-25.5	185.8	32.9	-37.0
Other operating income (net)	791	876	858	763	0.04	0.04	0.03	0.03	21.5	10.7	-2.1	-11.0
GROSS INCOME	46,970	56,403	67,932	70,088	2.44	2.48	2.54	2.34	9.1	20.1	20.4	3.2
Administrative expenses	-22,668	-24,578	-27,103	-28,670	-1.18	-1.08	-1.01	-0.96	6.9	8.4	10.3	5.8
Personnel	-14,872	-16,066	-17,602	-18,536	-0.77	-0.71	-0.66	-0.62	6.0	8.0	9.6	5.3
Other general expenses	-7,795	-8,512	-9,501	-10,134	-0.40	-0.37	-0.36	-0.34	8.7	9.2	11.6	6.7
Depreciation and amortisation	-2,147	-2,143	-2,291	-2,393	-0.11	-0.09	-0.09	-0.08	0.8	-0.2	6.9	4.5
Provisioning expenses (net)	-2,111	-3,037	-1,413	-3,472	-0.11	-0.13	-0.05	-0.12	1.3	43.9	-53.5	145.7
Impairment losses on financial assets (net)	-4,526	-6,437	-8,574	-16,536	-0.24	-0.28	-0.32	-0.55	3.7	42.2	33.2	92.9
Loans and receivables	-4,593	-6,329	-8,329	-15,270	-0.24	-0.28	-0.31	-0.51	7.5	37.8	31.6	83.3
Other financial instruments not measured at fair value	66	-109	-245	-1,266	0.00	0.00	-0.01	-0.04	—	—	124.9	417.5
NET OPERATING INCOME	15,517	20,207	28,551	19,017	0.81	0.89	1.07	0.63	17.0	30.2	41.3	-33.4
Impairment losses on other assets (net)	-205	-161	-1,251	-959	-0.01	-0.01	-0.05	-0.03	—	-21.3	677.1	-23.3
Goodwill and other intangible assets	0	-12	-17	0	0.00	0.00	0.00	0.00	—	—	40.5	—
Other	-205	-149	-1,234	-959	-0.01	-0.01	-0.05	-0.03	—	-27.3	728.6	-22.3
Other income	1,657	4,722	3,032	3,141	0.09	0.21	0.11	0.10	55.4	185.0	-35.8	3.6
Other gains	2,101	5,202	3,835	3,537	0.11	0.23	0.14	0.12	11.5	147.6	-26.3	-7.8
Other losses	-444	-480	-803	-397	-0.02	-0.02	-0.03	-0.01	-45.7	8.0	67.5	-50.6
PROFIT OR LOSS FOR THE PERIOD BEFORE TAXES	16,970	24,768	30,332	21,199	0.88	1.09	1.14	0.71	17.6	46.0	22.5	-30.1
Income tax	-2,844	-4,923	-4,424	-2,166	-0.15	-0.22	-0.17	-0.07	37.0	73.1	-10.1	-51.1
Mandatory transfer to welfare funds (e)	-75	-78	-90	-65	0.00	0.00	0.00	0.00	37.8	4.2	15.8	-28.1
PROFIT FOR THE PERIOD	14,052	19,767	25,818	18,968	0.73	0.87	0.97	0.63	14.2	40.7	30.6	-26.5
MEMORANDUM ITEMS:												
Average total assets	1,925,914	2,271,806	2,670,965	3,001,638	100	100	100	100	18.4	18.0	17.6	12.4
Average own funds (b)	116,411	126,219	145,615	168,006	6.04	5.56	5.45	5.60	16.9	8.4	15.4	15.4
Net interest income due to the spread between EFAs and IBFLs (c)	2,435.0	3,123.0	4,526.0	3,891.0	0.13	0.14	0.17	0.13	35.5	28.2	44.9	-14.0
Return on earning financial assets (EFAs)	—	—	—	—	3.62	3.94	4.86	5.47	—	—	—	—
Average cost of interest-bearing financial liabilities (IBFLs)	—	—	—	—	2.20	2.65	3.60	4.19	—	—	—	—
Efficiency ratio (d)	—	—	—	—	52.83	47.37	43.27	44.32	—	—	—	—
Return on average equity (b)	—	—	—	—	12.07	15.66	17.73	11.29	—	—	—	—
Credit risk allowances and provisions:												
Specific allowances or provisions	-1,479	-1,748	-5,686	-20,329	-0.08	-0.08	-0.21	-0.68	-52.0	18.2	225.2	257.5
General allowances or provisions	-3,807	-5,335	-3,075	5,475	-0.20	-0.23	-0.12	0.18	2,296.3	40.1	-42.4	—
Net additions to country-risk allowances and provisions	105	-36	-10	-375	0.01	0.00	0.00	-0.01	—	—	-72.4	3,690.7

SOURCE: Banco de España. Data available at 20 March 2009.

a. The data in this table refer to institutions active at some time during 2008. The structure of the table and the data for 2008 were prepared in accordance with Banco de España Circular 6/2008 of 26 November 2008 which amends Banco de España Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats. For years prior to 2008, the information has been prepared again according to the new structure.

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

c. Calculated on the basis of the return of EFAs on the positive difference between EFAs and IBFLs. In line with the new definition of interest income, the calculation of EFAs excludes the return on equity instruments.

d. The efficiency ratio is defined as operating expenses divided by gross income.

e. Only savings banks and credit cooperatives.

MAIN MARGINS OF THE INDIVIDUAL INCOME STATEMENT BY INSTITUTIONAL GROUP OF CIs (a)

TABLE A.3.10

Data for each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Net interest income:												
Banks	11,166	12,092	13,951	16,267	1.04	0.98	0.98	1.00	7.0	8.3	15.4	16.6
Savings banks	12,138	13,597	16,356	17,360	1.64	1.52	1.51	1.46	8.1	12.0	20.3	6.1
Cooperatives	1,654	1,870	2,317	2,437	2.31	2.17	2.30	2.21	10.2	13.0	23.9	5.2
SCIs	1,215	1,357	1,409	1,575	2.83	2.65	2.38	2.27	21.0	11.7	3.8	11.8
Gross income:												
Banks	23,595	28,774	32,576	36,730	2.20	2.32	2.29	2.25	4.8	22.0	13.2	12.8
Savings banks	19,530	23,270	30,299	28,030	2.64	2.60	2.79	2.36	12.6	19.1	30.2	-7.5
Cooperatives	2,202	2,498	2,948	3,038	3.08	2.90	2.93	2.76	12.5	13.4	18.0	3.0
SCIs	1,642	1,861	2,108	2,290	3.82	3.63	3.56	3.30	33.1	13.3	13.3	8.6
Net operating income:												
Banks	9,085	11,195	15,191	12,515	0.85	0.90	1.07	0.77	15.8	23.2	35.7	-17.6
Savings banks	5,293	7,617	11,734	5,633	0.71	0.85	1.08	0.47	17.1	43.9	54.1	-52.0
Cooperatives	623	787	955	778	0.87	0.91	0.95	0.71	29.4	26.3	21.3	-18.6
SCIs	516	608	672	101	1.20	1.19	1.13	0.15	23.7	17.8	10.4	-84.9
Profit before tax:												
Banks	9,753	14,552	16,167	13,674	0.91	1.17	1.13	0.84	13.1	49.2	11.1	-15.4
Savings banks	5,911	8,728	12,493	6,693	0.80	0.97	1.15	0.56	21.9	47.7	43.1	-46.4
Cooperatives	762	820	975	732	1.07	0.95	0.97	0.67	47.4	7.5	18.9	-24.9
SCIs	543	668	698	100	1.26	1.31	1.18	0.14	22.4	23.0	4.4	-85.7
Profit for the period:												
Banks	8,005	11,585	13,584	11,886	0.75	0.94	0.95	0.73	7.9	44.7	17.3	-12.5
Savings banks	5,085	7,123	10,995	6,401	0.69	0.80	1.01	0.54	21.0	40.1	54.4	-41.8
Cooperatives	611	653	775	616	0.85	0.76	0.77	0.56	52.7	7.0	18.7	-20.6
SCIs	351	407	464	66	0.82	0.80	0.78	0.10	24.5	16.1	14.1	-85.8

SOURCE: Banco de España. Data available at 20 March 2009.

a. The data in this table refer to institutions active at some time during 2008.

BREAKDOWN OF THE CONSOLIDATED INCOME STATEMENT FOR CIs (a)

TABLE A.3.11

Data for each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Financial income	91,812	113,326	154,925	190,190	3.96	4.20	4.94	5.55	38.5	23.4	36.7	22.8
Financial cost	-53,895	-69,902	-102,854	-130,617	-2.32	-2.59	-3.28	-3.81	57.9	29.7	47.1	27.0
NET INTEREST INCOME	37,918	43,424	52,072	59,573	1.64	1.61	1.66	1.74	17.9	14.5	19.9	14.4
Equity instruments	5,528	7,180	7,202	7,734	0.24	0.27	0.23	0.23	34.9	29.9	0.3	7.4
Return on equity instruments	1,950	2,602	2,788	3,186	0.08	0.10	0.09	0.09	18.1	33.5	7.1	14.3
Share of profit or loss of entities accounted for using the equity method	3,579	4,578	4,415	4,548	0.15	0.17	0.14	0.13	46.2	27.9	-3.6	3.0
Associates	1,979	1,666	1,921	1,988	0.09	0.06	0.06	0.06	57.3	-15.8	15.3	3.5
Jointly controlled entities	527	667	660	334	0.02	0.02	0.02	0.01	26.7	26.5	-1.1	-49.3
Group entities	1,072	2,246	1,833	2,226	0.05	0.08	0.06	0.06	38.8	109.5	-18.4	21.4
Non-interest income	24,681	31,087	35,897	31,953	1.06	1.15	1.15	0.93	23.8	26.0	15.5	-11.0
Fees and commissions (net)	18,266	20,822	22,981	22,912	0.79	0.77	0.73	0.67	20.4	14.0	10.4	-0.3
Collection and payment service (revenue)	8,615	9,227	9,993	10,430	0.37	0.34	0.32	0.30	14.5	7.1	8.3	4.4
Securities service (revenue)	2,362	2,643	3,033	2,359	0.10	0.10	0.10	0.07	-34.6	11.9	14.7	-22.2
Marketing of non-banking products (revenue)	6,486	7,626	8,131	7,599	0.28	0.28	0.26	0.22	76.2	17.6	6.6	-6.5
Contingent exposures and commitments (revenue)	1,296	1,556	1,643	1,930	0.06	0.06	0.05	0.06	13.1	20.0	5.6	17.5
Exchange of foreign currencies and banknotes (revenue)	124	136	143	183	0.01	0.01	0.00	0.01	17.2	9.0	5.3	28.1
Other fees and commissions (net)	-618	-367	38	411	-0.03	-0.01	0.00	0.01	-30.8	-40.6	—	994.7
Gains or losses on financial assets (net)	4,937	8,414	10,627	7,082	0.21	0.31	0.34	0.21	48.9	70.4	26.3	-33.4
Held for trading	2,288	2,729	2,286	680	0.10	0.10	0.07	0.02	35.6	19.3	-16.2	-70.2
Other financial instruments at fair value	47	-111	136	504	0.00	0.00	0.00	0.01	204.0	—	—	269.2
Other gains or losses on financial assets and liabilities	2,602	5,796	8,205	5,898	0.11	0.21	0.26	0.17	61.3	122.70	41.6	-28.1
Exchange differences	722	921	1,465	1,177	0.03	0.03	0.05	0.03	-20.5	27.6	59.1	-19.6
Other operating income	756	930	824	782	0.03	0.03	0.03	0.02	38.9	23.1	-11.4	-5.1
GROSS INCOME	68,127	81,691	95,170	99,260	2.94	3.03	3.04	2.89	21.2	19.90	16.5	4.3
Administrative expenses	-32,342	-35,058	-38,521	-41,370	-1.39	-1.30	-1.23	-1.21	17.2	8.4	9.9	7.4
Personnel	-20,489	-22,284	-24,429	-26,041	-0.88	-0.83	-0.78	-0.76	14.0	8.8	9.6	6.6
Other general expenses	-11,853	-12,774	-14,092	-15,329	-0.51	-0.47	-0.45	-0.45	23.0	7.8	10.3	8.8
Depreciation and amortisation	-3,167	-3,370	-3,738	-3,977	-0.14	-0.12	-0.12	-0.12	2.8	6.4	10.9	6.4
Provisioning expenses (net)	-3,142	-3,828	-2,098	-3,971	-0.14	-0.14	-0.07	-0.12	5.4	21.8	-45.2	89.2
Impairment losses on financial assets (net)	-6,277	-8,886	-12,733	-23,417	-0.27	-0.33	-0.41	-0.68	15.0	41.6	43.3	83.9
Loans and receivables	-6,353	-8,788	-12,457	-21,108	-0.27	-0.33	-0.40	-0.62	16.4	38.3	41.8	69.5
Other financial instruments not measured at fair value	76	-98	-276	-2,309	0.00	0.00	-0.01	-0.07	—	—	181.1	736.9
NET OPERATING INCOME	23,199	30,550	38,080	26,525	1.00	1.13	1.22	0.77	35.9	31.7	24.6	-30.3
Impairment losses on other assets (net)	-269	-254	-1,794	-2,032	-0.01	-0.01	-0.06	-0.06	-31.9	-5.3	605.0	13.2
Goodwill and other intangible assets	-148	-75	-1,265	-1,121	-0.01	0.00	-0.04	-0.03	-59.3	-49.5	1592.0	-11.4
Other	-121	-180	-529	-911	-0.01	-0.01	-0.02	-0.03	287.3	48.8	194.5	72.2
Other income	3,594	6,761	4,962	5,719	0.15	0.25	0.16	0.17	187.6	88.1	-26.6	15.3
Other gains	4,642	7,946	6,095	6,055	0.20	0.29	0.19	0.18	85.5	71.2	-23.3	-0.7
Other losses	-1,048	-1,185	-1,133	-336	-0.05	-0.04	-0.04	-0.01	-16.3	13.0	-4.3	-70.3
PROFIT OR LOSS FOR THE PERIOD BEFORE TAXES	26,524	37,056	41,248	30,212	1.14	1.37	1.32	0.88	47.9	39.7	11.3	-26.8
Income tax	-5,512	-9,165	-8,151	-4,735	-0.24	-0.34	-0.26	-0.14	59.3	66.3	-11.1	-41.9
Mandatory transfer to welfare funds (d)	-75	-78	-90	-65	0.00	0.00	0.00	0.00	37.8	4.2	15.8	-28.1
CONSOLIDATED PROFIT OR LOSS FOR THE PERIOD	20,938	27,814	33,006	25,412	0.90	1.03	1.05	0.74	45.2	32.8	18.7	-23.0
Of the parent	19,826	26,418	31,575	23,907	0.85	0.98	1.01	0.70	45.8	33.3	19.5	-24.3
Profit or loss attributed to minority interests	1,112	1,395	1,432	1,506	0.05	0.05	0.05	0.04	35.9	25.4	2.6	5.1
MEMORANDUM ITEMS:												
Average total assets (ATA)	2,318,948	2,696,924	3,133,903	3,429,545	100.00	100.00	100.00	100.00	33.9	16.3	16.2	9.4
Average own funds of the group (b)	119,549	134,757	158,133	183,161	5.16	5.00	5.05	5.34	22.5	12.7	17.3	15.8
Net interest income due to the spread between EFAs and IBFLs (e)	2,942	3,155	3,475	3,362	0.13	0.12	0.11	0.10	60.5	7.3	10.1	-3.3
Return on earning financial assets (EFAs)	—	—	—	—	4.08	4.37	5.24	5.96	—	—	—	—
Average cost of interest-bearing financial liabilities (IBFLs)	—	—	—	—	2.48	2.78	3.56	4.17	—	—	—	—
Efficiency ratio (c)	—	—	—	—	52.12	47.04	44.40	45.69	—	—	—	—
Return on average equity of the group (b)	—	—	—	—	16.58	19.60	19.97	13.05	—	—	—	—

SOURCE: Banco de España. Data available at 20 March 2009.

a. The data in this table refer to CGs, and individual CIs not belonging to any CG, active at some time during 2008. The structure of the table and the data for 2008 were prepared in accordance with Banco de España Circular 6/2008 of 26 November 2008 which amends Banco de España Circular 4/2004 of 22 December 2004 on public and confidential financial reporting rules and formats. For years prior to 2008, the information has been prepared again in accordance with the aforementioned regulations.

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

c. The efficiency ratio is defined as operating expenses divided by gross income.

d. Only savings banks and credit cooperatives.

e. Calculated on the basis of the return of EFAs on the positive difference between EFAs and IBFLs. In line with the new definition of interest income, the calculation of EFAs excludes the return on equity instruments.

MAIN MARGINS OF THE CONSOLIDATED INCOME STATEMENT BY INSTITUTIONAL GROUP OF PARENT CIs (a)

TABLE A.3.12

Data for each year (€m and %)

	AMOUNT				% OF ATA				% ANNUAL Δ			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Net interest income:												
Banks	22,901	26,517	31,898	38,274	1.58	1.60	1.69	1.86	23.6	15.8	20.3	20.0
Savings banks	12,777	14,373	17,174	18,086	1.64	1.54	1.52	1.46	9.0	12.5	19.5	5.3
Cooperatives	1,655	1,870	2,316	2,432	2.28	2.15	2.32	2.21	10.2	13.0	23.8	5.0
SCIs	585	664	684	777	3.48	3.62	2.99	2.77	41.1	13.5	3.0	13.7
Gross income:												
Banks	42,877	50,791	58,972	65,301	2.96	3.07	3.13	3.18	23.6	18.5	16.1	10.7
Savings banks	22,283	27,549	32,245	29,915	2.85	2.95	2.86	2.42	17.0	23.6	17.0	-7.2
Cooperatives	2,225	2,521	2,969	3,029	3.06	2.89	2.97	2.75	12.7	13.3	17.8	2.0
SCIs	742	829	984	1,018	4.41	4.52	4.31	3.62	50.1	11.8	18.7	3.4
Net operating income:												
Banks	14,968	18,900	24,283	20,217	1.03	1.14	1.29	0.98	35.3	26.3	28.5	-16.7
Savings banks	7,314	10,566	12,492	5,454	0.94	1.13	1.11	0.44	36.1	44.5	18.2	-56.3
Cooperatives	632	794	963	745	0.87	0.91	0.96	0.68	29.5	25.7	21.2	-22.6
SCIs	285	290	342	119	1.70	1.58	1.50	0.42	89.4	1.6	18.0	-65.1
Profit before tax:												
Banks	17,613	23,596	26,472	21,556	1.22	1.42	1.40	1.05	55.3	34.0	12.2	-18.6
Savings banks	7,852	12,313	13,406	7,803	1.01	1.32	1.19	0.63	33.3	56.8	8.9	-41.8
Cooperatives	766	834	990	733	1.05	0.96	0.99	0.67	42.5	8.9	18.8	-26.0
SCIs	294	313	379	122	1.75	1.70	1.66	0.43	83.1	6.3	21.2	-67.8
Consolidated profit or loss for the period:												
Banks	13,605	17,361	20,471	17,431	0.94	1.05	1.09	0.85	50.3	27.6	17.9	-14.9
Savings banks	6,535	9,599	11,469	7,277	0.84	1.03	1.02	0.59	35.0	46.9	19.5	-36.5
Cooperatives	612	664	790	617	0.84	0.76	0.79	0.56	46.3	8.6	19.0	-22.0
SCIs	187	190	276	90	1.11	1.03	1.21	0.32	80.8	1.4	45.8	-67.5

SOURCE: Banco de España. Data available at 20 March 2009.

a. The data in this table refer to CGs, and individual CIs not belonging to any CG, active at some time during 2008.

SOLVENCY OF CONSOLIDATED GROUPS OF CIs (a)

TABLE A.3.13

Year-end data (€m and %)

	AMOUNT				STRUCTURE %				Δ ANNUAL %			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
TOTAL OWN FUNDS	171,249	209,752	224,865	234,452	100.0	100.0	100.0	100.0	23.3	22.5	7.2	4.3
ORIGINAL OWN FUNDS (TIER 1 CAPITAL)	122,127	135,985	159,897	175,269	71.3	64.8	71.1	74.8	20.7	11.3	17.6	9.6
Capital stock, reserves and similar items	126,471	145,663	173,196	181,539	73.9	69.4	77.0	77.4	-1.9	15.2	18.9	4.8
Capital stock and reserves	103,940	116,883	137,641	161,189	60.7	55.7	61.2	68.8	7.4	12.5	17.8	17.1
Minority interests	7,677	8,584	11,611	8,753	4.5	4.1	5.2	3.7	-67.0	11.8	35.3	-24.6
Interim profits or material losses of the current financial year	14,855	20,522	23,863	15,111	8.7	9.8	10.6	6.4	62.2	38.1	16.3	-36.7
Other	-1	-327	82	-3,514	0.0	-0.2	0.0	-1.5	—	—	—	—
Other country specific original own funds	17,436	17,682	27,105	32,108	10.2	8.4	12.1	13.7	—	1.4	53.3	18.5
Instruments subject to limits	17,436	17,682	27,105	25,108	10.2	8.4	12.1	10.7	—	1.4	53.3	-7.4
Other	0	0	0	7,000	0.0	0.0	0.0	3.0	—	—	—	—
Deductions from original own funds	-21,202	-25,539	-38,800	-38,378	-12.4	-12.2	-17.3	-16.4	-23.6	20.5	51.9	-1.1
ADDITIONAL OWN FUNDS (TIER 2 CAPITAL)	63,433	84,369	90,553	71,086	37.0	40.2	40.3	30.3	56.2	33.0	7.3	-21.5
Core additional own funds	28,178	44,226	46,207	29,008	16.5	21.1	20.5	12.4	223.4	57.0	4.5	-37.2
Adjustments made to valuation differences in original own funds transferred to core additional own funds	5,736	11,852	11,575	1,476	3.3	5.7	5.1	0.6	—	106.6	-2.3	-87.2
SA general provisions and IRB provision excess	9,264	18,952	20,837	13,710	5.4	9.0	9.3	5.8	—	104.6	9.9	-34.2
Securities of indeterminate duration and other instruments	6,961	7,329	8,485	8,686	4.1	3.5	3.8	3.7	7.3	5.3	15.8	2.4
Other	6,216	6,094	5,310	5,136	3.6	2.9	2.4	2.2	179.2	-2.0	-12.9	-3.3
Supplementary additional own funds	35,288	40,549	44,416	42,091	20.6	19.3	19.8	18.0	10.6	14.9	9.5	-5.2
Deductions from additional own funds	-33	-406	-70	-13	0.0	-0.2	0.0	0.0	189.0	1,134.8	-82.8	-80.8
(-) DEDUCTIONS FROM ORIGINAL AND ADDITIONAL OWN FUNDS	-14,310	-10,602	-25,585	-11,903	-8.4	-5.1	-11.4	-5.1	382.0	-25.9	141.3	-53.5
(-) Holdings in other credit and financial institutions amounting to more than 10% of their capital	-4,489	-3,519	-16,233	-5,998	-2.6	-1.7	-7.2	-2.6	103.5	-21.6	361.2	-63.1
(-) Participations held in insurance undertakings, reinsurance undertakings and insurance holding companies	-8,244	-5,036	-6,334	-3,191	-4.8	-2.4	-2.8	-1.4	—	-38.9	25.8	-49.6
Other	-1,578	-2,046	-3,017	-2,714	-0.9	-1.0	-1.3	-1.2	106.7	29.7	47.5	-10.0
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	—	—	—	—
CAPITAL REQUIREMENTS	124,126	150,394	169,166	165,418	100.0	100.0	100.0	100.0	22.5	21.2	12.5	-2.2
CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	117,718	143,765	163,193	145,599	94.8	95.6	96.5	88.0	20.2	22.1	13.5	-10.8
Standardised approach (SA) (excluding securitisation positions)	117,718	143,765	163,193	95,244	94.8	95.6	96.5	57.6	20.2	22.1	13.5	-41.6
Central governments or central banks (b)	—	—	—	2,157	—	—	—	1.3	—	—	—	—
Institutions	—	—	—	2,628	—	—	—	1.6	—	—	—	—
Corporate	—	—	—	44,198	—	—	—	26.7	—	—	—	—
Retail	—	—	—	17,192	—	—	—	10.4	—	—	—	—
Secured by real estate property	—	—	—	13,220	—	—	—	8.0	—	—	—	—
Other	—	—	—	15,849	—	—	—	9.6	—	—	—	—
Internal ratings based approach (IRB) (excluding securitisation positions)	—	—	—	50,355	—	—	—	30.4	—	—	—	—
Corporate	—	—	—	30,607	—	—	—	18.5	—	—	—	—
Retail	—	—	—	11,960	—	—	—	7.2	—	—	—	—
Of which: Secured by real estate	—	—	—	8,732	—	—	—	5.3	—	—	—	—
Equity	—	—	—	4,274	—	—	—	2.6	—	—	—	—
Other	—	—	—	3,514	—	—	—	2.1	—	—	—	—
Securitisation positions	—	—	—	2,040	—	—	—	1.2	—	—	—	—
POSITION, FOREIGN EXCHANGE AND COMMODITY RISKS	6,041	6,235	5,700	4,801	4.9	4.1	3.4	2.9	100.3	3.2	-8.6	-15.8
Of which: Internal models	193	299	661	1,225	0.2	0.2	0.4	0.7	-6.3	54.5	121.1	85.4
OPERATIONAL RISKS (OpR)	—	—	—	12,725	—	—	—	7.7	—	—	—	—
Of which: OpR Standardised (STA) and Alternative Standardised (ASA) approaches	—	—	—	8,504	—	—	—	5.1	—	—	—	—
OTHER AND TRANSITIONAL CAPITAL REQUIREMENTS	367.0	394.0	273.0	2,293	0.3	0.3	0.2	1.4	-8.4	7.4	-30.6	738.7
Of which: Complements to overall floor for capital requirements	—	—	—	1,917	—	—	—	1.2	—	—	—	—
Of which: Other country-specific own funds requirements	367	394	273	376	0.3	0.3	0.2	0.2	-8.4	7.4	-30.6	37.4
SURPLUS (+) / DEFICIT (-) OF OWN FUNDS	47,123	59,358	55,699	69,034	—	—	—	—	25.6	26.0	-6.2	23.9
Solvency ratio (%)	11.0	11.2	10.6	11.3								
Tier 1 ratio (%)	7.9	7.2	7.6	8.5								
Solvency ratio (%), before other and transitional capital requirements	11.1	11.2	10.7	11.5								

SOURCE: Banco de España. Data available at 24 March 2009.

a. Data refer to CGs, and individual CIs not belonging to any CG, which were active at the end of 2008. From 2008 onwards, data and items in this table, unless otherwise stated, correspond to items of the template RP10 «Own funds and compliance with capital requirements» of CBE 3/2008. Due to the change in solvency regulations, 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».

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

TABLE A.3.14

Year-end data (€m and %)

	AMOUNT				STRUCTURE %				Δ ANNUAL %			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
Effective own funds	146,876	187,945	204,958	209,544	100.0	100.0	100.0	100.0	40.4	28.0	9.1	2.2
<i>Credit institutions or groups</i>	137,345	183,062	197,657	204,535	93.5	97.4	96.4	97.6	33.5	33.3	8.0	3.5
<i>Insurance undertakings or groups</i>	11,349	6,781	7,900	6,872	7.7	3.7	4.0	3.4	21.3	-40.3	16.5	-13.0
<i>Deductions</i>	-1,817	-1,899	-600	-1,863	-1.2	-1.1	-0.4	-1.0	-76.2	4.5	-68.4	210.5
Capital requirements	105,515	135,886	154,491	148,917	100.0	100.0	100.0	100.0	33.3	28.8	13.7	-3.6
<i>Credit institutions or groups</i>	100,133	132,580	150,588	145,751	94.9	97.6	97.5	97.9	31.3	32.4	13.6	-3.2
<i>Insurance undertakings or groups</i>	5,595	3,624	4,150	3,552	5.3	2.7	2.8	2.4	56.5	-35.2	14.5	-14.4
<i>Deductions</i>	-212	-318	-247	-389	-0.2	-0.3	-0.2	-0.3	-69.5	50.0	-22.3	57.5
Surplus or deficit	41,361	52,059	50,467	60,627	—	—	—	—	62.7	25.9	-3.1	20.1
Surplus or deficit of CGs	37,212	50,482	47,070	58,785	—	—	—	—	39.9	35.7	-6.8	24.9

SOURCE: Banco de España. Data available at 23 March 2009.

a. Data refer to CGs of CIs at each date subject to compliance with the solvency ratio in Spain.

ANEJO 4 SPANISH CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS
(DECEMBER 2008)

Spanish consolidated groups of credit institutions (December 2008)

Full consolidation method is applied except as otherwise indicated.

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

BANKS

SCH Group, Financial Conglomerate (Coordinator: Banco de España)

0049-Banco Santander, SA (Spain)	DI				
0011-Alfunds Bank, SA (*)	DI	Angola	Banco Totta de Angola, SARL	DI	
0030-Banco Español de Crédito, SA	DI	Argentina	Banco Santander Ríos. A.	DI	
0036-Santander Investment, SA	DI		Préstamos de Consumo, SA	DI	
0038-Banesto Banco de Emisiones, SA	DI	Austria	Santander Consumer Leasing Austria	OCI	
0073-Open Bank Santander Consumer, SA	DI	Bahamas	Santander Bank & Trust, Ltd.	DI	
0083-Banco Alicantino de Comercio, SA	DI		Panamerican Bank (Bahamas)	DI	
0086-Banco Banif, SA	DI		Santander Investment Bank (SIB)	DI	
0091-Banco de Albacete, SA	DI		Santander Merchant Bank, Ltd.	DI	
0224-Santander Consumer Finance, SA	DI		Banco Santander Bahamas International	DI	
4757-Bansalease, SA, EFC	OCI	Belgium	Santander Benelux, SA	DI	
4784-Transolver Finance, EFC, SA (*)	OCI	Brazil	Banco Santander, SA	DI	
4797-Santander de Leasing, SA, EFC	OCI		Banco ABN AMRO Reals. A.	DI	(A)
8206-Hipotebansa, EFC, SA	OCI		Banco de Pernambuco. A.	DI	(A)
8236-Santander Consumer, EFC, SA	OCI		Banco Comercial e de Investim. Suda.	DI	(A)
8512-Unión Créditos Inmobiliarios (*)	OCI		Santander Brasil Arrendamiento Merc.	OCI	
8906-Santander Factoring y Confirming	OCI		Santander Investimentos Em Particip.	OCI	
8910-Banesto Factoring, SA, EFC	OCI		ABN AMRO Arrendamento Mercantil, SA	OCI	(A)
			Aymore Crédito, Financiamento e Inv.	OCI	(A)
			Cía. Arrendamento Mercantil Renault (*)	OCI	(A)
			Cía. Crédito, Financiam. e Investim. (*)	OCI	(A)
			Real Leasing SA Arrendamento Merc.	OCI	(A)
		Cayman Islands	Serfin International Bank & Trust	DI	
		Chile	Banco Santander Chile	DI	
			Santander Factoring, SA	OCI	
			Santander Corredorade Seguros, SA	OCI	
		Colombia	Banco Santander Colombia, SA	DI	
		US	Banco Santander International Miami	DI	
			Totta & Acores Inc.- Newark	DI	
			Grupo Drive	DI	
		Russian Federation	Santander Consumer Bank, Cjsc	DI	
		Finland	Santander Consumer Finance Oy	DI	
		Hungary	Santander Consumer Finance Zrt.	OCI	
		Ireland	Totta Ireland, PLC	DI	
		Italy	Santander Consumer Finance Media S.	DI	
			Santander Private Banking, SPA	DI	
			Santander Consumer Finanzia SRL	OCI	
			Santander Consumer Bank SPA	OCI	
			Unifin	OCI	
		Jersey	Abbey National International Limited	DI	
		Luxembourg	Alifunds Internationals. A. (*)	OCI	(A)
		Mexico	Banco Santander (México), SA, Ins.	DI	
		Norway	Santander Consumer Bank	DI	
		Netherlands	Santander Consumer Finance BV	DI	
			Santander Consumer Finance Benelux	DI	(A)
		Panama	Banco Santander (Panamá)	DI	
		Paraguay	Banco de Asunción, SA	DI	
		Peru	Banco Santander Peru, SA	DI	
		Poland	Santander Consumer Bank Spolka Akcy	DI	
		Portugal	Banco Madesant	DI	
			Banco Santander Totta	DI	
			BSN Portugal	DI	(A)
			Banco Santander Consumer Portugal	DI	
			Totta-Crédito Especializado, Ific	OCI	

		Puerto Rico	BST International Bank, Inc.	DI	
			Banco Santander Puerto Rico	DI	
			Santander Overseas Bank Inc.	DI	
			Santander International Bank	DI	
			Santander Financial Services	OCI	
			Crefisa	OCI	
		UK	Abbey National Plc	DI	
			Grupo Alliance & Leicester	DI	(A)
			Abbey National Treasury Services Plc	DI	
			CA Premier Banking Limited	DI	
			Buhal Leasing, Ltd.	OCI	
			Santander Consumer Finance (UK) Plc	OCI	
			Santander UK Investment	OCI	
			Abbey National Business Asset Leasing	OCI	
			Santander Cards Limited	OCI	
			Abbey Covered Bonds (Lm) Limited	OCI	
			Bradford & Bingley International Limited	OCI	(A)
		Czech Republic	Santander Consumer Finance AS	OCI	
			Santander Consumer Leasing, SRO	OCI	(A)
		Germany	Santander Consumer Bank Aktiengesellschaft	DI	
			Ge Money Bank Gmbh	DI	(A)
			Santander Consumer Leasing Gmbh	OCI	
		Switzerland	Banco Santander (Suisse), SA	DI	
		Uruguay	Banco Santander Uruguay	DI	
		Venezuela	Banco de Venezuela, SACA	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				

Pastor Group, Mixed Group (Reports to Banco de España)

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

Popular Group, Mixed Group (Reports to Banco de España)

0075-Banco Popular, SA (Spain)	DI				
0004-Banco de Andalucía, SA	DI	US	Total Bank	DI	
0216-Banco Popular Hipotecario, SA	DI	Portugal	Banco Popular Portugal	DI	(A)
0229-Bancopopular-E, SA	DI		Heller Factoring Portuguesa	OCI	
0233-Popular Banca Privada, SA	DI				
8816-Sdad. Conjunta Emisión GMP, EFC, SA (*)	OCI				
8903-Popular de Factoring, SA, EFC	OCI				

Sabadell Group, Mixed Group (Reports to Banco de España)

0081-Banco de Sabadell, SA (Spain)	DI				
0185-Banco Urquijo Sabadell BP, SA	DI	Andorra	Banc Sabadell d'Andorra, SA	DI	
8211-Bansabadell Financiación, EFC, SA	OCI	Bahamas	Banco Atlántico (Bahamas) Bank And Tr.	DI	
8821-Bansabadell Fincom, EFC, SA	OCI	US	Transatlantic Bank	DI	
		Luxembourg	Sabadell BS Select Fund of Hedge Funds (*)	OCI	(A)
		Monaco	Banco Atlántico Monaco, SAM	DI	

Bankinter Group SA, Mixed Group (Reports to Banco de España)

0128-Bankinter, SA (Spain)	DI	(A)			
8832-Bankinter Consumer Finance, EFC, SA	OCI	(A)			

Bankpyme Group, Financial Conglomerate, subject to additional supervision requirements (Coordinator: Directorate General of Insurance)

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

BBVA Group, Financial Conglomerate (Coordinator: Banco de España)

0182-Banco Bilbao Vizcaya Argentaria, SA (Spain)	DI				
0009-Finanzia, Banco de Crédito, SA	DI	Netherlands Antilles	Banco Provincial Overseas NV	DI	
0057-Banco Depositario BV, SA	DI	Argentina	BBVA Banco Francés, SA	DI	
0113-Banco Industrial de Bilbao, SA	DI		PSA Finance Argentina Compañía Financiera (*)	OCI	
0121-Banco Occidental, SA	DI	Brazil	BV Brasil Banco de Investimento	DI	

0129-BBVA Banco de Financiación, SA	DI	Cayman Islands	Mercury Trust Limited	OCI	
0132-Banco de Promoción de Negocios	DI	Chile	Banco Bilbao Vizcaya Argentaria Chile	DI	
0227-UNOE Bank, SA	DI		Forum Servicios Financieros, SA (*)	OCI	
1004-Banco de Crédito Local de España	DI		Gente BBVA, SA	OCI	
8321-Iberdrola Servi. Finan, EFC, SA	OCI		BBVA Factoring Limitada (Chile)	OCI	
8908-BBVA Factoring, EFC, SA	OCI	Colombia	BBVA Colombia, SA	DI	
			BBVA Leasing SA Compañía de Financiación	OCI	(A)
		US	BBVA Bancomer USA	DI	
		de América	Compass Bank	DI	
			Compass Southwest, Lp	DI	
			Central Bank of the South	DI	
			Homeowners Loan Corporation	OCI	
			Valley Mortgage Company, Inc.	OCI	
			Compass Auto Receivables Corporation	OCI	
			Compass Texas Mortgagefinancing, Inc.	OCI	
			Compass Mortgage Corporation	OCI	
			Compass Mortgage Financing, Inc.	OCI	
			Phoenix Loan Holdings, Inc.	OCI	
			Stavis Margolis Advisory Services	OCI	
		Ireland	BBVA Ireland Public Limited Company	OCI	
		Italy	BBVA Finance, SA	OCI	
			BBVA Finanzia, SA	OCI	
		Mexico	BBVA Bancomer Servicios, SA	DI	
			BBVA Bancomer, SA Dec. V.	DI	(A)
			Hipotecaria Nacional, SA de CV	OCI	
			Financiera Ayudamos, SA de CV, S	OCI	
		Panama	Banco Bilbao Vizcaya Argentaria (Panamá)	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 Credito	OCI	(A)
		Puerto Rico	Banco Bilbao Vizcaya Argentaria Puerto Rico	DI	(A)
			BBVA International Investment Corporation	OCI	(A)
		Switzerland	BBVA Suiza, SA (BV Switzerland)	DI	
		Uruguay	Banco Bilbao Vizcaya Argentaria Uruguay	DI	
		Venezuela	Banco Provincial SA - Banco Universal	DI	

Deutsche Group SAE

Deutsche Bank, AG (Germany)

DI

0019-Deutsche Bank, SAE

DI

0205-Deutsche Bank Credit, SA

DI

Barclays Group SA, Mixed Group (Reports to Banco de España)

Barclays PLC (United Kingdom)

DI

0065-Barclays Bank, SA

DI

8905-Barclays Factoring, SA, EFC

OCI

Citibank Group

Citigroup Inc. (United States of America)

DI

0122-Citibank España, SA

DI

8818-Citifin, SA, EFC

OCI

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

0011-Alfunds Bank, SA	DI	(A)	Consolidated proportionally with the SCH Group		
0042-Banco Guipuzcoano, SA	DI				
0061-Banca March, SA	DI		Mixed Group (Reports to Banco de España)		
0078-Banca Pueyo, SA	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	(A)			
1000-Instituto de Crédito Oficial	OCI				
0058-BNP Paribas España, SA	DI	(A)	France	Parent: BNP Paribas, SA	DI (A)
0094-RBC Dexia Investor Services España	DI		UK	Parent: RBC Dexia Investor Services Limited	
0138-Bankoa, SA	DI		France	Parent: CRCAM Pyrenées Gascogne	DI (A)
0186-Banco de Finanzas e Inversiones	DI		Italy	Parent: Grupo Mediolanum, SA	
0200-Privat Bank, SA	DI		Belgium	Parent: Banque Degroof, SA	DI

0217-Banco Halifax Hispania, SA	DI	UK	Parent: Hbos PLC	DI
0223-General Electric Capital Bank, SA	DI	(A) US	Parent: General Electric Capital Corp.	(A)
0225-Banco Cetelem, SA	DI	(A) France	Parent: BNP Paribas	DI (A)
0226-UBS Bank, SA	DI	Switzerland	Parent: UBSAG	DI

SAVING BANKS

MP Córdoba Group, Mixed Group (Reports to Banco de España)

2024-Caja de Ahorros y MP de Córdoba (Spain)

0184-Banco Europeo de Finanzas, SA (*)	DI
8612-Comerciantes Reunidos del Sur, SA	OCI

Caja Granada Group, Mixed Group (Reports to Banco de España)

2031-Caja General de Ahorros de Granada (Spain)

0184-Banco Europeo de Finanzas, SA (*)	DI
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Caja Madrid Group, Mixed Group (Reports to Banco de España)

2038-Caja de Ahorros y MP de Madrid (Spain)

0063-Banco Ser. Fin. Caja Madrid-Mapfre (*)	DI	US	City National Bancshares, Inc	DI (A)
0099-Altae Banco, SA	DI		City National Bank of Florida	DI (A)
0125-Bancofar, SA (*)	DI	Mexico	Finanmadrid México, SA (*)	OCI
4837-Madrid Leasing Corporación, SA (*)	OCI			
8793-Finanmadrid, SA, EFC (*)	OCI			

Caja Asturias Group, Mixed Group (Reports to Banco de España)

2048-Caja de Ahorros de Asturias (Spain)

0115-Banco Liberta, SA	DI
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Caja Baleares Group, Mixed Group (Reports to Banco de España)

2051-Caja de Ahorros y MP de Baleares (Spain)

4838-SA Nostra de Inversiones, EFC, SA	OCI
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Caja Cantabria Group, Mixed Group (Reports to Banco de España)

2066-C. Ahorros de Santander y Cantabria (Spain)

4819-Bancantabria Inversiones, SA, EFC	OCI
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Bancaja Group, Mixed Group (Reports to Banco de España)

2077-Bancaja (Spain)

0093-Banco de Valencia, SA	DI
8825-Adquiera Servicios Financieros, EFC	OCI

Caixa Vigo Group

2080-Caixa Vigo, Ourense e Pontevedra (Spain)

0046-Banco Gallego, SA	DI
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Ibercaja Group, Mixed Group (Reports to Banco de España)

2085-Ibercaja (Spain)

4832-Ibercaja Leasing y Financiación	OCI
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C. Mediterráneo Group, Mixed Group (Reports to Banco de España)

2090-Caja de Ahorros del Mediterráneo (Spain)

8824-Camge Financiera, EFC, SA	OCI
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Caja Galicia Group, Mixed Group (Reports to Banco de España)

2091-Caja de Ahorros de Galicia (Spain)

8240-Cxg Crédito Familiar Corporación CA	OCI
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Caja Jaén Group

2092-Caja Provincial de Ahorros de Jaén (Spain)

0184-Banco Europeo de Finanzas, SA (*)	DI
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Bbk Group, Mixed Group (Reports to Banco de España)

2095-Bilbao Bizkaia Kutxa (Spain)

4809-Adefisa Leasing, EFC, SA	OCI	France	Arca, SA	DI
8830-Bbkge Kredit, EFC, SA	OCI			

La Caixa Group, Financial Conglomerated: (Coordinator: Banco de España)

2100-C. Ahorros y Pensiones de Barcelona (Spain)

0133-Microbank de la Caixa, SA	DI	France	Recouvrements Dulud, SAS	OCI (A)
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8221-Corporación Hipotecaria Mutual	OCI
8776-Finconsum, EFC, SA	OCI
8788-Financiacaixa 2, EFC, SA	OCI

Caja Guipuzkoa Group, Mixed Group (Reports to Banco de España)

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

Unicaja Group, Mixed Group (Reports to Banco de España)

2103-Unicaja (Spain)	DI
0184-Banco Europeo de Finanzas, SA (*)	DI

Cajasol Group

2106-MPCA S. Fernando de Huelva Jerez (Spain)	DI
0184-Banco Europeo de Finanzas, SA (*)	DI
8596-Unión Cto. Fin. Mob. Inm. Credifimo	OCI

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

2000-Confed. Española Cajas de Ahorros	DI	
2010-MP y Caja Gral. Badajoz	DI	Mixed Group (Reports to Banco de España)
2013-Caixa d'Estalvis de Catalunya	DI	Mixed Group (Reports to Banco de España)
2017-Círculo Católico de Obreros de Burgos	DI	
2018-Caja de Ahorros Municipal de Burgos	DI	
2030-Caixa d'Estalvis de Girona	DI	Mixed Group (Reports to Banco de España)
2032-Caja de Ahorro Prov. de Guadalajara	DI	
2037-Caja de Ahorros de La Rioja	DI	
2040-Caixa d'Estalvis Comarcal Manlleu	DI	
2041-Caixa d'Estalvis de Manresa	DI	Mixed Group (Reports to Banco de España)
2042-Caixa d'Estalvis Laietana	DI	Mixed Group (Reports to Banco de España)
2043-Caja de Ahorros de Murcia	DI	Mixed Group (Reports to Banco de España)
2045-Caja de Ahorros y MP de Ontinyent	DI	
2052-Caja Insular de Ahorros de Canarias	DI	Mixed Group (Reports to Banco de España)
2054-Caja de Ahorros y MP de Navarra	DI	Mixed Group (Reports to Banco de España)
2056-Colonya-Caixa d'Estalvis de Pollensa	DI	
2059-Caixa d'Estalvis de Sabadell	DI	Financial Conglomerate (Coordinator: Banco de España)
2065-Caja General de Ahorros de Canarias	DI	
2069-Caja Ahorros y Monte Piedad de Segovia	DI	
2073-Caixa d'Estalvis de Tarragona	DI	Mixed Group (Reports to Banco de España)
2074-Caixa d'Estalvis de Terrassa	DI	Financial Conglomerate (Coordinator: Banco de España)
2081-Caixa d'Estalvis del Penedès	DI	Mixed Group (Reports to Banco de España)
2086-Caja Ahorros de la Inmaculada de Aragón	DI	Mixed Group (Reports to Banco de España)
2094-Caja de Ahorros y MP de Ávila	DI	
2096-Caja España de Inversiones	DI	Mixed Group (Reports to Banco de España)
2097-Caja de Ahorros de Vitoria y Álava	DI	Mixed Group (Reports to Banco de España)
2099-Caja Ahorros y MP de Extremadura	DI	
2104-Caja Ahorros de Salamanca y Soria	DI	Mixed Group (Reports to Banco de España)
2105-Caja Ahorros de Castilla-La Mancha	DI	

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

3008-Caja R. de Navarra, SCC	DI	
3017-Caja R. de Soria, SCC	DI	
3021-Caja R. de Aragón, SCC	DI	
3025-Caixa C. dels Enginyers, SCC	DI	Mixed Group (Reports to Banco de España)
3035-Caja Laboral Popular, CC	DI	Mixed Group (Reports to Banco de España)
3058-Cajamar, Caja Rural, SCC	DI	Mixed Group (Reports to Banco de España)
3062-Caja R. de Ciudad Real, SCC	DI	
3067-Caja R. 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	
3171-Caixa dels Advocats-Caja Abogados	DI	
3183-Caja de Arquitectos, SCC	DI	
3189-Caja R. Aragonesa y de los Pirineos	DI	

SPECIALISED CREDIT INSTITUTIONS (SCIs)

Volkswagen Group

Volkswagen AG (Germany)		(A)
8307-Volkswagen Finance, SA, EFC	OCI	(A)
8813-Scania Finance Hispania, EFC, SA	OCI	(A)

GMAC España Group**General Motors Corporation (United States of America)**

8714-Gmac España, SAF, EFC	OCI
8827-Gmac Residential Funding Corporation	OCI

Carrefour Group**Carrefour, SA (France)**

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

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

4713-Lico Leasing, SA, EFC	OCI	
8512-Unión de Créditos Inmobiliarios	OCI	Consolidated proportionally with the SCH Group
8769-Unión Financiera Asturiana, SA	OCI	
8807-Arafín, EFC, SA	OCI	
8817-Cartuja Financiera Andaluza, SA	OCI	
8828-Ios Finance, EFC, SA	OCI	Germany Parent: Private Financing Initiatives, SL

ANNEX 5 INFORMATION FOR BANK CUSTOMERS, REGISTERS AND OTHER
INSTITUTIONAL INFORMATION

Yearly data (number)

	2005	2006	2007	2008
ADVERTISING PROJECTS				
Cases processed	5,482	6,137	6,528	6,525
BY TYPE OF DECISION:				
Authorised (a)	4,791	5,319	5,641	5,707
Rejected	24	13	2	8
Modified (b)	476	638	643	765
Returned (c)	191	167	242	45
BY TYPE OF TRANSACTION:				
Lending transactions	3,186	3,234	3,209	2,930
Deposit transactions	1,510	1,954	2,260	2,561
Other	95	131	172	216
BY TYPE OF MEDIUM:				
Press	1,707	1,435	1,181	817
Radio	179	262	187	140
Television	383	352	214	207
Other	2,522	3,270	4,059	4,543
COMMISSION CHARGES				
Cases examined	1,255	1,172	1,104	1,205
Decisions (d)	1,014	903	887	1,077
Approvals	426	412	368	349
With objections	588	491	519	728
Objections formulated	1,420	1,568	1,893	2,542

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.

REGISTERS AND OTHER INSTITUTIONAL INFORMATION

TABLE A.5.2

Year-end data and changes in the year (number and percentage)

	2005	2006	2007	2008
Senior officers	4,838	4,898	4,877	4,832
Legal persons	392	401	420	424
Individuals	4,446	4,497	4,457	4,408
Of which:				
<i>Males</i>	<i>4,048</i>	<i>4,055</i>	<i>3,980</i>	<i>3,897</i>
<i>Females</i>	<i>398</i>	<i>442</i>	<i>477</i>	<i>511</i>
<i>Percentage of females in commercial banks</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>7</i>
<i>Percentage of females in savings banks</i>	<i>14</i>	<i>15</i>	<i>16</i>	<i>17</i>
<i>Percentage of females in credit cooperatives</i>	<i>6</i>	<i>7</i>	<i>7</i>	<i>9</i>
<i>Percentage of females in SCIs</i>	<i>5</i>	<i>5</i>	<i>5</i>	<i>6</i>
<i>Percentage of females in other credit institutions</i>	<i>10</i>	<i>11</i>	<i>12</i>	<i>12</i>
Additions or deletions of senior officers	1,212	1,401	1,281	1,224
Of which: First-time additions	449	678	569	533
Reinstatements	61	80	67	74
Inquiries as to integrity of senior officers	36	56	64	41
Average number of people listed per document	6	6	5	5
Registered shareholders	612	583	560	592
Individuals	101	99	88	134
Legal persons	511	484	472	458
<i>Of which: credit institutions (a)</i>	<i>116</i>	<i>117</i>	<i>114</i>	<i>106</i>
Of which: Spanish shareholders	385	381	385	408
Registered shareholders	362	367	421	382
Individuals	164	156	214	181
Legal persons	198	211	207	201
<i>Of which: credit institutions (a)</i>	<i>69</i>	<i>87</i>	<i>91</i>	<i>89</i>
Of which: Spanish shareholders	360	365	420	378
Registered shareholders	175	179	172	194
Individuals	39	36	28	28
Legal persons	136	143	144	166
<i>Of which: credit institutions (a)</i>	<i>60</i>	<i>61</i>	<i>67</i>	<i>90</i>
Of which: Spanish shareholders	151	153	145	170
Agency agreements	12,570	20,461	24,323	26,465
Banks	4,786	10,294	11,356	10,278
Savings banks	294	294	258	259
Credit cooperatives	71	68	64	52
Specialised credit institutions	50	67	62	74
Branches of credit institutions	38	45	109	120
Currency exchange bureaux and/or money transfer agencies	7,331	9,693	12,474	15,682
Agency agreements with foreign CIs	106	106	107	107
Registered amendments to articles of association	229	214	223	184
Cases processed of amendments to articles of association	60	66	37	24
Banks	13	11	11	4
Savings banks	2	0	1	1
Credit co-operatives	39	44	16	12
SCIs	1	2	4	4
MGCs	5	9	5	3
Reported to Directorate General of the Treasury and Financial Policy	28	51	29	21
Reported to regional government	32	15	8	3

SOURCE: Banco de España.

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

Commission Advice	
January	CEBS and CEIOPS publish joint technical advice on the equivalence of supervisory arrangements in Switzerland and United States
April	Advice on the review of the large exposures regime
	CEBS publishes its proposals for a common EU definition of tier1 hybrids
	CEBS and CEIOPS advice on the recommendations in the definition of capital instruments for financial conglomerates
October	CESR/CEBS's technical advice on the review of commodities business
Standards and Guidelines	
April	CEBS, together with CEIOPS and CESAR publish revised impact assessment guidelines (a)
July	CEBS standardises COREP reporting dates - Amendment to the Guidelines on Common Reporting (COREP) on the standardisation of remittance dates and reporting frequencies (b)

- a. The target of the document is increasing harmonization in supervisory information of the EU.
b. The target is avoid any unnecessary effort duplication; and ensure that the exercise adds some value.

April	Financial integration in Europe
June	Financial Stability Review
	Memorandum of Understanding on Co-operation between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the EU on Cross-Border Financial Stability
October	EU banking structures
November	EU banks' liquidity stress testing and contingency funding plans
December	Financial Stability Review
	Covered bonds in the EU financial system
	The incentive structure of the 'originate and distribute' model
	Recommendations of the Governing Council of the European Central Bank on the pricing of recapitalisations
	Recommendations of the Governing Council of the European Central Bank on government guarantees for bank debt
	Commercial property markets - financial stability risks, recent developments and EU banks' exposures

Documents	
February	Liquidity Risk: Management and Supervisory Challenges
April	Credit risk transfer – developments from 2005 to 2007 - consultative document
	Cross-sectoral review of group-wide identification and management of risk concentrations
	Customer suitability in the retail sale of financial products and services
June	Fair value measurement and modeling: An assessment of challenges and lessons learned from the market stress
July	Operational Risk - 2008 Loss Data Collection Exercise
	Proposed revisions to the Basel II market risk framework
	Credit risk transfer – developments from 2005 to 2007
August	Implementation of the compliance principles
	Range of practices and issues in economic capital modeling - consultative paper
December	External audit quality and banking supervision
Principles and recommendations	
July	Due diligence and transparency regarding cover payment messages related to cross-border wire transfers - consultative paper
	Guidelines for Computing Capital for Incremental Risk in the Trading Book
September	Principles for Sound Liquidity Risk Management and Supervision
November	Supervisory guidance for assessing banks' financial instrument fair value practices - consultative paper

BANCO DE ESPAÑA PUBLICATIONS

Studies and reports

REGULAR

Annual Report (in Spanish and English)
Economic Bulletin (quarterly) (the Spanish version is monthly)
Financial Stability Report (in Spanish and English) (half-yearly)
Informe del Servicio de Reclamaciones (quarterly)
Memoria Anual sobre la Vigilancia de Sistemas de Pago (available only in electronic format on the website)
Memoria del Servicio de Reclamaciones (annual)
Mercado de Deuda Pública (annual)
Report on Banking Supervision in Spain (in Spanish and English) (annual)
Research Memorandum (in Spanish and English) (annual)
The Spanish Balance of Payments and International Investment Position (in Spanish and English) (annual)

NON-PERIODICAL

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

ECONOMIC STUDIES

- 55 ISABEL ARGIMÓN MAZA: El comportamiento del ahorro y su composición: evidencia empírica para algunos países de la Unión Europea (1996).
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- 59 JOSÉ LUIS ESCRIVÁ, IGNACIO FUENTES, FERNANDO GUTIÉRREZ AND M.^a TERESA SASTRE: El sistema bancario español ante la Unión Monetaria Europea (1997).
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- 65 ÁNGEL ESTRADA AND ANA BUISÁN: El gasto de las familias en España (1999).
- 66 ROBERTO BLANCO ESCOLAR: El mercado español de renta variable. Análisis de la liquidez e influencia del mercado de derivados (1999).
- 67 JUAN AYUSO, IGNACIO FUENTES, JUAN PEÑALOSA AND FERNANDO RESTOY: El mercado monetario español en la Unión Monetaria (1999).
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- 76 FRANCISCO DE CASTRO FERNÁNDEZ: Una evaluación macroeconómica de la política fiscal en España (2005).

Note: The full list of each series is given in the Publications Catalogue.

All publications are available in electronic format, with the exception of miscellaneous publications and texts of the Human Resources Development Division.

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- 30 PEDRO TEDDE AND CARLOS MARICHAL (eds.): La formación de los bancos centrales en España y América Latina (siglos XIX y XX). Vol. II: Suramérica y el Caribe (1994).
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