Activity, results and solvency of credit institutions

In 2009 the business of credit institutions (CIs) and their consolidated groups (CGs)[1] suffered the effects of the adverse economic climate. As pointed out in the previous *Report on Banking Supervision,* the general deterioration in the real economy at national and international level negatively impacted the sector's activity and results in quantitative and qualitative terms. Nevertheless, CGs strengthened their solvency and, in particular, their higher-quality own funds.

The significant support measures and mechanisms implemented in coordinated fashion at international level (by governments, central banks and supervisory authorities from the onset of the financial turmoil in 2007) have helped to mitigate the severity of the crisis. As a result of this action, during 2009 there were signs of normalisation in the financial markets and, in the second half, also of improvement in the performance of the world economy. However, these signs of improvement have been uneven across market segments and countries.

The difficult setting mentioned above affected the balance sheet of Spanish CIs at consolidated and individual level, both in the subdued overall growth rates and in the alterations in balance sheet structure. Thus the assets side showed a fall in customer loans and a notable increase in debt securities, the weight of the latter increasing significantly. On the liabilities side, the deposit growth of previous years lost momentum, while the decline in interest rates since end-2008 resulted in term deposits ceding ground to sight deposits.

Generally speaking, the trends noted in the 2008 Report on Banking Supervision for the main income statement margins and items became more pronounced over the past year. Thus net interest income and, to a lesser extent, gross income showed positive year-on-year rates of change. By contrast, as a result of the increase in impairment losses (both financial and non-financial), the subsequent income statement items progressively deteriorated and the resulting profit ratios were lower than in 2008. On the upside, 2009 saw a containment of administrative expenses, and this significantly improved the efficiency ratio. Once again, the contribution of the business abroad of Spanish institutions had a favourable impact on the results of consolidated groups.

As regards the solvency of Spanish credit institutions and their consolidated groups, 2009 saw a further improvement in the quality of own funds, the growth of which was concentrated in tier 1 capital. This growth, along with the fact that capital requirements scarcely increased, brought a rise in both the solvency ratio and the tier 1 ratio. Of particular interest concerning requirements is the diverging trend in capital requirements for credit, counterparty credit and dilution risks and free deliveries (excluding securitisation positions) calculated under the standardised approach, which decreased, and those calculated under the IRB approach, which increased. These developments, without overlooking the anticipated effect of the progressive migration of certain portfolios from the standardised approach to the IRB approach, were related to changes in the average weights applicable to exposures when calculating risk-weighted assets. In the first case, the average risk weight decreased, basically as a result of a shift of exposures

---

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

towards borrowers in a lower risk category and, in the second case, it increased as a result of the higher average risk weights applicable to some of the portfolios comprising the exposures subject to the IRB approach (Corporates and Equity).

1 Activity of credit institutions and their consolidated groups

Against a background of recession and of difficulties in international financial markets, the balance sheet of CIs showed zero growth in 2009. Although the balance sheet did not change in volume with respect to 2008, it did exhibit, yet another year, greater dynamism than nominal GDP, which decreased by 3.4% (see Panel A of Chart A.2.1). In the other major balance sheet items, liabilities decreased slightly (0.3%) and, consequently, equity grew year-on-year by 5.8% (see Table A.3.2).

The zero overall growth of assets was basically due to the behaviour of credit to the resident private sector which, with a relative weight of 56%, continued its downward trend and registered a negative year-on-year rate of change of 3.0%, largely as a result of the deterioration of the economic cycle.

In contrast to the growth of 21.8% in lending to general government, the only item of loans and advances to other debtors to show a small positive variation of 1.0% was mortgage credit to the resident private sector, while commercial credit fell off by 25.5%. At the same time, 2009 saw the interruption of the trend, initiated in 2006, of higher growth in credit to productive activities than in that to households. The relative weight of household credit in the composition of credit to the resident private sector increased by 0.7 percentage points, although this was due solely to the growth of lending for house purchase and refurbishing, since the share of consumer credit and other lending decreased.

The sluggish financial markets and the ongoing tensions in them were reflected in the steeper decrease in cash and deposits at central banks and credit institutions, which declined by 6.4%, compared with the fall of 2.8% in 2008. By contrast, there were increases in investments (4.9%) and other equity instruments (3.3%). Debt securities, mainly of central government and other resident private sectors other than CIs, again showed significant year-on-year increases (29%) and was the assets item whose relative weight increased most, being up by three percentage points (see Panel B of Chart A.2.1). Trading derivatives fell by 29%, while hedging derivatives continue to grow, although at a slower pace of 11%.

Doubtful assets continue to increase at high rates, although more slowly than in 2008. This growth, along with the lack of loan growth, pushed up the doubtful assets ratio by more than one percentage point to 3.54% in December 2009. Doubtful assets on residential mortgages stood at 2.88%, up nearly half a percentage point. As a result of the increase in doubtful assets, the coverage ratio fell for the third consecutive year to stand at 47.6% (see Panel D of Chart A.2.1).

On the liabilities side, the aforementioned difficulties continued to constrain the various funding sources. The slight growth of deposits from credit institutions almost offset the fall in those from central banks. The fall-off in deposits from the private sector (-1.3%) was smaller than that in loans and advances to other debtors (-2.7%), with disparate behaviour between term deposits, which fell by 5.1%, and sight deposits, which rose by 10.4% (see Panel C of Chart A.2.1).

Mention should be made of the behaviour of debt certificates including bonds, which grew by 6.5%, and, above all, the strong growth of 11.1% in mortgage covered bonds, while other financial liabilities fell year-on-year by 7.5% (see Panel B of Chart A.2.1).

ACTIVITY OF CREDIT INSTITUTIONS (a)

CHART A.2.1

Total business. Year-end data

SOURCE: Banco de España. Data available at 13 April 2010.

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 resident 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 adjustements as a percentage of total doubtful assets.

Subordinated debt grew by 16.8% and the relative weight of own funds in the balance sheet reached 5.9%, following growth of 4.6% in the year.

In 2009, the distribution by institutional group (see Table A.3.3) of the total balance sheet showed that Spanish and foreign banks and SCIs lost weight, basically to savings banks and, to a lesser extent, credit cooperatives. The item “Loans and advances to other debtors” showed, first, a redistribution among banks, the share of Spanish banks increasing and that of foreign branches decreasing, and, second, higher shares for savings banks and credit cooperatives and a decline for SCIs. Investments in debt securities increased significantly by 7.1 pp at Spanish banks and fell by 6.0 pp and 1.8 pp, respectively, at foreign branches and savings banks. The weight of monetary assets decreased sharply at Spanish banks (-10.4 pp) and increased at foreign branches (5.0 pp) and savings banks (6.5 pp).

In the liabilities-side item “Deposits from other creditors”, the share of banks fell by 1.1 pp, this fall being concentrated in Spanish banks, which ceded 1.0 pp. The shares of savings banks and credit cooperatives rose by 0.8 pp and 0.4 pp, respectively.

At the same time, savings banks saw a fall in their share of funding from central banks and, to a lesser extent, from deposits from credit institutions, and were more active in the issuance of marketable securities, particularly non-mortgage securities, trading derivatives and subordinated debt.

As regards securitisations, 2009 saw stagnation of the assets and liabilities securitised by Spanish CIs due to the absence of a full recovery of the international financial markets, all against a background of sharp decline in new issues of asset-backed securities (-56%, see Table A.3.7), which came on top of the fall in issue volume in the previous year. The decline in CIs’ liability securitisations, basically covered bonds, was even more marked (-70%). In any event, given market conditions, asset-backed securities were massively retained by the originating CIs, thereby enhancing their ability to manage liquidity risk. In fact, only 5% of the securitisations have been recognised as such in the solvency ratio and none had any effect on the accounting of CIs. The past year has seen an increase in the weight of securitisations backed by corporate loans and in the securitisation of liabilities other than covered bonds.

The outstanding balances of asset securitisations backed by residential mortgages and covered bond securitisations continued to constitute the main underlyings of CIs’ securitisations (39% and 35%, respectively, see Table A.3.8). This type of securitisations offers the greatest assurance to investors and serves as collateral for ECB operations and for the Fund for the Acquisition of Financial Assets implemented by the government in the fourth quarter of 2008. The originators and issuers are concentrated in savings banks (which represent 60%), followed by banking groups (which represent 30%).

The growth rate of CGs’ activity continued to decline yet another year. The total amount of their balance sheets exceeded €3.7 billion at end-2009, up 2.8% year-on-year (8.8% in 2008 and 14.8% in 2007), in which account must be taken of the acquisitions of foreign institutions by a large Spanish institution in 2009 Q2. Total assets of business in Spain, however, posted discreet growth of 0.6% (see Table A.3.5).

The various assets-side items of the balance sheet generally followed the patterns mentioned above at individual level, although with smaller declines in loans and advances to other debtors and in deposits with and from central banks, a larger increase in investments, and an increase, instead of a decrease, in loans and advances to CIs.

By contrast, on the liabilities side, diverging behaviour was seen in deposits from other creditors, up by 5.3%, and in debt certificates including bonds, down by 1.4%.

Equity increased by 13.1% and own funds continued growing (6.9%), boosted by the increase of 8.5% in capital and reserves (see Panel A of Chart A.2.2).

The contribution of business in Spain to the total consolidated balance sheet decreased slightly in overall terms, and at end-2009 it represented 76.7% (-1.7 pp), with appreciable growth of 10.9% in activity abroad. With regard to the geographical distribution of CGs’ assets, the loss

ACTIVITY OF CONSOLIDATED GROUPS (a)

CHART A.2.2

Total business. Year-end data

SOURCE: Banco de España. Data available at 13 April 2010.

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

of weight of activity in Spain amounted to 2.1 pp, which was distributed unevenly across the other areas, with a significant advance in countries other than those of the EU and Latin America, whose weight was up from 2.8 pp to 4.1 pp. The changes in liabilities by geographical area were in the opposite direction, increasing by 1.4 pp in Spain while the share of other countries decreased by 1.4 pp and there was no change in the EU and Latin America. These developments in assets and liabilities by geographical area resulted in a decrease in the net debit position of activity in Spain, the weight of which decreased from 2.13 pp in 2008 to 1.45 pp in 2009 (see Panel B of Chart A.2.2 and Table A.3.6).

2 Results of credit institutions and their consolidated groups

At end-2009 the individual income statements of CIs totalled €13,269 million, a decrease of 27.6% with respect to the previous year. The return on average total assets (ATA) was 0.42% (0.61% in 2008) and that on average own funds was 7.2% (10.9% in 2008). The efficiency ratio resumed its improving path to stand out 43.2% (see Table A.3.9).

Notable among the main individual income statement items[2] is the performance of net interest income (NII), defined as the difference between financial income and financial cost, which improved appreciably compared with previous years. Generally speaking, taking NII as a point of reference, there was a progressive deterioration in the margins below it: gross income (GI), net operating profit (NOP), profit before tax and, finally, profit for the period (see Chart A.2.3.A).

GI increased by 20 bp as a proportion of ATA with respect to 2008, rising to 1.45% as a result of the simultaneous fall in financial income (down by 27.4%) and an even steeper fall in financial costs (43.9%). Two main factors explaining the performance of GI in 2009 can be highlighted. First, the changes in the composition of the portfolios of earning financial assets (EFAs) and of interest-bearing financial liabilities (IBFLs), with small fall-offs in the volume of the most

2. The title and definition of the main items discussed here conforms in full with the accounting changes introduced by Banco de España Circular 6/2008 of 26 November 2008 to credit institutions amending Circular 4/2004 of 22 December 2004 on public and confidencial financial reporting rules and formats. A brief description of these changes, in force since 2008, can be found in the previous edition of this Report (see page 88 of the 2008 Report on Banking Supervision in Spain).

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 13 April 2010.

a. 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.
b. Uniform information is not available for the NOM of CGs for years prior to 2004 due to the conceptual changes introduced by Banco de España Circular 6/2006.

significant balance sheet items (loans, -2.7%, and deposits, -0.8%) despite the steady balance sheet total. As a result, the improvement in GI must be attributed largely to movements in interest rates. In this respect, the liquidity support policy followed by the ECB was characterised by the absence of quantitative constraints and historically low key rates.

Specifically, the return on EFAs was pushed downward by developments in financial income associated with customer loans and advances (particularly the mortgage portfolio, largely linked to the interbank rate), the volume of which remained steady in 2009, and with the decline in trading derivatives. Meanwhile, the average cost of IBFLs was also reduced by the lower financial costs associated with customer deposits and, additionally, by the smaller volume of trading derivatives (see Table A.3.2).

The decrease in interest rates driven by the drop in rates on the ECB's main refinancing operations in the first half of 2009 (down from 2% in January to 1% in May, at which level they remained unchanged for the rest of the year) had a positive effect on GI since the feed-through of such a fall is quicker on the funding side than on the lending side. In this respect, the positive impact of this time lag gradually weakened over the year, although that derived from the 1% refunding rate persisted.

The overall contribution from the return on equity instruments and other ordinary revenue explains why, in absolute terms, GI underwent a more moderate increase (1.3%) than NII, and, in relative terms (as a percentage of ATA), it decreased by 8 bp to 2.26%. These data basically reflect the decline in net fee and commission income (-5.9%), as a result of a lower level of activity. Also worthy of mention is the significant change in the item associated with net income on financial assets and liabilities in the trading portfolio, which decreased by 73.4%.

Unlike the aforementioned margins, the NOP of CIs decreased in absolute terms (-8.0%) and in relative terms (-7 bp) to stand at 0.53% of ATA. Significantly, provisioning expenses and, in particular, financial asset impairment losses (both linked to credit risk provisions), explain the performance of this margin. Administrative expenses (which fell in 2009) and amortisation (which held steady) contributed decisively to the aforementioned improvement in the efficiency ratio (see Chart A.2.4.C), which resumed the trend of the years prior to 2008.

As a result of the notable increase in impairment losses on other assets (non-financial), the profit before tax decreased by 26.9%. The return on equity (ROE), which largely summarises the whole income statement analysis, decreased to 7.22%, continuing the trend initiated in 2007.

In line with previous years, the analysis by institutional group (see Table A.3.10) reveals a similar performance of income margins among deposit institutions (banks, savings banks and credit cooperatives). By contrast, the profitability of credit financial institutions (CSIs) deteriorated drastically. In 2009 CSIs posted a negative profit before tax equivalent to 0.94% of ATA (0.74% in the case of profit for the period).

With regard to consolidated groups, profit for the period amounted to €20,069 million, a figure which represented a decrease of 18.4% with respect to 2008 (see Tables A.3.11 and A.3.12). ROE stood at 9.80% and the efficiency ratio at 43.06%. Generally, analysis of the income statement of CGs reveals the same patterns as those described for individual CIs as a whole, both regarding margins and regarding efficiency and profitability.

As a distinguishing feature, it can be mentioned that, in relative terms (as a percentage of ATA), the values of all CG income statement margins and items were higher than those for individual CIs. Also, the level of the rates of change recorded was generally more favourable to CGs, since these showed higher increases and lower decreases than for individual CIs. As result, the profitability gap between CIs and CGs widened slightly (see Charts A.2.4.C and A.2.4.D).

The contribution from banking business abroad, derived basically from the significant and diverse presence of the larger Spanish institutions in Latin America and, increasingly, in the European Union, was the basis for this quantitative and qualitative improvement in consolidated results.

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

Yearly data

SOURCE: Banco de España. Data available at 13 April 2010.

a. 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.
b. Total spread is defined as the average return on earning financial assets (EFAs) minus the average cost of interest-bearing financial liabilities (IBFLs).
c. The efficiency ratio is defined as administrative expenses and amortisation divided by gross income. Personnel expenses are expressed as a percentage of ATA.

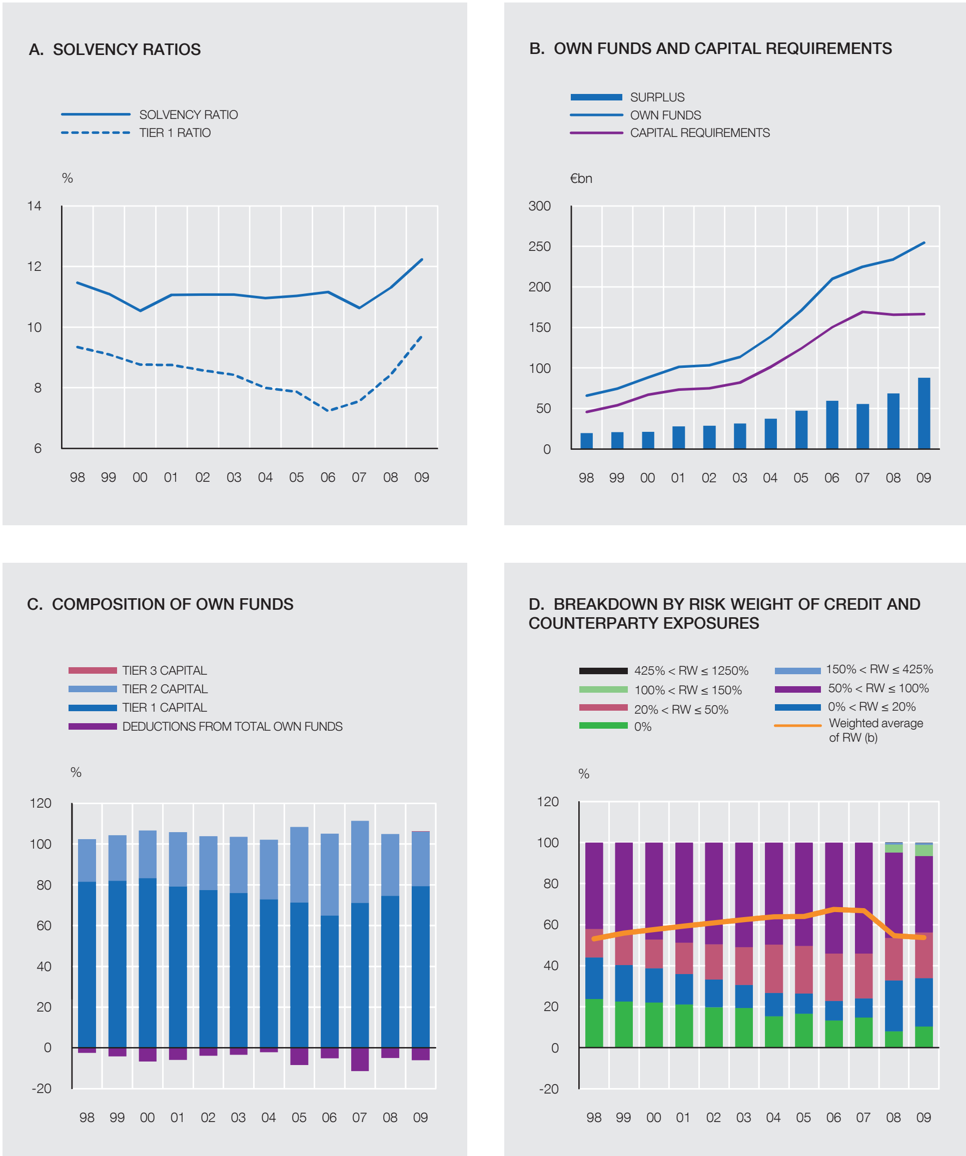
3 Solvency of consolidated groups of credit institutions[3]

The solvency ratio of CGs in 2009 continued the upward trend initiated in 2008 and stood at 12.2% (see Table A.3.13 and Panel A of Chart A.2.5), up 0.9 pp on the previous year. This increase basically reflected the rise in eligible own funds (8.7%), since capital requirements

3. The entry into force in 2008 of Banco de España Circular 3/2008 of 22 May 2008 to credit institutions on determination and control of minimum own funds (hereafter «CBE 3/2008») gave rise to a certain break in the time series of the data analysed in this section, since those relating to 2008 onwards were reported by consolidated groups and by individual institutions not belonging to any group of credit institutions in accordance with CBE 3/2008, while the data relating to prior years were reported under CBE 5/1993. This break affects both the main solvency items analysed and the breakdowns resulting from the entry into force of CBE 3/2008. Accordingly, the figures prior to 2008 constitute what has been considered a best approximation in terms of both amount and item description.

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

Year-end data



SOURCE: Banco de España. Data available at 31 March 2010.

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.

grew by only 0.5% (see Panel B of Chart A.2.5), so the surplus of own funds amounted to €88 billion.

The strengthening trend of higher-quality own funds continued, taking the tier 1 ratio to 9.7%. The increase in tier 1 capital (original own funds) offset the decrease in tier 2 capital (additional own funds) and the rise in deductions from original and additional own funds. Tier 1 capital grew at a rate (15.6%) significantly higher than that of total own funds and its weight in the total increased by approximately five pp to 79.4% (see Panel C of Chart A.2.5). The bulk of the increase in tier 1 capital took the form of reserves. Also making up some of the increase, albeit to a lesser extent, were instruments subject to limit (specifically preference shares and non-voting shares not carrying early redemption incentives), minority interests and capital stock. Notable in this respect were the growth rates posted in 2009 by the first two of these (36.7% in the case of instruments subject to limit and 43% in the case of minority interests). By contrast, there was a fall of 24% in the item "interim profits or material losses of the current financial year", and larger deductions from tier 1 capital for intangible assets.

The decrease in tier 2 capital was concentrated in the core additional own funds and, in particular, in eligible provisions, in line with the higher loan loss allowances for non-performing loans in the current economic situation, and in securities of indeterminate duration and other instruments. These decreases were not offset by the increase in supplementary additional own funds, the main component of which is subordinated loan capital.

Lastly, the increase in deductions from original and additional own funds stemmed from the larger excesses of qualified participating interests in financial institutions over the limit of 15% of own funds and from higher expected losses with respect to impairment allowances and provisions, this latter being consistent with the decrease in eligible provisions mentioned above.

The slight growth of capital requirements (0.5%) was the result of a moderate increase (1.1%) in capital requirements for credit, counterparty credit and dilution risks and free deliveries (hereafter "credit and counterparty credit risk"), which represent nearly 90% of total requirements, somewhat higher dynamism in operational risk requirements, with growth of 9.1%, and a decrease in position, foreign exchange and commodity risks as well as, more significantly, in the so-called "other and transitional" capital requirements.

Analysing in more detail the changes in the requirements for credit and counterparty credit risk, and keeping in mind that requirements are calculated as 8% of so-called "risk-weighted assets", and that these, in turn, are obtained by multiplying the so-called "exposure values"[4] by the related risk weights, it can be seen that the moderate increase in those requirements resulted from growth in exposure values (2.6%) and from a decrease of 0.8 pp in the overall average risk weight to approximately 54%, as shown in Panel D of Chart A.2.5. This slight decrease in the overall average risk weight was basically due to a sharp drop in the proportion of exposures with risk weights in the interval (50%-100%] and, to a lesser extent, in the proportion of those with risk weights in the interval (0%-20%], against an increase in the proportion of exposures with risk weights of 0%, and to a lesser extent, with risk weights in the intervals (20%-50%] and (100%-150%].

Analysis of the credit and counterparty credit risk components shows that the increase in total requirements for this type of risk was concentrated in those calculated under the IRB approach (excluding securitisation positions), which grew by 5%. They thus behaved differently from those calculated under the standardised approach (excluding securitisation positions), which represent approximately two-thirds of the total requirements for credit and counterparty credit risk and which decreased by 1.7%. The requirements for securitisation positions, the third component of the requirements for credit and counterparty credit risk, account for a only small part of the requirements for this type of risk (less than 2%), but they grew notably by 32.8%.

4. Broadly, "exposure values" are the values which result once various effects have been taken into account which may give rise to a decrease in the original exposure value or to reallocations of the exposures to other categories with a different treatment for capital requirements purposes (effects such as those derived from the application of risk mitigation techniques).

Among the reasons contributing to the decrease in requirements for credit and counterparty credit risk under the standardised approach (excluding securitisation positions), without overlooking the anticipated effect of progressive transfer of certain portfolios from the standardised approach to the IRB approach, mention may be made of the shift in the distribution of exposures by obligor type towards a distribution in which a higher proportion of exposures has a smaller risk weight. In an economic and financial setting which heightened the appeal of financial assets able to be used as collateral in operations with the ECB, the proportion of exposures to central government and central banks increased (by 2.9 pp), basically at the expense of exposures in the "Corporate" category (the weight of which decreased by 4.9 pp) and exposures in the "Retail" category (the weight of which decreased by 1.4 pp) (see Panel D of Chart A.2.5). Other categories whose weight increased notably were exposures secured by real estate property (1.5 pp) and past-due items (1 pp).

In line with these changes,[5] the average risk weight applicable to exposures under the standardised approach decreased by 2.7 pp in 2009 to slightly below 60%, which, taken in combination with the moderate growth in exposure values (2.7%), led to the aforesaid decrease in own funds requirements. Notably, this decrease was due more to this reallocation of exposures than to a decrease in the average risk weights applicable to each obligor category, since the categories which contribute most to the calculation of total average risk weight (Corporates, Retail, Exposures secured by real estate property and Other exposures[6]) did not undergo decreases in their average risk weights. In these categories, except in the latter case, the changes in requirements are explained mostly by variations in the related exposure values, particularly in the cases of Corporates and Retail.

The increase in requirements for credit and counterparty credit risk under the IRB approach (excluding securitisation positions) was due to higher exposure values (although they only grew by 1.5%) and, to a larger extent, an average risk weight which rose by 1.5 pp to nearly 50%. Unlike in the case of the standardised approach, the variations in the average risk weight were determined more by changes in the average risk weights of the exposure categories comprising the total than to a reallocation of exposures. This reallocation did took place, but was not a shift towards exposure categories with higher average risk weights, but rather the opposite (i.e. like under the standardised approach, the reallocation was towards categories with lower average risk weights): increase in the proportion of the Retail category, with average risk weights of around 25%, and decrease by the same amount (2.7 pp) in the proportion of the Corporates category, with average weights of around 65-70%. Therefore it is the increase in the average risk weights of the categories comprising the total and, in particular, of the Corporates and Equity categories, which explains the movements in total average risk weight. Although these increases are consistent with the worsening in economic conditions, their amount is nonetheless limited due to the use of through-the-cycle probabilities of default (PDs) under IRB models validated by the Banco de España. These models reduce procyclicality in the calculation of own funds requirements.

The significant growth in requirements for securitisation positions was due to an increase of 25% in exposure values and, to a lesser extent, to an increase in average risk weight (up 2.9

5. The categories "Central governments and central banks", "Administrative bodies and non-commercial undertakings" and "Exposures secured by real estate property" have average risk weights below 50%, especially the case of the former, in which the average weight is around 5%. The categories "Corporate", "Retail", "Exposures belonging to regulatory high-risk categories", "Past-due items" and "Other items" have average risk weights above 50% and, in some cases, above 100%. **6.** The so-called "Other items" caption referred to in Rule 16 of CBE 3/2008 forms part of the so-called "Other" item in Table A.3.13, along with "Past-due items", "Exposures belonging to regulatory high-risk categories", "Covered bonds", "Short-term claims on institutions and corporates" and "Claims in the form of CIU".

pp to slightly below 50%). This higher average risk weight was basically due to the larger proportion of securitisation positions treated under the standardised approach, the average risk weight of which is higher than that of those treated under the advanced approach.

Along with changes in requirements for credit risk and counterparty credit risk, mention should be made of some additional details concerning developments in requirements for operational risk and in so-called “other and transitional” capital requirements. Operational risk was where capital requirements grew most in 2009 (9.1%), increasing as a proportion of total requirements by 0.7 pp to 8.4%. The increase in these requirements was concentrated in the standardised approach, where the changes reflect the so-called “gross income” of the three years prior to each reporting year, which is broadly the result of grouping together certain items in the income statement of CGs. This gross income is broken down by business lines, to which weights between 12% and 18% are applied to calculate operational risk requirements. The distribution of this income by business line scarcely showed significant changes, the only notable development being a slight increase in the proportion of that weighted at 15% (3.1 pp), concentrated in “commercial banking”, and a slight decrease in the proportion of that weighted at 12% (2.9 pp), concentrated in “retail banking “ (2.1 pp) and in “asset management” (0.7 pp).

Finally, the so-called “other and transitional” capital requirements decreased significantly as a result of the lower impact in 2009 of the so-called “floors” (limits below which the own funds requirements of the institutions which applied advanced approaches in 2008 and 2009 could not be reduced).[7] The application of these limits led to a complement of €1,989 million to capital requirements in 2008, whereas the complement decreased to €116 million in 2009.

---

7. The eighth transitional provision of CBE 3/2008 stipulates that «institutions» (“CGs” in this Report) authorised to use the internal ratings based approach to calculate their credit risk-weighted exposures (IRB approach) must maintain own funds at all times be equal to or greater than a percentage of the total amount of minimum own funds required under the regulation in force at 31 December 2007 (Basel I). This percentage is 90% in 2008 and 8% in 2009 and, foreseeably, will be extended for an additional period should such extension be approved at European level.