

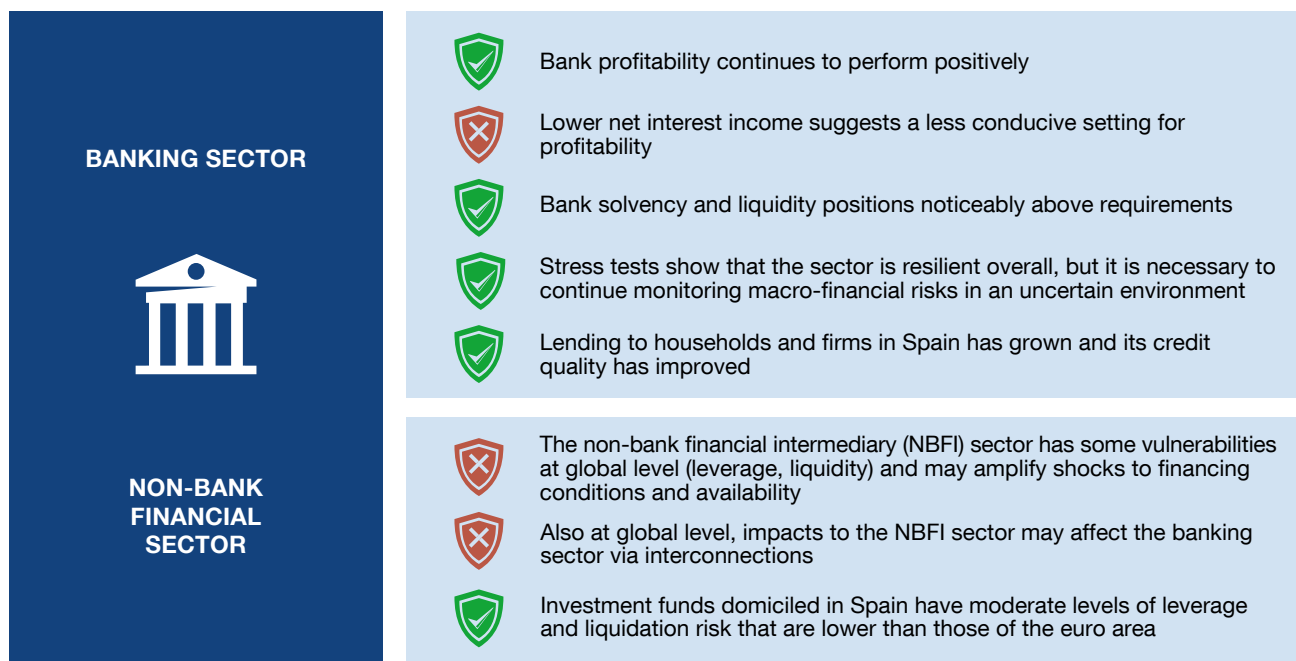
3

FINANCIAL POSITION OF SPANISH BANKS AND THE NON-BANK FINANCIAL SECTOR

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Figure 3.1

Financial position of banks and the non-bank financial sector (a)



SOURCE: Banco de España.

a The green (red) shields denote the circumstances of the financial position of each sector that constitute strengths (vulnerabilities) should risks materialise. The strengths (vulnerabilities) reduce (increase) the likelihood of occurrence or the impact of the risks to financial stability.

3.1 Banking sector

3.1.1 Profitability

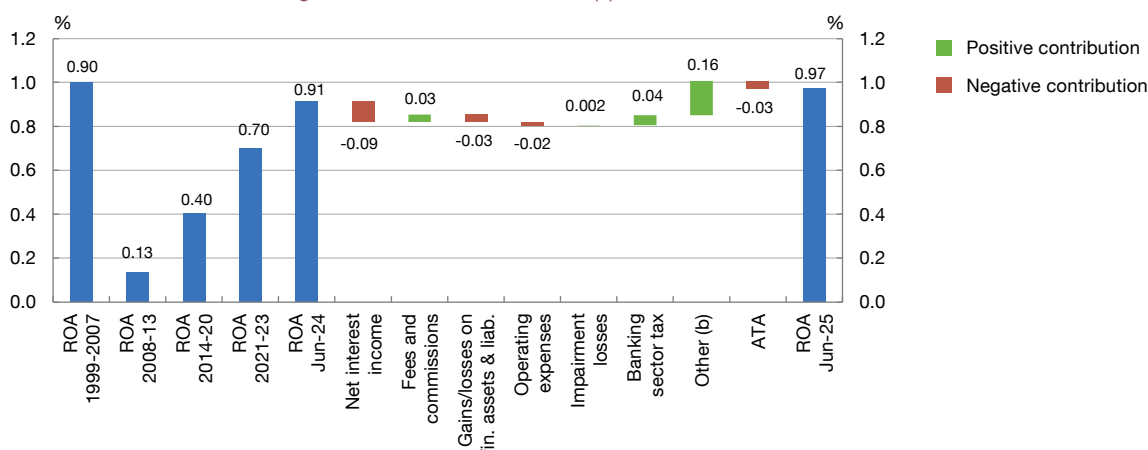
The profitability of the Spanish banking sector continued to improve in 2025 H1. The sector's consolidated profit was up 10% in the period January-June 2025 on the same months of 2024 (see Annex 1).¹ The return on assets (ROA) stood at 0.97%, compared with 0.91% in June 2024 (Chart 3.1). The return on equity (ROE) increased by 0.6 percentage points (pp) to 14.6% (Chart A2.3.1.1.1 in Annex 2). This improvement was seen across all

¹ In 2025 H1 a significant credit institution announced the agreement to sell a subsidiary abroad. Thus, in accordance with International Financial Reporting Standard 5, it recorded the results of the business concerned under a single heading in its consolidated income statement ("Profit or loss from discontinued operations (net)"), therefore excluding them from the heading-by-heading breakdown of the continuing operations. In this section, to ensure consistency in the analysis and the year-on-year comparison with June 2024, these amounts have been reincorporated into the main income statement headings. This distribution of "Profit or loss from discontinued operations (net)" does not alter net profit and, therefore, neither ROA nor ROE.

Chart 3.1

Despite the fall in net interest income, the Spanish banking sector's ROA continued to improve in 2025 H1

3.1.a Breakdown of the change in ROA. Consolidated data (a)



SOURCES: Banco de España and public financial reports. Latest observation: June 2025.

a, b Note A2.3.1.1.3 in Annex 2.



banks (Chart A2.3.1.1.2 in Annex 2). The main listed banks' earnings for Q3 show that bank profitability remains on an upward path.

The favourable performance of various income statement headings offset the decline in net interest income. The decrease in this component of profit (Chart 3.1) contrasts with its performance in prior quarters, when it was the main driver of profitability. Notable among the components that contributed to profitability growth are net fee and commission income, tax expenses and other operating income (the latter due largely to the smaller adjustment for hyperinflation in Argentina and Türkiye).² By contrast, impairment losses held steady. Meanwhile, the denominator – average total assets (ATA) – made a negative contribution to the change in ROA, after it rose by 3.8% in the period.

The components that have contributed to the year-on-year improvement in profitability in H1 are largely one-off in nature. This is true for the lower adjustments for hyperinflation. The lower taxes are due to accounting treatment, meaning that most of the positive effect on this component will foreseeably not last for the year as a whole.³

The fall in net interest income, the main driver of profitability since 2021, is explained by lower net interest margins, amid monetary policy easing. The effect of this decline in

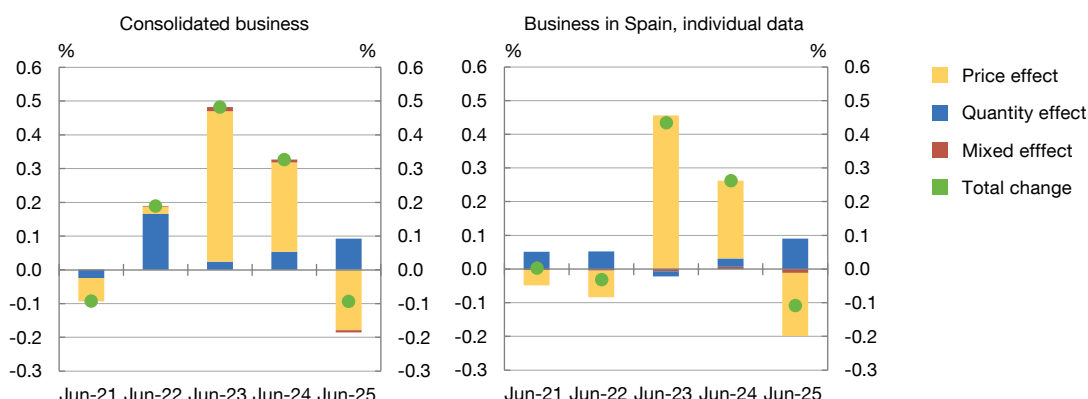
2 The hyperinflation adjustment affects the business abroad of the sector's two main banks. The international accounting standards applicable to Spanish banks effectively penalise the measurement of businesses whose functional currency is the currency of a hyperinflationary economy (see [International Accounting Standard 29](#)). Lower inflation in Türkiye and Argentina has reduced these penalties.

3 The previous temporary bank levy (established by [Law 38/2022](#)) accrued in full in 2024 Q1. However, the current tax on net interest income and fees and commissions (established by [Law 7/2024](#)) accrued in June only for the part corresponding to the first two quarters.

Chart 3.2

The fall in net interest income was due to the negative impact of monetary easing via prices (lower net interest margin) outweighing the positive impact via quantity (greater volume of business)

3.2.a Breakdown of the change in net interest income as a percentage of ATA (a)



SOURCES: Banco de España, Capital IQ and public financial reports. Latest observation: June 2025.

a Note A2.3.1.1.5 in Annex 2.

net interest margins⁴ (with lending rates falling more than deposit rates) (Chart A2.3.1.1.4 in Annex 2) outweighed the impact of the increase in the volume of business (driven by the recovery in lending). This has reduced net interest income, at both consolidated level and in business in Spain (Chart 3.2).⁵ This decline was seen across all banks (Chart A2.3.1.1.6 in Annex 2) and continued in the 2025 Q3 earning reports published by the main listed banks. The loss of momentum in net interest income, which was anticipated in the previous *Financial Stability Report* (FSR), suggests a less conducive setting for bank profitability growth in the coming quarters. However, as the pass-through of lower monetary policy rates to bank interest rates is completed, it is likely that its adverse impact on net interest income will tend to fade and that this component of profit will stabilise.

Since 2021 the improvement in the profitability of banks with the most international presence has arisen mainly in Spain and Mexico. In the other material countries, profitability has held relatively stable (Chart 3.3). The improvement in earnings in Mexico in recent years, in line with business in Spain, was due to the rise in net interest income. This momentum has started to peter out and both net interest income and earnings in Mexico fell year-on-year in June 2025. Nevertheless, in the first half of the year Mexico remained the top foreign contributor to these institutions' earnings (26% of total earnings, a figure below Spain's share of 39%), followed by Brazil (8%), the United States (6%), the United Kingdom (5%) and Türkiye (3%). The other business units contributed 13%. In this respect, Box 3.1 analyses the geographical

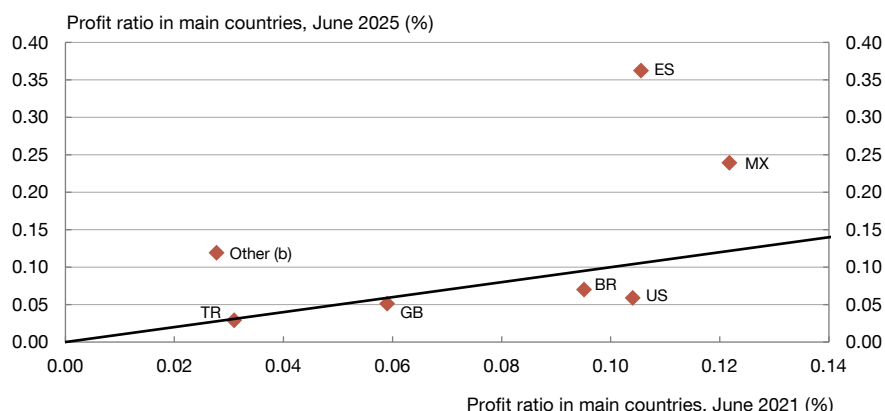
⁴ Net interest margin is defined as the difference between the average rate charged on asset positions and the average rate paid on liability positions.

⁵ In this vein, the recent *Bank Lending Survey for 2025 Q3* shows that, for the coming six months, respondent banks expect that policy interest rate decisions will prompt a further - albeit more moderate - decline in profitability as a result of narrower net interest margins, and despite the positive impact on the volume of credit extended.

Chart 3.3

By geographical area, the improvements in bank profitability have mainly arisen in recent years in Spain and Mexico

3.3.a Profit ratio in the main countries in June 2025 and June 2021 (a). Consolidated data



SOURCES: Banks' public financial reports. Latest observation: June 2025.

a The ratio of annualised ordinary profit attributable to the parent in each country to consolidated average total assets, multiplied by 100. It is calculated for the three banks with the most significant international presence.

b "Other" includes, in addition to earnings in the other countries, the earnings of the banks' corporate centres.

and sectoral distribution of Spanish banks' lending abroad, finding that their exposure is fairly diversified against the economic impact of the new tariffs implemented in 2025, which is itself limited.

In 2025 H1 the profitability of the Spanish banking sector outperformed that of the other major banking systems in the European Union (EU). On European Banking Authority (EBA) data at June 2025, the main Spanish banks' ROA amounted to 1%, 25 basis points (bp) above the European average of 0.75% and higher than the figures for other major European countries, except Italy⁶ (Chart A2.3.1.1.7 in Annex 2).

3.1.2 Solvency

The Common Equity Tier 1 (CET1) capital ratio stood at 13.8% in June 2025, up 0.5 pp year-on-year. The increase was due to year-on-year growth of over 5% in CET1 capital, which outweighed the negative contribution from the 1.4% increase in risk-weighted assets (RWAs) (Chart 3.4.a, left-hand panel). RWAs rose because total assets (see Section 3.1.3) grew more than the decrease in their risk profile, measured by RWA density.⁷ The increase in the CET1

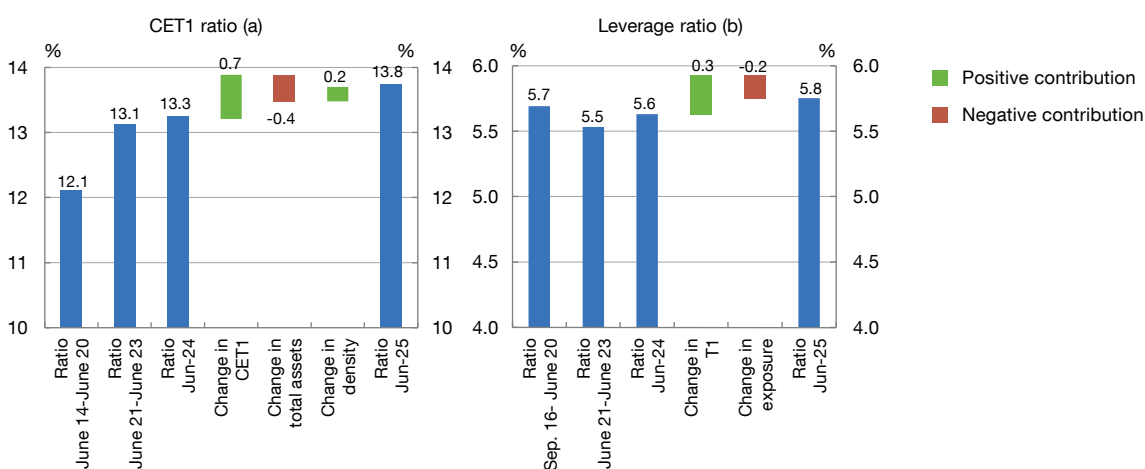
⁶ Spain's ROA in this European comparison differs from that in the first paragraph, due to differences in the scope of institutions considered. To compare European figures, EBA data are used. These data refer to the major EU banks, which, in the case of Spain, are limited to the ten significant institutions. The remainder of this section uses national data for the set of banks.

⁷ The change in the CET1 capital ratio can be broken down into the contribution of CET1 capital (the numerator) and RWAs (the denominator). The contribution of the latter can, in turn, be broken down into the contribution of total assets and RWA density. RWA density is the ratio between RWAs and total assets, with higher values indicating a higher risk profile.

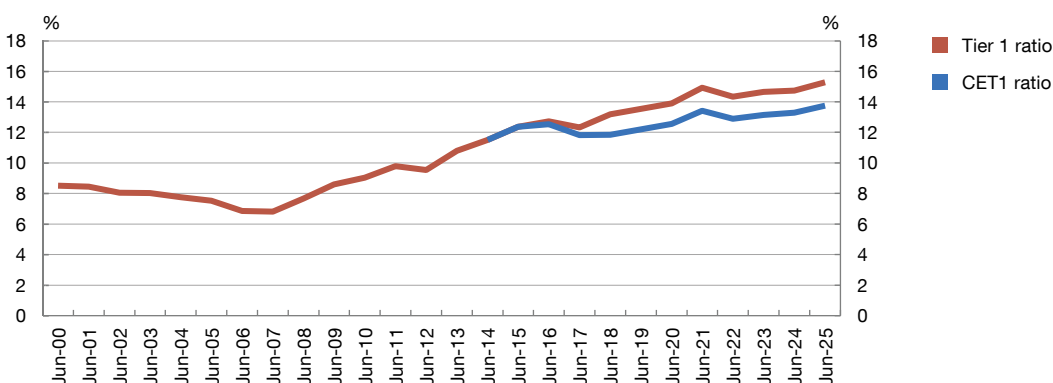
Chart 3.4

The Spanish banking system's CET1 and leverage ratios grew year-on-year to June 2025, driven by the accumulation of capital

3.4.a Breakdown of the change in the CET1 and leverage ratios. Consolidated data



3.4.b Change in the Tier 1 and CET1 ratios over time (c) (d)



SOURCE: Banco de España. Latest observation: June 2025.

a, b, c, d Note A2.3.1.2.1 in Annex 2.



ratio was seen across all banks (Chart A2.3.1.2.2 in Annex 2). Over a broader time horizon, capital ratios have risen considerably since 2007 (Chart 3.4.b).

The Spanish banking system's leverage ratio rose in 2025 H1. In June 2025 the leverage ratio stood at 5.8%, a year-on-year rise of 12 bp (Chart 3.4.a, right-hand panel).⁸ The forces behind these developments (greater increase in capital than in assets) are analogous to those mentioned for the CET1 ratio. The improvement in the leverage ratio was relatively widespread across all banks (Chart A2.3.1.2.3 in Annex 2).

⁸ The leverage ratio is calculated by dividing Tier 1 capital by total exposure, which includes on and off-balance-sheet exposures and is not risk-weighted.

Spanish banks' CET1 ratio remains below the EU average, although this gap has narrowed slightly. In the 12 months to June 2025, this gap narrowed by 0.2 pp, from 3.3 pp in June 2024 to 3.1 pp (Chart A2.3.1.2.4 in Annex 2).

The Spanish banking sector's voluntary CET1 buffer is also lower than that of other European banks, but the difference is smaller than in the case of the CET1 ratio. For the latest period available, Spain's voluntary buffer is 1.7 pp lower than the EU average.⁹ The smaller difference compared with the CET1 ratio reflects the Spanish banking system's lower capital requirements, in line with its risk profile.

Spanish banks' leverage ratio remained at a level comparable to that of the other European banking sectors. In June 2025 it stood barely 0.3 pp below the European average (Chart A2.3.1.2.4 in Annex 2), a difference that remained steady between June 2024 and June 2025. The smaller leverage ratio gap between the Spanish banking sector and its European peers is mainly due to Spanish banks having a higher RWA density (RWAs account for a higher percentage of total assets), which contributes to lowering the CET1 ratio, but does not impact the leverage ratio.¹⁰

The latest stress-tests show that Spanish banks' capital affords them a considerable level of resilience. The results of the EBA's EU-wide stress test published in August this year and of the stress tests conducted by the Banco de España using its own analytical tools suggest that the Spanish banking sector would have an appropriate CET1 ratio level in the face of different adverse scenarios (see Box 3.2). The hypothetical environments examined include shocks of different kinds, specifically in terms of their persistence over time and their effects on inflation and on financial and real estate asset prices, reinforcing the robustness of the conclusions.

3.1.3 Consolidated balance sheet

Assets

Spanish banks' consolidated assets remained on their recent upward path in 2025 H1, particularly financial assets with counterparties in Spain. Between December 2024 and June 2025, total assets rose by 1.4%, resulting in a year-on-year rate of 4.1% (see Annex 1). Financial assets with counterparties in Spain grew by 3.4% in 2025 H1, while financial assets

9 This figure is for December 2024, the latest figure reported by the EBA for voluntary capital buffers, and only considers the CET1 prudential requirements (Pillar 1, Pillar 2 requirements, combined buffer requirements and Pillar 2 guidance). The EBA sample contains 161 banks; the Spanish banks in the sample are the ten significant institutions.

10 Among the factors explaining Spanish banks' higher RWA density is the lower use of internal ratings-based (IRB) models to calculate RWAs, which typically generate lower capital requirements than the standardised approach. IRB models use statistical techniques to estimate, using internal data on assets, unexpected losses and measure the loss-absorbing capacity of the capital held by banks. If a bank has not been authorised by the supervisor to use IRB models, it uses the standardised approach (applying standard and pre-established percentages to risk exposures).

with counterparties abroad decreased by 2.5% in the same period, amid the depreciation of different currencies against the euro.¹¹ Notable in the recent growth in financial assets with counterparties in Spain has been the increase in loans and debt securities. By contrast, claims on the Eurosystem decreased.

Liabilities

Spanish banks' consolidated liabilities grew in line with assets in 2025 H1.¹² Between December 2024 and June 2025, aggregate liabilities increased by 1.4%, slower than the growth observed in 2024 H2, placing year-on-year growth at 3.9% (see Annex 1). By nationality of the counterparty, the changes in liabilities were comparable to those in assets. By instrument type, the year-on-year growth of 1.6% in deposits from national counterparties contrasted with the contraction of 8.4% in those held by foreigners. Meanwhile, equity grew year-on-year, contributing to the increase in prudential solvency (see Section 3.1.2).

Spanish banks' debt issuance in 2025 H1 decreased compared with the same period of 2024. Compared with 2024 H2, the decline was more moderate, due in part to seasonal patterns, with recurrently weaker issuance in the second half of the year (Chart A2.3.1.3.1 in Annex 2). In year-on-year terms, there was a particularly notable reduction in senior unsecured debt (at a time when banks already held sufficient volumes of instruments to meet their minimum requirement for own funds and eligible liabilities (MREL) obligations)¹³ and in senior secured debt.¹⁴ This decrease in issuance was more pronounced at foreign subsidiaries of Spanish banks because of their lesser needs to roll over their debt financing in this period.

3.1.4 Credit

Credit developments

Growth in the stock of credit in Spain stepped up in 2025 H1. This was driven by economic growth and interest rate cuts. The year-on-year rate of growth in lending to households, firms and the self-employed stood at 2.7% in June 2025, compared with 0.8% in December 2024

11 Specifically, in 2025 H1 the currencies of the main economies where Spanish banks have a significant international presence that depreciated against the euro were: the US dollar by 12.8%, the pound sterling by 3.2%, the Mexican peso by 2.5%, the Brazilian real by 0.2% and the Turkish lira by 26.8%.

12 Banks' assets are funded by interest-bearing financial liabilities and other liabilities (referred to in this chapter as "liabilities") and equity. Thus, assets = liabilities + equity.

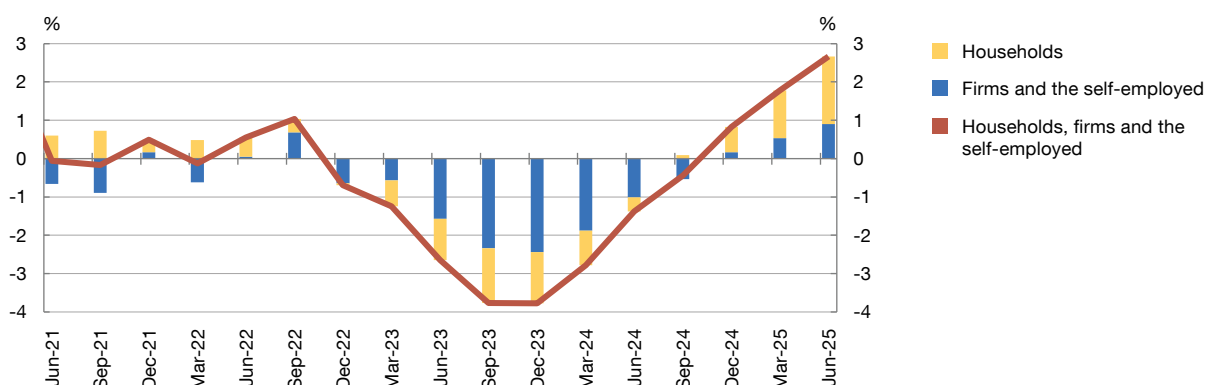
13 MREL is a requirement aimed at ensuring that banks have sufficient own funds and eligible liabilities to support the application of resolution tools and make sure that shareholders and certain creditors are the first to bear losses should the bank fail. Senior non-preferred debt also covers this requirement at a moderate cost for banks, as it is a class of debt whose holders would incur losses in the event of the bank's resolution, ranking below traditional senior debt holders in priority.

14 Secured debt (including covered bonds) comes with additional collateral, typically a pool of mortgage loans, thus providing the holder with dual recourse: a claim on the issuing bank itself and a preferential claim against the cover pool. Senior unsecured debt lacks collateral backing, but its senior status grants it highest priority among issuances without additional collateral for repayment in case of issuer bankruptcy.

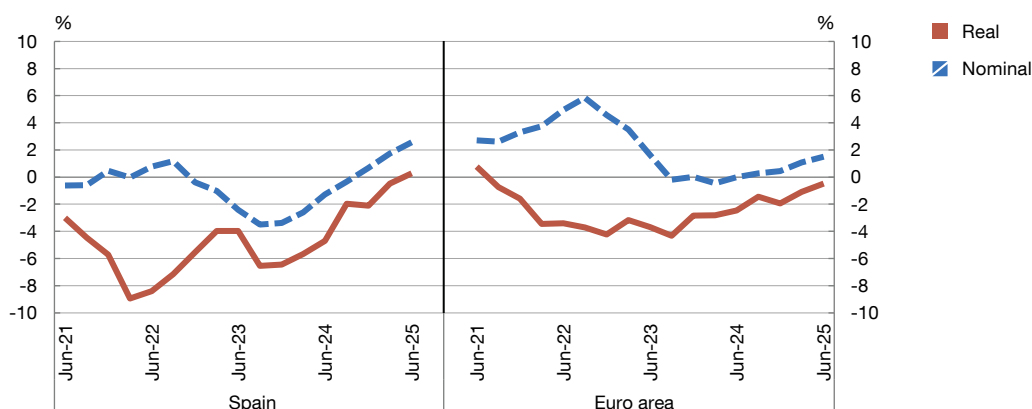
Chart 3.5

The year-on-year growth in the stock of lending to the private sector in Spain increased in 2025 H1, in both nominal and real terms, with the household segment making the biggest contribution

3.5.a Contributions to the year-on-year rate of change in lending to households, firms and the self-employed resident in Spain. Business in Spain. Individual data (a) (b)



3.5.b Nominal and real year-on-year rates of change in lending to households, firms and the self-employed. Business in Spain. Individual data (a)



SOURCES: ECB and Banco de España. Latest observation: June 2025.

- a "Firms and the self-employed" denotes the institutional sectors of NFCs and sole proprietors.
b Lending by deposit institutions' branches in Spain.



and the decline of 1.4% in June 2024. However, relative to nominal GDP growth of close to 6%, the growth in the stock of lending is moderate, as also analysed in the macro-financial indicators in Section 6.1 of this FSR (Chart 6.1). By sector, the increase in lending to households stood out, contributing 1.8 pp to the overall growth, versus 0.9 pp by lending to firms (Chart 3.5.a). These dynamics are still present in the data available to August.

Year-on-year growth in lending in real terms turned slightly positive in June 2025. Since end-2023 the year-on-year decline in real lending to households, firms and the self-employed has gradually slowed in Spain, mainly underpinned by the recovery in nominal lending but also by the easing of inflation. In recent quarters, year-on-year growth in real lending in Spain has gathered pace and turned marginally positive in June (Chart 3.5.b). In addition, since March 2025

it has outpaced that in the euro area as a whole, with a positive differential also observed in nominal terms. These developments arise after a protracted period of deleveraging following the global financial crisis, which was more pronounced in Spain than in the euro area.

The acceleration in lending to the private sector in Spain was widespread across banks in 2025 H1. However, there was somewhat more heterogeneity than in the preceding year and lending continued to decrease at a certain number of banks (Chart A2.3.1.4.1 in Annex 2).

Lending to households increased by 3.1% year-on-year in June 2025 , growing in both the consumer credit and loans for house purchase segments. Growth in the latter segment amounted to 2.4% year-on-year in June 2025, above the 0.5% recorded in December 2024 (see Section 4.1 of this FSR for a more detailed analysis). Other lending recorded stronger growth in the 12 months to June 2025 (5.5%) and also accelerated compared with December 2024 (4.2%), with the growth in lending for durable consumption standing out (12%).¹⁵

Lending to firms and the self-employed grew by 2.1%, with particular strength in the construction and real estate activities sectors. Credit performed unevenly across sectors. Lending to construction and real estate activities grew the most (up by 3.7% year-on-year to June), marking a change in trend, albeit starting from very low levels (see Section 4.1 of this FSR). Lending to other sectors also accelerated and grew to June 2025, but less so, with average year-on-year rates of 1%-2%. However, since property development and construction lending account for a moderate share of the total, its contribution to total growth was less than that of the other sectors¹⁶ (Chart 3.6.a).

Large firms accounted for all recent credit growth. Lending to large firms increased by 5.5% year-on-year in June 2025 (up from 1.8% 12 months earlier). By contrast, in the SME segment the decline of recent quarters moderated considerably, although the rate of change remains negative (-0.9%). Lastly, credit to the self-employed fell by 3.1% year-on-year, also less than in previous quarters (Chart 3.6.b).

Credit stock growth was underpinned by a broad-based rise in new credit across sectors. New lending to households, firms and the self-employed in the 12 months to June 2025 was 13.5% higher than in the 12 months to June 2024. Of this new lending, 64% stemmed from new lending transactions, while the remaining 36% was due to increases in amounts drawn down on existing credit facilities. The 13.5% increase was driven by both firms

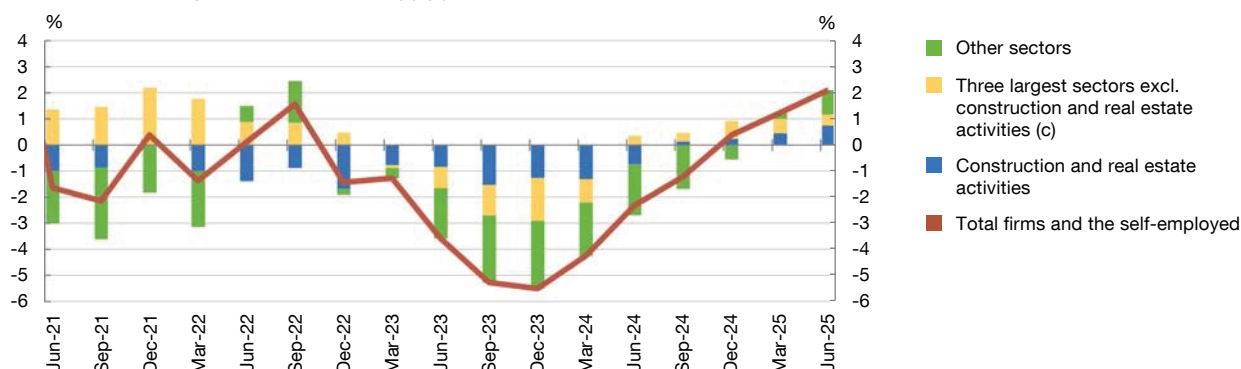
15 Lending for purposes other than house purchase includes, in addition to consumer credit, the purchase of land, the purchase of parking spaces and storerooms unrelated to house purchases, the purchase of securities and debt consolidation. In addition to deposit institutions, specialised lending institutions, whose figures are not included in this section, play a key role in consumer credit. In the case of these institutions, growth in consumer credit has increased more moderately, as described in Section 3.2 of this chapter.

16 At June 2025 construction and real estate activities accounted for 20.4% of lending to firms and the self-employed. Excluding these activities, the three sectors that account for largest share are trade and repairs, transportation and storage, and professional, scientific and technical activities. Overall they represented close to one-third of the total. The other sectors account for the remaining 45.8%.

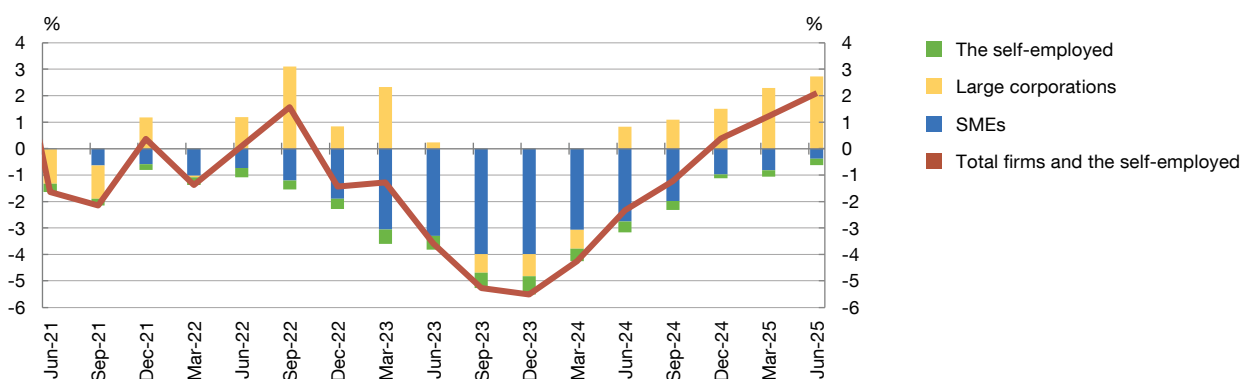
Chart 3.6

Growth in lending to firms and the self-employed was relatively stronger in construction and real estate activities, while, by firm size, it was concentrated entirely among large firms

3.6.a Contributions to the year-on-year rate of change in lending to firms and the self-employed resident in Spain, by sector. Business in Spain. Individual data (a) (b)



3.6.b Contributions to the year-on-year rate of change in lending to firms and the self-employed resident in Spain, by firm size. Business in Spain. Individual data (a) (b)



SOURCE: Banco de España. Latest observation: June 2025.

- a The "Firms and the self-employed" category denotes the institutional sectors of NFCs and sole proprietors.
b Lending by deposit institutions' branches in Spain.
c The three largest sectors excluding construction and real estate activities are: trade and repairs, transportation and storage and professional, scientific and technical activities.



(with growth of 12.4%) and households (with growth of 17.4%), where loans for house purchase stand out due to a year-on-year rise of 32%.¹⁷

However, in Spain the stock of bank lending to the resident private sector¹⁸ has grown at a slower pace in recent months. The momentum¹⁹ indicators for growth in lending to firms and

- 17 This rate is calculated by comparing the aggregate flow of new lending in the 12 months to June 2025 with that in the 12 months to June 2024, allowing the change in new lending to be compared with the change in the stock of credit. It is, therefore, different from the rate in Chapter 4, where the aim is to analyse the latest signal (over the past few quarters) in new lending dynamics.
- 18 The resident private sector includes households, non-financial corporations (NFCs), the self-employed (also referred to as sole proprietors) and non-bank financial institutions (e.g. insurance companies).
- 19 The credit growth momentum indicator shows the annualised quarter-on-quarter rate of change in the three-month moving average of the seasonally adjusted credit stock.

Chart 3.7

Momentum indicators for lending to firms, households and the self-employed point to greater dynamism in Spain than in the euro area as a whole, despite the slowdown in corporate lending in August (a)

3.7.a Momentum indicator for the stock of loans to resident firms, households and the self-employed. Business in Spain. Individual data (a)



SOURCE: ECB. Latest observation: August 2025.

a Note A2.3.1.4.2 in Annex 2.

households and the self-employed accelerated in 2025 H1 more sharply than in other European countries (Chart 3.7). However, the available data for August point to a certain slowdown in lending to firms. For this segment, the annualised indicator stood at 1.8% in August 2025, almost 2 pp less than in June. In lending to households, the indicator stood at 4.2% at the same date.

At consolidated level, the stock of credit with foreign private counterparties fell in year-on-year terms, owing partly to exchange rate developments. In June 2025 it contracted by 0.1%, contrasting with the 4.4% increase observed 12 months earlier. By material geographical area, the stock of credit declined across most regions, except Türkiye,²⁰ falling by 9.1% in Brazil, 2.8% in the United States, 2% in Mexico and 1.9% in the United Kingdom. A significant part of this behaviour is explained by the depreciation of these countries' currencies against the euro.²¹

Credit quality

In the first half of the year the decline in non-performing and stage 2 loans to the resident private sector gathered pace. The continuation of this downward trend was favoured by economic growth and improved financing conditions, which reduce borrowers' debt burden. Specifically, non-performing loans (NPLs) decreased by 10.9% between

²⁰ In the case of Türkiye, the robust growth of the business amid high inflation, together with a slight easing of the reference rates since May, has more than offset the negative impact stemming from the depreciation of the Turkish lira.

²¹ Between June 2024 and June 2025, the Mexican peso depreciated against the euro by 11.7%, the US dollar by 8.7%, the Brazilian real by 7.1% and the pound sterling by 1%.

June 2024 and June 2025, while stage 2 loans²² fell even more sharply, with an aggregate year-on-year decline of 16.5%.

NPLs declined across nearly all segments. However, within households they rose in the consumer loan portfolio (+3.2%), although they fell in the house purchase segment (-16%). For firms, the decline was 9.8%. Stage 2 loans saw improvements across the board.

NPL and stage 2 ratios in the resident private sector performed favourably in 2025 H1. This was driven by a reduction in credit volumes in both risk categories and an increase in the total stock of loans. In June 2025, the NPL ratio for the resident private sector as a whole improved across the board, declining by 0.4 pp to 2.9% (Chart A2.3.1.4.3 in Annex 2). The stage 2 ratio fell to 5.7%, 1.3 pp less than in June 2024 (Charts 3.8.a and 3.8.b). The NPL ratio remains on a downward path in the latest data (for August).

The outstanding amount of the loan portfolio backed by the Official Credit Institute's (ICO) COVID-19 guarantee facility²³ continued to decrease in recent quarters. This amount stood at €29 billion in July 2025, 35.8% less than a year earlier. NPLs in this portfolio dropped by 2.3% over this period, while stage 2 loans did so much more sharply, by 43.7%. Despite this strong performance, the decline in the outstanding amount of ICO-backed loans – which largely stems from the fact that this is a closed portfolio where no new loans are granted but repayments continue – caused the stage 2 ratio to only decrease by 2.9 pp (to 20.5%) and the NPL ratio to rise by 9.5 pp (to 27.8%).²⁴

Refinanced and restructured transactions have remained on the downward path of recent years, in both the household and firm segments.²⁵ Specifically, of the stock of loans to households in June 2024, 0.2% was refinanced or restructured up to June 2025. In the case of firms, this proportion stood at 0.5%. These figures are slightly below those of recent years and significantly lower than in the period June 2020–June 2022, when the rate for households ranged from 0.3% to 0.5% and that for firms from 0.9% to 1.9%.

Meanwhile, the flow of renegotiations and roll-overs appears to have picked up in the firms and the self-employed segment. These are loans involving changes in their terms and conditions to borrowers showing no sign of financial difficulty. In the 12 months to June 2025 they accounted for 15% of the outstanding balance a year earlier, thus prolonging the rising trend of previous years, in a context marked by interest rate changes (Chart A2.3.1.4.4 in Annex 2).

22 Pursuant to Circular 4/2017, a loan is classified as a stage 2 exposure when credit risk has increased significantly since initial recognition, but no default event has occurred.

23 Royal Decree-Laws 8/2020, 25/2020 and 34/2020 enacted and regulated the State guarantee facilities for firms and the self-employed. These facilities aimed to address the liquidity needs generated by the restrictions on activity and movement imposed to combat the COVID-19 pandemic. In mid-2021 this loan portfolio amounted to over €90 billion.

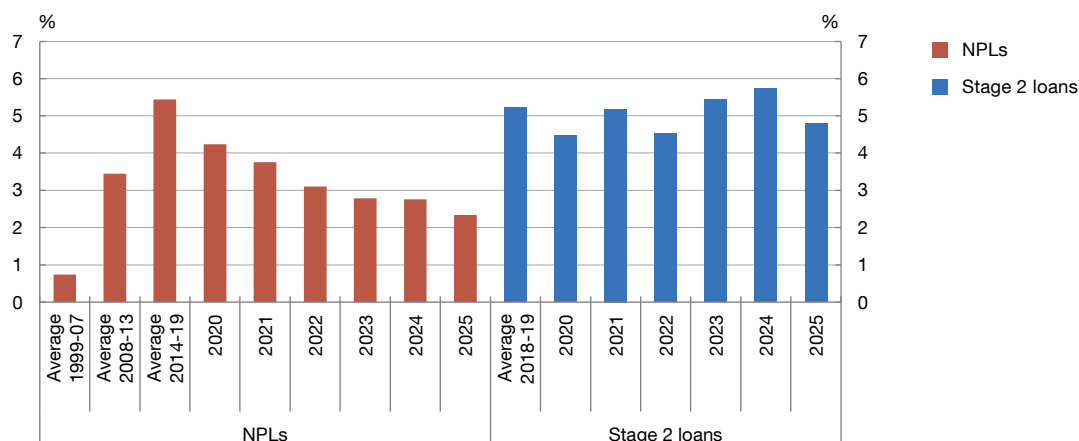
24 Had the amount of these loans (the ratio's denominator) remained constant at its July 2024 level, the NPL ratio would have decreased by 0.4 pp to 17.8%. Under the same assumption, the stage 2 loan ratio would have declined by 10 pp to 13.1%.

25 Refinancing is granted to facilitate the compliance of borrowers in financial difficulties with one or more (refinanced) transactions; restructuring is where the contractual terms are amended to facilitate payment of the debt due to the borrower's difficulty to pay. By contrast, renegotiation is where the financial conditions are amended without the borrower being in financial difficulties, and a roll-over is a loan arranged to replace another previously extended by the bank without the borrower being in financial difficulties.

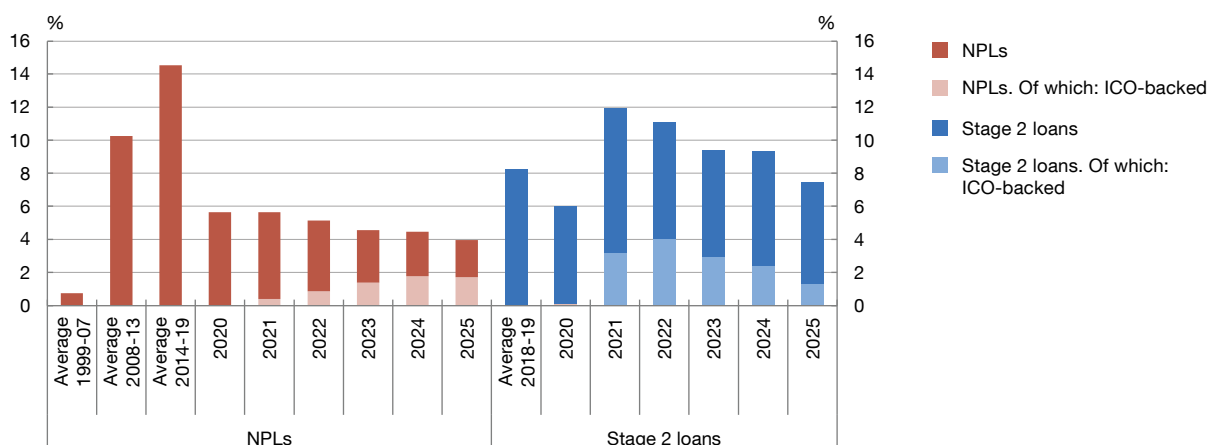
Chart 3.8

The NPL and stage 2 ratios continued to decline both for households and for firms and the self-employed

3.8.a Share of loans to households resident in Spain classified as non-performing and stage 2. June of each year. Business in Spain. Individual data (a)



3.8.b Share of loans to firms and the self-employed resident in Spain classified as non-performing and stage 2. June of each year. Business in Spain. Individual data (a) (b)



SOURCE: Banco de España. Latest observation: June 2025.

a Lending by deposit institutions' branches in Spain.

b The figures for firms and the self-employed correspond to data reported for NFCs and sole proprietors. Lighter colours show the contribution to the ratio of ICO-backed loans to NFCs and sole proprietors.



At consolidated level, the quality of Spanish banks' loans to foreign counterparties held steady between June 2024 and June 2025, with some heterogeneity across jurisdictions. For business abroad overall, the NPL ratio stood at 3% in June 2025, 0.1 pp less than in the same month of 2024. The ratio increased moderately in Brazil (by 1.6 pp, to 8.9%) and marginally in Türkiye (by 0.4 pp, to 4.6%), while in other key jurisdictions the ratio observed was similar to last year's.

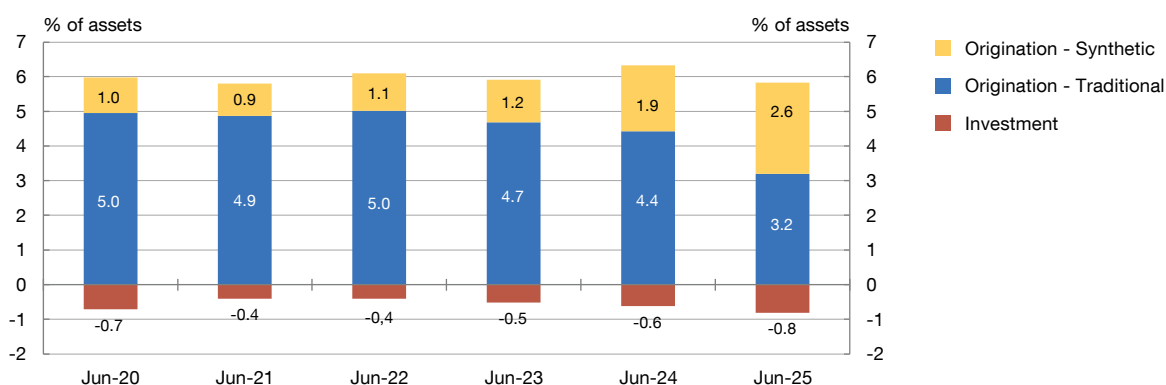
Securitisations

The outstanding amount of securitisations originated by Spanish banks in Spain and abroad has held steady in recent years, with synthetic securitisations accounting for a

Chart 3.9

Securitisations as a share of the consolidated balance sheet have remained stable in recent years, with an increasingly higher share of synthetic securitisations

3.9.a Ratio of the outstanding amount of originations (distinguishing between synthetic and traditional securitisations) and investment in securitisations to total consolidated assets (a)



SOURCE: Banco de España. Latest observation: June 2025.

a Note A2.3.1.4.6 in Annex 2.

growing share of this amount. In June 2025 the stock of securitisations amounted to €230 billion, a figure comparable to the average for the period 2020-24 (€231 billion). The ratio of the outstanding amount of securitisation originations to the consolidated total assets of banks acting as originators or investors in these financial instruments stood at 5.8%, near the 2020-24 average (6%) (Chart 3.9). Synthetic securitisations as a share of total securitisation originations have increased from 17% in 2020 to 45% in June 2025 and now account for 2.6% of consolidated assets. Meanwhile, the ratio of the outstanding amount of investment in securitisations to total consolidated assets was just 0.8% in June 2025. Lastly, within the group of originating banks, the ratio between the amount of new origination transactions backed by loans granted in Spain and new lending to households and firms in Spain was 11% in June 2025, up 1.3 pp on June 2024 (Chart A2.3.1.4.5 in Annex 2).

3.1.5 Financing conditions and liquidity

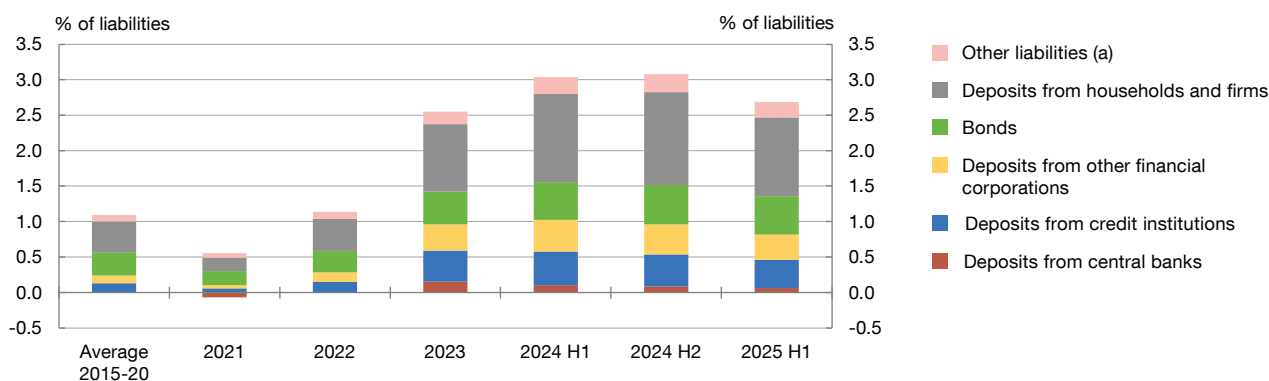
Cost of liabilities

In 2025 H1 the reduction in reference interest rates was passed through to the average cost of liabilities, albeit not fully. The average cost of liabilities decreased to 2.7% in annualised terms, down from 3.1% in 2024 H2 (Chart 3.10.a). This reduction was driven mainly by deposits from households and firms, particularly by the decline in their cost in business in Spain (Chart A2.3.1.5.1 in Annex 2). The lower cost of interbank funding and funding from other financial corporations also contributed to the decrease in the average cost of liabilities. However, the reference interest rate cut was not fully passed through, resulting in a smaller reduction in the average cost of liabilities (Chart 3.10.b). This partial pass-through of both

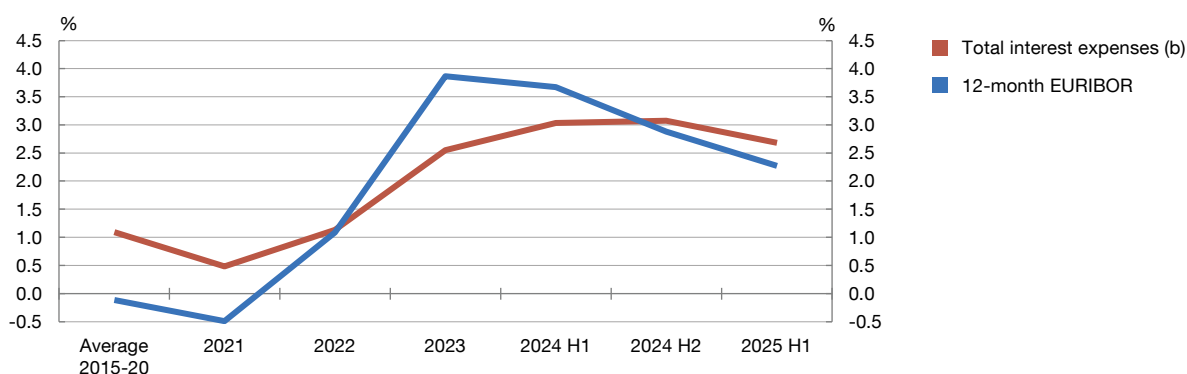
Chart 3.10

The decrease in reference interest rates drove down the average cost of liabilities in 2025 H1

3.10.a Interest expenses as a share of liabilities. Consolidated data



3.10.b Interest expenses as a share of liabilities and 12-month EURIBOR. Consolidated data



SOURCE: Banco de España. Latest observation: June 2025.

- a Includes interest paid on liabilities to general government and other interest expenses associated with other financial liabilities and other liabilities.
 b Expressed as a percentage of total liabilities. Excludes expenses associated with interest rate hedge derivatives.



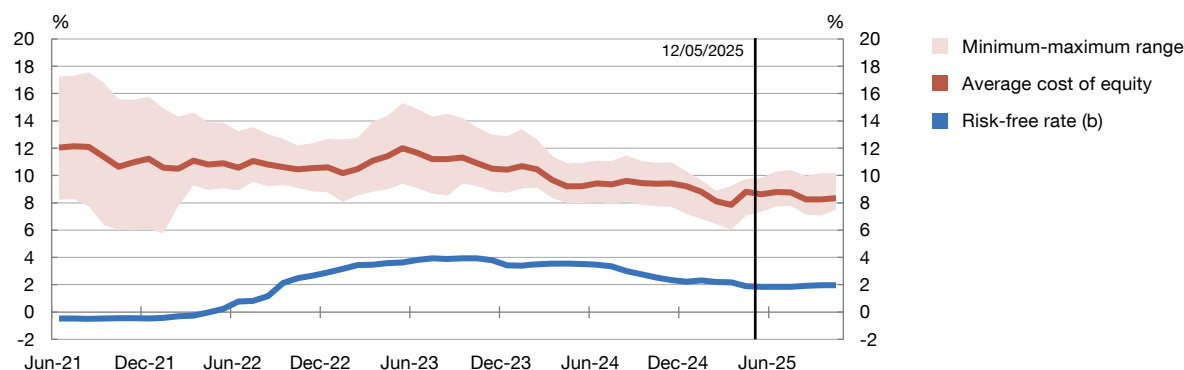
upward and downward reference market rate movements reflects the high share of retail funding in Spanish banks' liability structure.

The average cost of new debt issued by Spanish banks remained stable in 2025 H1. This stability was thanks to the decline in risk-free reference interest rates, which offset the upward pressure associated with other market factors and the degree of subordination and maturity of new issuances (Chart A2.3.1.5.2 in Annex 2). In the case of senior unsecured debt and senior non-preferred debt, the spread between Spanish banks' issuance costs and the sovereign bond narrowed, falling in line with or even below the average spread for other European banks (Charts A2.3.1.5.3 and A2.3.1.5.4 in Annex 2).

Cost of equity

Spanish banks' cost of equity (COE) has held steady since May at historically moderate values. The COE for Spanish banks has dropped by around 0.4 pp since the publication of the

Chart 3.11

The cost of equity has remained broadly stable since May 2025**3.11.a Cost of equity of the main Spanish listed banks (a)**

SOURCES: Banco de España, Refinitiv Eikon, Datastream and Consensus Economics. 12/05/2025 was the cut-off date for the last FSR. Latest observation: 29 October 2025.

- a** The average and minimum-maximum range of the COE are based on four dividend discount models: Ohlson and Juettner-Nauroth (2005), simplified Ohlson and Juettner-Nauroth (2005), Fuller-Hsia (1984) and Altavilla et al. (2021). See L. Fernández Lafuerza and M. Melnychuk. (2024). "Revisiting the estimation of the cost of equity of euro area banks". *Financial Stability Review - Banco de España*, 46, pp. 24-46.
- b** The risk-free rate used is the 1-year overnight index swap (OIS) in euro.

last FSR, to between 7.5% and 10.2% at the cut-off date for this report, depending on the method used to estimate it. The current level is low by historical standards and stands below that observed in December 2024 (Chart 3.11).²⁶ The range of COE estimates lies below the Spanish banking system's ROE (14.6% in June 2025, see Section 3.1.1).

Liquidity

Spanish banks' liquidity remains comfortably above the required threshold. In September 2025 Spanish banks' overall liquidity coverage ratio (LCR) stood at 174.4%, compared with 181.4% a year earlier. Despite this decline, which was broad-based across banks, the LCR is well above the regulatory minimum of 100% and remains slightly higher than the average LCR of the main European banks.²⁷

The Spanish banking system's stable funding is also at comfortable levels. The net stable funding ratio (NSFR), which measures banks' longer-term funding capacity, stood at 135.3% in June 2025 (up 4.2 pp on a year earlier), a solid position that is also above the European average.²⁸

²⁶ The COE is the return investors demand to buy a firm's shares. It is unobservable and its estimation is subject to significant uncertainty. The values presented here are the average value and the minimum-maximum range of four dividend discount models, calculated as the weighted average estimate for the main Spanish listed banks. See Luis Fernández Lafuerza and Mariya Melnychuk. (2024). "Revisiting the estimation of the cost of equity of euro area banks". *Financial Stability Review - Banco de España*, 46, pp. 24-46.

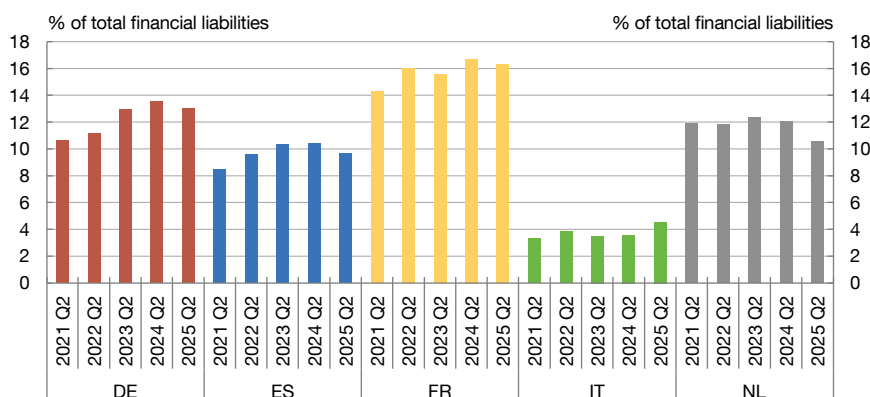
²⁷ According to EBA data, in June 2025 the main Spanish banks had an LCR of 164.9%, compared with an average of 161.6% for European banks overall.

²⁸ According to EBA data, in June 2025 the main Spanish banks had an average NSFR of 133.2%, compared with an average of 127.2% for European banks overall.

Chart 3.12

Spanish banks are less exposed to dollar funding via cross-border positions and local positions outside the United States than most peer European banking systems

3.12.a European comparison of the percentage of dollar funding in cross-border and foreign currency-denominated local positions (a)



SOURCE: BIS. Latest observation: June 2025.

a The data used, taken from the BIS' Locational Banking Statistics, aggregate the liabilities of individual banks at consolidated group level. They therefore include intra-group operations. Dollar funding comprises cross-border funding in dollars and funding obtained through banks' local positions excluding local positions in the United States.

Funding risk in Spanish banks' key operating currencies is limited and, in the case of the dollar, lower than in peer European banking systems. The LCR and the NSFR can also be calculated by currency, for the currencies relevant to a bank's operations. For Spanish banks overall both ratios exceeded 100% in all relevant currencies, mitigating funding risk in those currencies. Spanish banks' funding risk in US dollars (whether through cross-border positions or local positions outside the United States)²⁹ is lower than at other European banks. According to data from the Bank for International Settlements (BIS), in June 2025 9.7% of Spanish banks' financial liabilities were dollar-denominated liabilities in such positions, compared with 13% for German banks and 16.3% for French banks (Chart 3.12).

3.2 Non-bank financial sector

Overall non-bank financial sector developments

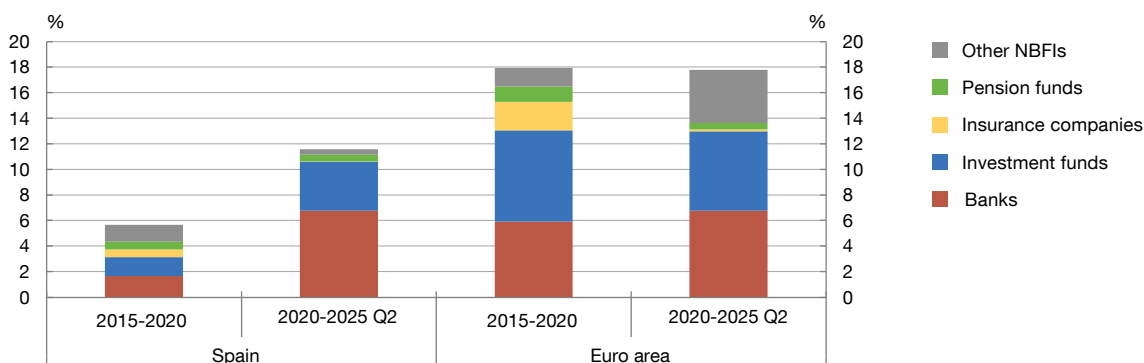
Over the last decade the dynamism of the non-bank financial intermediary (NBFI) sector has contributed notably to financial asset growth in both Spain and the euro area as a whole. Between 2015 and 2020 the NBFI sector was responsible for most of the growth in financial assets in both jurisdictions (Chart 3.13.a). Between 2020 and 2025 Q2 developments in the euro area as a whole were similar to those observed in the previous five years. By

²⁹ Dollar funding obtained by US subsidiaries through their retail activity primarily comprises local deposits. These deposits are more stable and less exposed to external tensions than funding via cross-border positions or dollar operations in the local business of countries other than the United States.

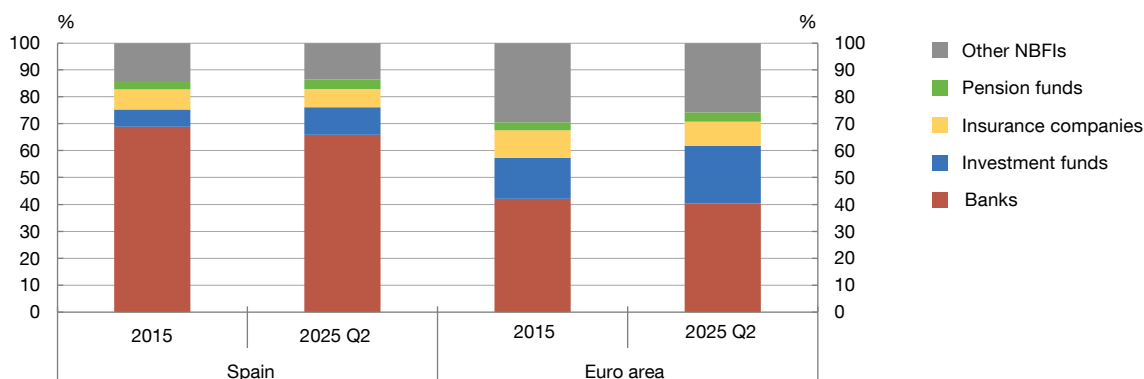
Chart 3.13

Over the past decade the NBFIs sector has contributed notably to financial asset growth in both Spain and the euro area, although it continues to account for a much smaller share of total assets in Spain

3.13.a Contribution of each sector to financial asset growth in Spain and the euro area. Non-consolidated data (a) (b)



3.13.b Weight of the banking and non-bank financial sectors in total assets of both sectors in Spain and the euro area. Non-consolidated data (a) (b)



SOURCES: Banco de España and ECB. Latest observation: June 2025.

a Note A2.3.2.1 In Annex 2.

b See Chart A2.3.2.2 in Annex 2 for more information about the composition of the "other NBFIs" sector.



contrast, in Spain the banking sector contributed somewhat more to financial asset growth than the NBFIs sector during this period. As a result of these dynamics, by the end of 2025 Q2 the NBFIs sector accounted for 34.1% of total financial assets in Spain (almost 3 pp more than in 2015), while in the euro area it accounted for 59.7% (Chart 3.13.b).³⁰

Investment funds have played a key role in this expansion. This was the case in Spain and the euro area as a whole³¹ in both five-year periods. Domestically, investment funds played a more prominent role between 2020 and 2025 accounting for practically all NBFIs sector growth.

³⁰ The Financial Stability Board (FSB) also documents the expansion of the NBFIs sector worldwide. For more details, see Financial Stability Board. (2024). *Global Monitoring Report on Non-Bank Financial Intermediation*.

³¹ Since end-2015 total assets managed by investment funds have increased by 79.9% in Spain and 92.7% in the euro area.

In the euro area as a whole, their contribution to NBFIs sector growth over the periods 2015-20 and 2020-25 remained more consistent. Other non-bank sectors have also contributed significantly to the expansion of the NBFIs sector.

Global risks tied to liquidity and leverage in some NBFIs have been identified. These factors could amplify the impact of potential shocks on financing conditions and availability. The FSB has published a series of reports and recommendations aimed at better managing these risks in the NBFIs sector.³²

Investment funds

The total assets of Spanish investment funds continued to grow in 2025 H1. Specifically, these funds grew by 5.7% during this period. A similar trend, albeit less pronounced, was likewise observed in the euro area as a whole, with growth of 1.3%.

In 2025 H1 the assets under management of Spanish equity funds showed minimal growth, while fixed-income and mixed funds posted cumulative increases. Specifically, the value of assets under management in fixed-income and mixed funds rose by 5.8% and 3.4%, respectively. As a result, fixed-income funds remain the leading segment in Spain's investment fund sector, accounting for 39% of total assets (22.1% in the euro area). By contrast, equity funds represent just 14.6% of the Spanish market, while in the broader euro area they constitute the predominant segment (34.7% of the total).

Overall, investment funds domiciled in Spain have low leverage levels, below those of euro area funds. The leverage ratio³³ for Spanish funds stands at close to 100%, reflecting virtually zero debt (Chart 3.14).³⁴ This sets the Spanish market apart from the euro area as a whole, where leverage is higher across all fund categories (by fund type). The difference is particularly evident in hedge funds, with leverage ratios in 2025 Q2 of 102.8% in Spain compared with 156.2% in the euro area.³⁵ This provides investment funds domiciled in Spain with some resilience against potential market shocks, thereby limiting the transmission of stress through to other markets or financial intermediaries. However, by their very nature, abrupt and pronounced market corrections would erode funds' net asset values and could drive up fund outflows.

Spanish investment funds' liquidity levels have declined across all fund types compared with previous years, yet remain higher than for euro area funds overall. In 2025 H1 average

³² See, for example, [Liquidity Preparedness for Margin and Collateral Calls](#) and [Leverage in Nonbank Financial Intermediation](#).

³³ The leverage ratio for investment funds is measured as total assets under management over the value of shares/units issued.

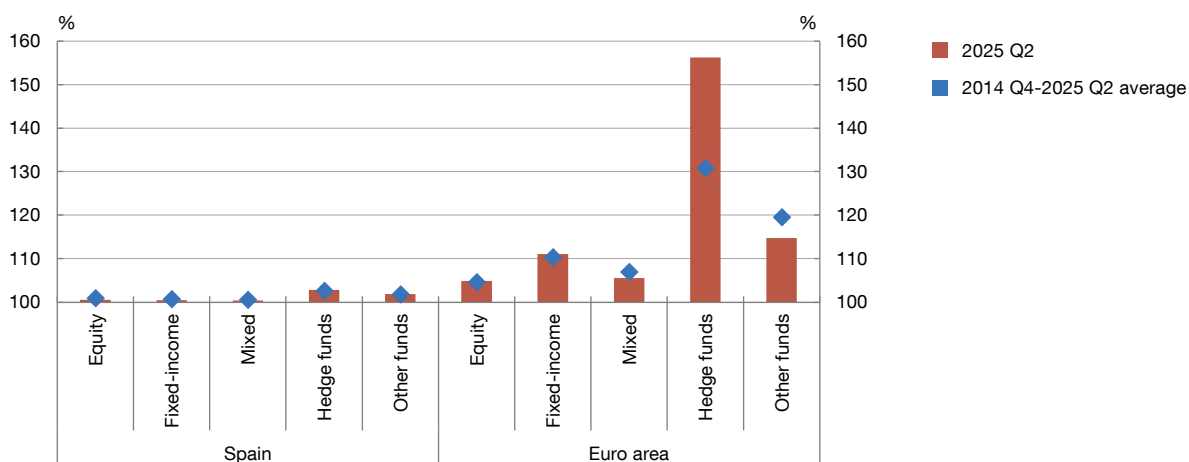
³⁴ Further leverage can be accumulated through exposure to derivatives. In any event, the leverage ratio of funds domiciled in Spain at end-2024 was low even considering such exposure: 110.5% for fixed-income funds, 114.3% for equity funds and 119.7% for mixed funds.

³⁵ In any event, hedge funds account for only a minor share of the sector, at just 1.6% of total funds in Spain and 2.2% in the broader euro area.

Chart 3.14

Spanish investment funds have low leverage, less than comparable funds in the euro area

3.14.a Leverage, by fund type. Spain and euro area (a) (b)



SOURCES: Banco de España and ECB.

a, b Note A2.3.2.3 in Annex 2.

liquidity ratios³⁶ in Spain stood at 5.6% for equity funds, 5% for fixed-income funds and 4% for mixed funds (Chart 3.15), above the levels for euro area-domiciled funds (2.2%, 3.3% and 4%, respectively). Among Spanish funds, the drop in liquidity ratios observed to March 2025 was sharper for fixed-income and mixed funds (3.8 pp and 3.7 pp, respectively, on the 2018-25 average) than for equity funds (a more moderate 1 pp below the 2018-25 average). In any event, these lower liquidity ratios do not necessarily represent a significant risk factor. First, this decline may have been influenced by the use of new liquidity management tools³⁷ and, second, a full assessment requires an examination of liquidation risk, as follows.

The risk of funds liquidating assets due to large-scale redemptions is low compared with the levels observed over the past decade. For instance, in 2025 H1 the percentage of total assets potentially affected by unusually high redemptions³⁸ was 2% for equity funds,

³⁶ The liquidity ratio for investment funds is measured as cash over total assets under management. This is a restrictive definition of liquidity, as funds also have other high-quality assets, such as highly liquid euro-denominated government debt. This metric enables a historical comparison of liquidity with that of euro area funds by fund type. However, there are broader alternative metrics for which only data on funds domiciled in Spain are available. For instance, the ratio of high-quality liquid assets (HQLAs) – which, in addition to cash, includes high-quality government debt – stood at 38.1% for fixed-income funds, 8.92% for equity funds and 20.62% for mixed funds in December 2024.

³⁷ These developments may have been influenced by the use of new liquidity management tools. One such example is swing pricing, whereby fund managers apply a “swing price factor” to adjust a fund’s net asset value in times of stress, penalising investors who sell their units. This mechanism protects investors who remain in the fund from dilution and indirectly eases liquidity pressures by discouraging redemptions in adverse scenarios, thereby reducing the need to maintain high liquidity levels.

³⁸ A fund is potentially affected by unusually high redemptions when the ratio of net capital flows to total assets is below the 10th percentile of the historical distribution (2013 Q4 - 2025 Q2) for the same fund type. Among these funds, the assets affected by high redemptions are those equivalent to the proportion of negative net flows exceeding the historical 10th percentile. For instance, if a fund has net flows equivalent to -10% of its total assets and the historical 10th percentile is -5%, then an estimated 5% of its assets are potentially affected by high redemptions.

Chart 3.15

In June 2025 Spanish investment funds' liquidity levels were lower than in previous years, but higher than for the euro area overall

3.15.a Liquidity ratio in 2018 Q1-2025 Q2, by fund type. Spain and euro area (a) (b)



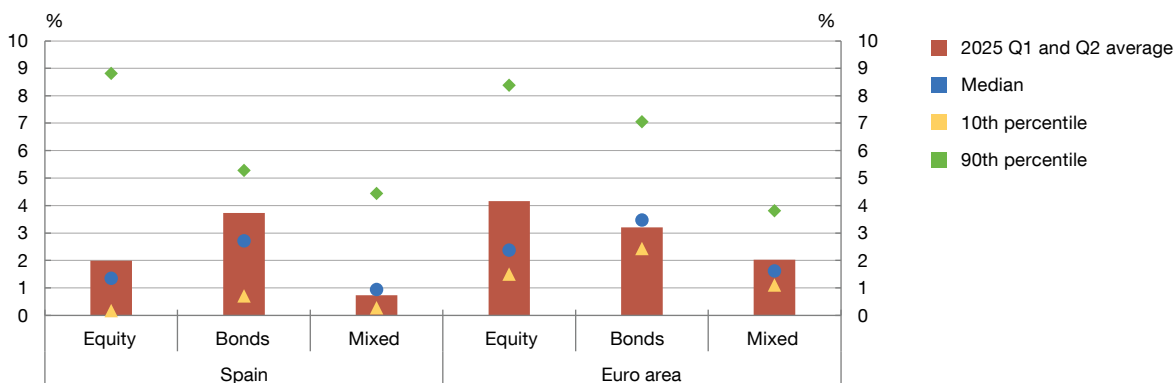
SOURCES: Comisión Nacional del Mercado de Valores and Lipper Refinitiv for Asset Management.

a, b Note A2.3.2.4 in Annex 2.

Chart 3.16

The percentage of assets potentially affected by large-scale redemptions is low compared with the values observed since 2013

3.16.a Assets potentially affected by large-scale redemptions, by fund type. Spain and euro area (a) (b)



SOURCE: Refinitiv Lipper for Asset Management.

a, b Note A2.3.2.5 in Annex 2.

3.7% for fixed-income funds and 0.7% for mixed funds (Chart 3.16). This percentage was slightly higher for funds domiciled in the euro area (4.2%, 3.2% and 2%, respectively). However, in both Spain and the euro area the percentage of assets potentially affected by unusually high redemptions remains well below the levels recorded between 2013 and 2025. In any event, it is worth bearing in mind that the hypothetical liquidation of assets in a crisis

represents a potential systemic risk. Spanish, European and global funds selling off these assets could drive down their prices and this could impact other financial institutions that hold them in their portfolios.

Pension funds

In June 2025 Spanish pension fund benefit payments continued to exceed gross contributions, although the gap narrowed by 20% year-on-year.³⁹ Gross contributions were 1.2% higher in June 2025 than a year earlier, despite the lower fiscal incentives available since 2021.⁴⁰ Benefit payments, meanwhile, were down by nearly 5.7%. In addition, total pension plan assets increased by close to 3% year-on-year to June 2025, primarily driven by rising financial markets, which offset the net negative contributions.

Moreover, short-term profitability has declined markedly, reversing the upward trend that began in late 2022. One-year profitability stood at 4.4% in June 2025, down from 8.4% in June 2024. Long-term profitability (over 25 years) declined more moderately, from 2.3% in June 2024 to 2.2% in June 2025.⁴¹ Should the risk of market corrections materialise, they would likely impair the sector's profitability further and weigh on its asset values.

Insurance companies

The volume of premiums in the Spanish insurance sector increased by 12.2% year-on-year in 2025 H2, driven chiefly by a buoyant life insurance business. Specifically, life insurance premiums grew by 18.2% on June 2024,⁴² while non-life premiums rose by 8%. As a result, the life insurance business' relative share of total premiums rose from 40.6% in June 2024 to 42.8% in June 2025. This stands in contrasts to the drop in premium volumes in the life insurance business and in the insurance sector as a whole over 2024. At end-2025 Q2 the sector's total assets had grown 4.9% on a year-on-year basis.

Profitability in the insurance sector continued its gradual improvement, while solvency held stable. The return on equity stood at 8.2% at end-2025 Q2, up by around 1 pp on a year earlier, shoring up the growth trajectory that began in 2023. The solvency ratio – measured as eligible own funds over the solvency capital requirement – remained stable at high levels, reaching 239.9% in 2025 Q2, just 2 pp below the end-2024 level and in line with the stability observed over the past decade.

³⁹ Net contributions to pension funds are calculated as the difference between gross contributions and benefit payments.

⁴⁰ The maximum pension fund contribution amount that is deductible for personal income tax purposes declined from €8,000 per year in 2020 to €2,000 in 2021 and €1,500 in 2022 (see Article 59(2) of the [State Budget for 2022](#)).

⁴¹ Short and long-term profitability refers to the time horizon over which the annual average returns of pension funds are measured.

⁴² This rise was driven by low interest rates, which spurred overall credit growth, a significant portion of which is tied to life insurance products.

Despite overall growth in consumer credit, special lending institutions (SLIs) saw their consumer lending business shrink in 2025 H1. The drop in the period amounted to 3.2%, although the year-on-year change in June 2025 held in positive territory (2.3%). As a result, there was a decrease in SLIs' market share of the total consumer credit provided by SLIs and banks (down by 1.2 pp since last December to 18.9%).⁴³ The share of consumer credit in total lending extended by SLIs also shrank (by 0.4 pp in the last six months, to 45.2%).

As for credit quality, the NPL ratio for consumer loans extended by SLIs edged up in 2025 H1. Specifically, the ratio rose by 0.2 pp to 3.7%, still well below the figure for the banking sector in this product segment (4.1%). The ratio is likewise below that for the overall SLI credit portfolio (5.4%), despite the latter falling by 0.2 pp in H1. Meanwhile, the share of SLI consumer credit classified as stage 2 rose by 0.2 pp compared with December 2024, reaching 6.4% (6.6% for banks as a whole, following a drop of 0.7 pp).

3.3 Systemic interconnections

Interbank interconnections of Spain's main banks are globally balanced between assets and liabilities. Overall, financing extended by Spanish banks to other credit institutions accounted for 7.9% of their total assets in June 2025. This financing is mostly in the form of interbank loans, predominantly with euro area counterparties and, to a lesser extent, counterparties in other advanced or Latin American economies. Financial liabilities with other credit institutions represented 7.7% of assets at end-2025 H1. Like financing extended, funding received is mainly channelled through interbank loans, with a geographical distribution of counterparties similar to that on the asset side (Chart 3.17.a).

Interconnections with NBFIs worldwide are stronger on the asset side than on the liabilities side, with greater concentration among non-euro area counterparties. In June 2025 financing extended to NBFIs, essentially through loans, accounted for 7.9% of major Spanish banks' total assets. More than half of this financing was to counterparties domiciled in non-euro area advanced economies, primarily the United States and the United Kingdom. Funding received, mainly via deposits, represented 7% of assets. Here, counterparties were somewhat less concentrated among other advanced economies, with Spanish and Latin American counterparties featuring more prominently (Chart 3.17.b).

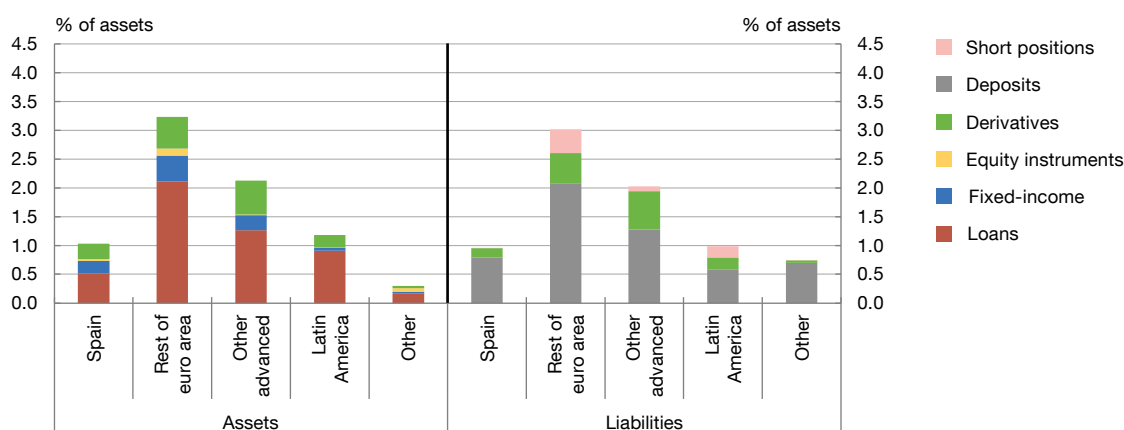
Spanish banks' interconnections with the global banking sector remain at levels similar to those of 2017. In year-on-year terms to June 2025, interbank liabilities held stable, while interbank positions on the asset side decreased by a slight 0.8 pp as a share of total consolidated assets. The interbank business has shown some volatility in recent

⁴³ During the reference period no SLIs exited the market as a result of mergers or absorptions by banks.

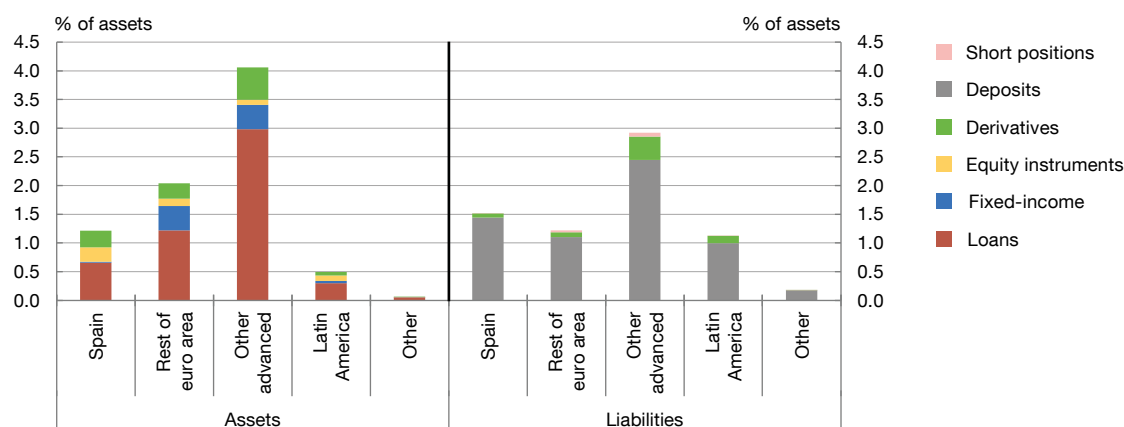
Chart 3.17

Interconnections with the financial sector represent around 15% of the consolidated assets of the major Spanish banks and are mainly concentrated in the euro area and other advanced economies

3.17.a Spanish banks' exposure to credit institutions, by residence of the counterparty. June 2025. Consolidated data. Significant institutions (a)



3.17.b Spanish banks' exposure to other financial institutions, by residence of the counterparty. June 2025. Consolidated data. Significant institutions (a)



SOURCE: Banco de España. Latest observation: June 2025.

a Data for the eight significant institutions reporting the geographical breakdown of liabilities by residence of the counterparty. At June 2025 the assets of banks reporting this information represented 97% of the assets of all significant institutions.



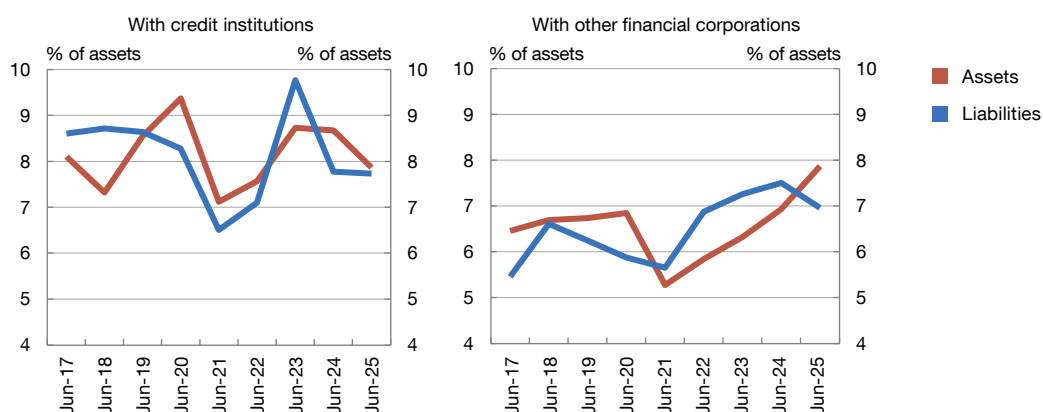
years, influenced by both central bank liquidity programmes and standard monetary policy decisions.

Business with other financial intermediaries has increased. On the asset side, interconnections with NBFIs continued to grow during the twelve months to June 2025, reaching their highest level since 2017. In that month the average exposure stood at 7.9% of total assets, an increase of 0.9 pp on a year earlier and up 1.3 pp on the average for the period 2017-25. Interconnections on the liabilities side were somewhat lower (7% of total consolidated assets in June 2025, down by 0.5 pp year-on-year). However, the most recent figure remains 0.5 pp above the 2017-25 average (Chart 3.18). In the absence of consolidated data comparable

Chart 3.18

Interconnections with other credit institutions remain at similar levels to 2017, while interdependence with the NBFIs sector has increased

3.18.a Exposure of the banking sector to credit institutions and other financial corporations. Consolidated data. Significant institutions (a)



SOURCE: Banco de España. Latest observation: June 2025.

a Data for the eight significant institutions reporting the geographical breakdown of liabilities by residence of the counterparty. At June 2025 the assets of banks reporting this information represented 97% of the assets of all significant institutions.



to those used in this analysis, BIS statistics⁴⁴ serve as the basis for an international comparison of Spanish banks' exposure. According to these data, the Spanish banking sector's exposure to NBFIs is relatively low within the EU, standing at the 38th percentile in terms of assets and the 31st percentile in terms of liabilities.

⁴⁴ BIS Locational Statistics, which include non-consolidated data on both local positions in the banks' country of residence and their cross-border activity.