SUPERVISION REPORT

2024

BANCO DE ESPAÑA
Eurosistema

SUPERVISION REPORT 2024

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Presentation by the Governor

José Luis Escrivá

A number of the tasks entrusted to the Banco de España involve ensuring the proper functioning of various elements of the financial system, all of which are crucial for citizens to access various services whilst maintaining confidence in the system itself.

The most well-known of these functions is the preservation of credit institutions' solvency and sound functioning, thus safeguarding savings that citizens and companies entrust to them. However, our work also includes the prevention of potential crises that might jeopardise the entire financial system and, consequently, citizens' savings.

Furthermore, we must ensure that payment systems and services function properly, so that all payment transactions are successfully completed. And, lastly, we must ensure an appropriate relationship between financial institutions and their customers to avoid misconduct.

In order to guarantee the achievement of these objectives, we carry out microprudential supervision and develop macroprudential policy, oversee compliance with regulations on payment services and market infrastructures, and supervise institutions' conduct. For us, this supervision is so crucial that nearly one in three Banco de España employees is dedicated to it.

In this Report, we provide an account of all the supervisory and oversight work we have carried out throughout 2024 in each of the areas I have mentioned because, in tandem with fulfilling its assigned functions, it is equally important for our institution to provide a detailed account of how it has done so and the measures it has taken.

As a result of this work, we have observed that the profitability of the Spanish banking sector improved in 2024, as the increase in net interest income and fee income exceeded that of costs and provisions. Capital ratios remained stable, comfortably exceeding regulatory requirements, yet far from the European average. The profits obtained last year were not used to narrow this gap with Europe.

Stress tests also showed that the Spanish banking sector would maintain adequate levels of aggregate solvency in both baseline and adverse scenarios. These tests are one of the tools we have in place to prevent potential individual and global problems and, therefore, they are fundamental to microprudential and macroprudential supervision.

We perform our supervisory work in a context of both internal and external changes. Among the internal changes, I would highlight two that occurred in 2024. First, the approval of the new framework for setting the countercyclical capital buffer, which establishes the CyCB target at 1% for intermediate risk and was gradually activated from 1 October, with a view to reaching the 1% target from October 2025. Second, with the aim of improving all the functions we perform, an assessment was carried out on the conduct supervision area, the outcome of which was very positive, since it received valuable recommendations for improving the customer protection task.

As for the external context, we live in a rapidly changing environment, especially due to the development of new technologies, which are not only modifying the competitive landscape for financial institutions but also regulations, one example of which is the European DORA regulation on operational resilience. Consequently, we are adapting our resources to this new context.

It is worth noting that this work is performed in an international context, where collaboration with other institutions enables us to be more effective. The Single Supervisory Mechanism, which celebrated its tenth anniversary in 2024, the Financial Stability Board and the European Banking Authority are some of the bodies we work with to ensure that we fulfil our functions. This Report contains all the relevant international activity that we also wish to provide a record of.

Lastly, this work is also framed within a context of changes within our own institution.

I trust you find this Report an interesting read.

José Luis Escrivá

Governor of the Banco de España

Interview with the Deputy Governor
Soledad Núñez

One of the Banco de España's functions is to protect banking customers and, to do so, one of the tools at its disposal is the supervision of institutions' conduct. Why is this instrument important?

Conduct supervision is fundamental to verifying that the relationship between banks and their customers is correct, clear and balanced. When we talk about supervision, everyone naturally thinks about the Banco de España overseeing institutions' solvency, which is one of our main tasks, but we go much further. As well as institutions' financial strength, confidence in the banking business is also based on appropriate customer treatment. For this reason, we oversee institutions' behaviour in relation to their customers.

When an individual goes to an institution to request a financial product, they may feel that they have much less information than their counterparty and that their counterparty might take advantage of this. The Banco de España's capacity to investigate institutions' conduct and ascertain their relationship with customers is key to ensuring that they act honestly and transparently, to detecting potential misconduct and to protecting bank customers.

What does this tool bring to the bank-customer relationship?

In my opinion, it brings balance, since it is, in theory, an unequal relationship, and the Banco de España can ensure that financial institutions comply not only with current regulations but also with what is considered to be good practice. Although everyone is aware of the possibility of filing complaints with the Banco de España, which is crucial for customer protection, this conduct supervision function goes much further and is of growing importance due to its preventive nature; I would venture to say that this trend will continue in the coming years.

In 2024, an evaluation of the Banco de España's conduct supervision was carried out by external experts. What were the main conclusions?

In this evaluation, conducted by leading experts on the matter, it was recommended that we change our traditional approach; we should not only look at whether institutions comply with regulations, but go a step further and take into account all risks of potential harm to customers. I believe this change in approach will be key to having a more comprehensive and preventive view of banks' conduct. Also, we have been asked to innovate in terms of the tools we use. It is very important to have as many tools as possible for detecting non-compliance. And we also need to reflect on whether we should review our disciplinary framework.

What is the Banco de España going to do in response to the experts' recommendations?

We have drawn up an action plan as a response to all of these recommendations, which we hope will serve to better perform this function. Naturally, we are working to change our approach, with the focus on potential harm to customers, and we are updating our supervisory tools. We have also made internal changes to improve our procedures with a view to becoming more efficient.

We want to attract talent from areas not commonly encountered in the supervisory function, i.e., areas that complement the profiles of economists and financial and regulatory experts, to give us a more comprehensive viewpoint. Lastly, we want to be more proactive when it comes to communicating the results of conduct supervision and establishing alliances with other supervisors with which we can share experiences, so that we can learn from one another. I believe that the action plan is very comprehensive and that it will allow us to make major improvements, furthering the cultural transformation of conduct supervision.

You mentioned that conduct supervision is of growing importance. How do you see this function of the Banco de España in a few years' time?

I believe we are at a crucial point regarding this function, not only because the external evaluation carried out will allow us to improve its performance, but also because, in this area, the future creation of the Financial Customer Protection Authority will reorganise the legal framework for consumer protection. This regulation transfers the reactive function — complaint resolution — to a newly created institution focussing on this reactive function, while the Banco de España will strengthen the preventive function — conduct supervision. In other words, we will have more capacity to prevent misconduct by financial institutions, thereby avoiding possible complaints in the future. Also, this law gives us new tools that will be very useful in improving supervision; this is the case with mystery shopping, i.e., the possibility of "infiltrating" institutions to find out how they really treat customers, which can be very useful for the purpose of enhancing our oversight capacity.

All of this will contribute to the objective of strengthening public confidence in the integrity of supervised institutions.

Chapter 1

Supervision and oversight at the Banco de España

Chapter 1
Takeaways

- The Banco de España has various supervisory powers over credit institutions and over other financial institutions or undertakings related to the financial system operating in Spain.
- It is responsible for the microprudential supervision of institutions, which aims to ensure their solvency and liquidity, as well as compliance with prudential regulations. The Banco de España performs this microprudential supervision function in two different areas: the supervision of credit institutions in the Single Supervisory Mechanism, under the responsibility of the European Central Bank, and the exclusive supervision of other institutions.
- It has the tools to carry out the functions entrusted to it in relation to macroprudential policy, which aims to safeguard financial stability through the prevention and mitigation of systemic risks and vulnerabilities.
- It is also responsible for the supervision of institutions' conduct, transparency of information and proper treatment of customers.
- It oversees payment systems and instruments and shares with the National Securities Market Commission (CNMV) the oversight of the financial market securities infrastructures.
- Also, it supervises the provision of payment services, as well as system operators, payment processors and other players involved in the payment chain, with a special emphasis on operational and security risk requirements.

1 Supervisory and oversight functions of the Banco de España

The Banco de España has supervisory powers over credit institutions and over other financial institutions or undertakings related to the financial system operating in Spain. These supervisory and oversight functions are summarised in Figure 1.1.

— Microprudential supervision aims to ensure the solvency and liquidity of institutions, as well as compliance with prudential regulations.

  - The microprudential supervision of credit institutions is exercised within the framework of the Single Supervisory Mechanism (SSM), jointly by the European Central Bank (ECB) and the national competent authorities of each country, including the Banco de España. The SSM seeks to ensure consistent and standardised supervision among the participating countries. The SSM's objectives, governance, participants and supervisory model can be found at this link.

  - Outside the scope of the SSM, the Banco de España is the supervisory authority of institutions other than credit institutions that provide services or perform activities related to the financial system. These institutions can be found at this link.

— The objective of macroprudential policy is to safeguard financial stability through the prevention and mitigation of systemic risks and vulnerabilities (see link).

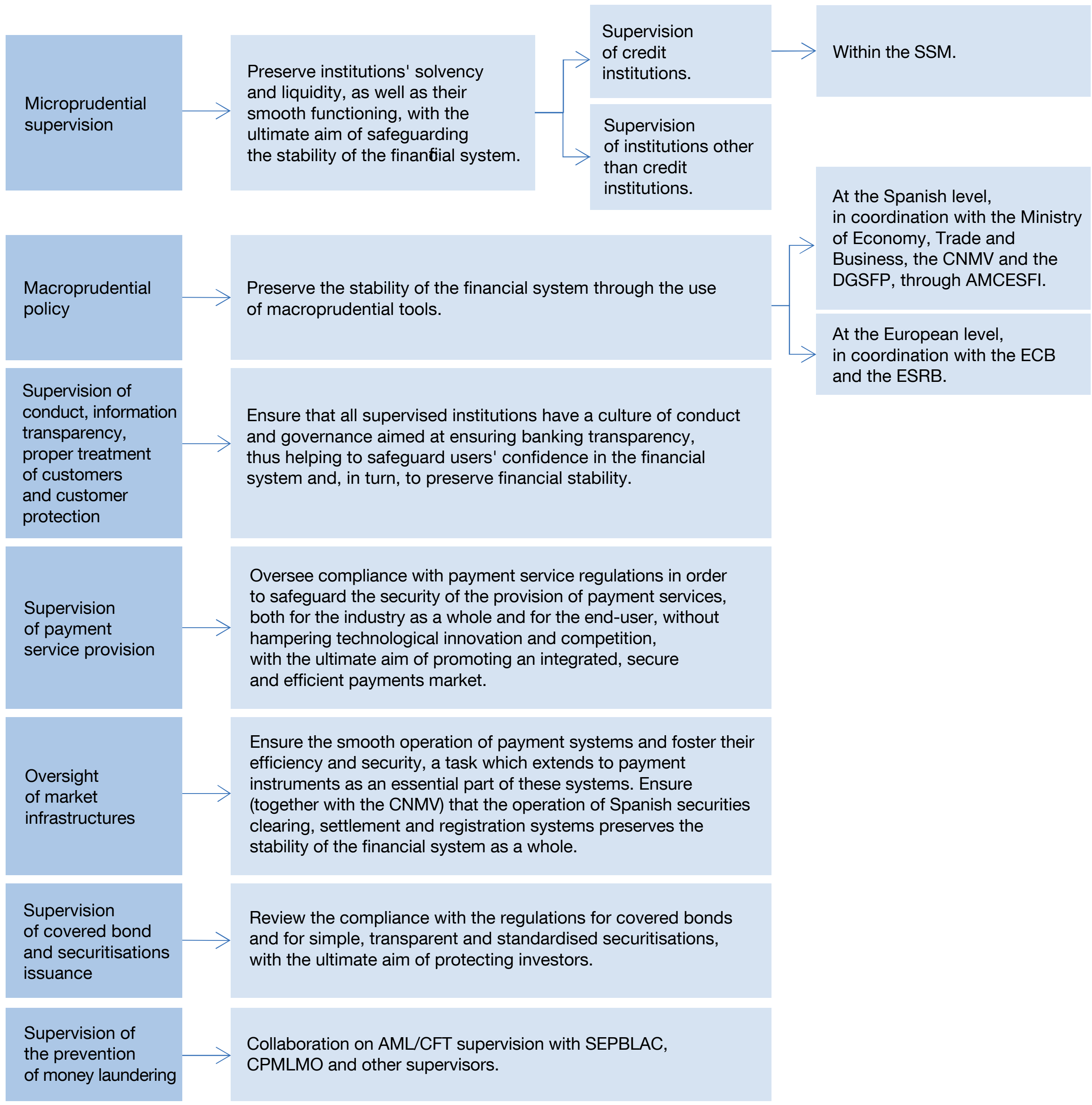
  - In the exercise of these functions, the Banco de España has macroprudential tools to prevent the accumulation and materialisation of systemic risks in the banking sector and to reduce the effects of their potential materialisation.

  - The Banco de España participates in the Spanish Macroprudential Authority Financial Stability Council (AMCESFI), together with the Ministry of Economy, Trade and Business, the National Securities Market Commission (CNMV) and the Directorate General of Insurance and Pension Funds (DGSFP). The AMCESFI aims to identify, prevent and mitigate the development of systemic risk factors and contribute to preserving the stability of the Spanish financial system as a whole.

— The Banco de España is also responsible for the supervision of institutions' conduct, transparency of information and proper treatment of customers. From a preventive supervision approach, and in addition to the verification of compliance with the rules, the objective is to strengthen institutions' culture towards a responsible banking model, as a way of guaranteeing an appropriate relationship between institutions and their customers. The functions in the area of conduct can be seen here.

— The Banco de España is responsible for overseeing the proper functioning of payment systems in Spain and for supervising Iberpay (operator of the National Electronic Clearing

Figure 1.1
Supervisory and oversight functions of the Banco de España



SOURCE: Banco de España.

System). Also, it shares with the CNMV the oversight of financial market securities infrastructures. More information on the oversight of payment systems can be found at this link. At the end of 2023, there was an increase in the Banco de España's supervisory powers, in the area of operational resilience, over payment system operators and other players involved in the payment chain.

- The supervision of the provision of payment services falls to the Banco de España, which ensures that payment service providers comply with their specific regulatory framework, placing special emphasis on operational and security risk requirements.

- Moreover, in recent years the Banco de España has assumed new supervisory functions regarding covered bond issues and simple, transparent and standardised securitisations, with the aim of increasing investor protection and strengthening its supervisory regime.

- The European regulation on markets in crypto-assets (known as MiCAR) introduced a specific regulation for this type of asset in Europe. In Spain, the CNMV is the competent authority for supervising compliance with the aforementioned regulation. Nevertheless, the Banco de España was entrusted with the supervision, inspection and sanctioning of the obligations set forth in MiCAR for the issuers of electronic money tokens (EMT) and asset-referenced tokens (ART), applicable as from June 2024.[1]

- Lastly, the Banco de España collaborates closely with the Commission for the Prevention of Money Laundering and Monetary Offences (CPMLMO) and its Executive Service (SEPBLAC) in the supervision and inspection of compliance with the anti-money laundering and countering the financing of terrorism (AML/CFT) obligations. Powers in this area are limited to certain due diligence, internal control and reporting obligations of the institutions supervised by the Banco de España and are exercised as established by Spanish legislation and the cooperation and coordination agreement entered into with the CPMLMO.

1 However, the European regulation reserves certain supervisory powers in this area for the European Banking Authority (EBA).

2 Organisation of supervision and oversight at the Banco de España

The supervisory function is an integral task that is carried out in a coordinated manner by various areas of the Banco de España, as detailed in Figure 1.2.

In 2024, an internal reorganisation took place that led to the creation of two new directorates general: the Directorate General Institutional and European Relations and Transparency and the Directorate General Strategy, People and Data, the latter based on the previous Directorate General Services. These changes have affected the allocation of certain supervisory powers among directorates general. Further information on these changes can be found in the *Institutional Report 2024.*

Figure 1.2

Organisation of supervision and oversight at the Banco de España

Directorate	Department	Functions
DIRECTORATE GENERAL SUPERVISION	Significant Institutions I Department Significant Institutions II Department	• Ongoing off-site supervision, through the JSTs, of: — The three largest Spanish SIs and of the branches and subsidiaries in Spain of European SIs in the Significant Institutions I Department. — The seven other Spanish SIs in the Significant Institutions II Department. • Participation in the granting of credit institution start-up licences and in other administrative procedures relating to supervised institutions. • Approval of management protocols and financial plans of banking foundations.
	Department of LSIs and other Institutions outside the SSM	• Planning and supervision (ongoing off-site and on-site inspections) of: — Spanish LSIs. — Other institutions outside the scope of the SSM: ICO, SLIs, PIs, account information service providers, ELMIs, currency-exchange bureaux, EMT and ART issuers, MGSs, reguarantee companies, appraisal companies and Sareb. • Participation in the granting of institution start-up licences and in other administrative procedures relating to supervised institutions.
	Department of Inspections, Internal Models and AML	• On-site inspections and internal model investigations of SIs within the SSM. • Internal model investigations of LSIs. • Planning, implementation and monitoring of AML/CFT supervisory actions.
	Horizontal Functions Department	• Horizontal risk analysis.. • Establishment of supervisory policy and development of supervisory methodology. • Definition of bank accounting regulations and handling of related queries. • Supervision of covered bond issues and simple, transparent and standardised securitisation issues. • Coordination of DG.SUP participation in the stress tests of Spanish institutions. • Market risk and structural liquidity and interest rate risk inspections. • Development of supervisory support tools and application of new technologies to supervision (SupTech).
	Supervisory Strategy and IT Risk Department	• Preparation and monitoring of annual supervision planning. • Participation in the definition of SSM supervisory strategic planning and second line of defence. • On-site IT risk inspections of SSM SIs and of LSIs. • Assessment of Spanish regulatory sandbox projects and enhancement of the sector's cyber resilience. • Promotion of technological innovation in the DG.SUP.
	Organisation and Quality Division (Corporate Functions)	• Quality control of the supervisory process. • Training of DG.SUP staff. • Coordination of DG.SUP corporate functions and IT security.
DIRECTORATE GENERAL INSTITUTIONAL AND EUROPEAN RELATIONS AND TRANSPARENCY	Institutional Relations and European Coordination Department	• Coordination, support and advice for the Banco de España's participation in Supervisory Board meetings and other SSM events.
DIRECTORATE GENERAL FINANCIAL STABILITY, REGULATION AND RESOLUTION	Financial Stability and Macroprudential Policy Department	• Analysis of financial system risks and vulnerabilities. • Formulation of macroprudential policy proposals. • Coordination with AMCESFI, the ESRB and the ECB's macroprudential function. • Stress tests (FLESB).
	Regulation Department	• Analysis, definition and monitoring of regulatory policies applicable to supervised institutions. • Coordination with the EBA, FSB, BCBS and other international fora. • Development and interpretation of prudential regulations.
DIRECTORATE GENERAL STRATEGY, PEOPLE AND DATA	Financial Reporting and CCR Department	• Receipt, quality control and forwarding of supervisory information that credit institutions and other supervised institutions are required to submit to the ECB and to the Banco de España. • Management of the Central Credit Register and of Anacredit. • Calculation and validation of compliance with the minimum reserve ratio. • Preparation of financial statistics. • Preparation of regulations and circulars on regular reporting by institutions.
GENERAL SECRETARIAT	Authorisations and Registers Department	• Handling of procedures for the granting and withdrawal of institutions' authorisation. • Resolution of supervised institutions' senior officer suitability assessments proceedings and participation in SI senior officer suitability assessments. • Maintenance of the Senior Officer Register, the Register of Institutions and the Register of Agents in Spain. • Authorisation of amendments to articles of association and issuance of mandatory reports. • Management of the single European passport.. • Oversight of vetted access to activity and name reservation. • Availability to the public of registers published on www.bde.es and on the EBA website.
	Legal Department	• Handling of sanctioning proceedings. • Internal advice relating to the Bank's powers, including its functions as central bank and member of the ESCB and as supervisor and member of the SSM.
DIRECTORATE GENERAL FINANCIAL CONDUCT AND BANKNOTES	Institutions' Conduct Department	• Identification and analysis of risk to institutions' conduct, both individually and from a sectoral standpoint. • Supervision of institutions' conduct and of compliance with information transparency and customer treatment regulations through ongoing off-site monitoring, inspections and other supervisory actions. • Preparation of regulations and circulars on conduct, transparency, customer protection and proper treatment of customers.

SOURCE: Banco de España.

Figure 1.2

Organisation of supervision and oversight at the Banco de España (cont'd)

DIRECTORATE GENERAL OPERATIONS, MARKETS AND PAYMENT SYSTEMS	Payment Systems Department	• Ongoing off-site supervision and on-site inspections regarding compliance with regulations on payment services and EMT issuance at credit institutions, PIs, ELMIs and account information service providers. • Definition of supervisory policy regarding the provision of payment services. • Participation in the granting of authorisations and registration of payment service providers other than credit institutions. • Support for and oversight of financial market infrastructures and payment instruments. • Supervision of Iberpay as the management company of the SNCE. • Supervision of compliance with the obligations of the DORA Regulation by payment system operators, payment scheme operators, electronic payment arrangement operators, payment processors and other technological or technical service providers providing services in Spain.
	Financial Innovation and Market Infrastructures Department	• Coordination of the Banco de España's participation in the controlled testing space known as regulatory sandbox

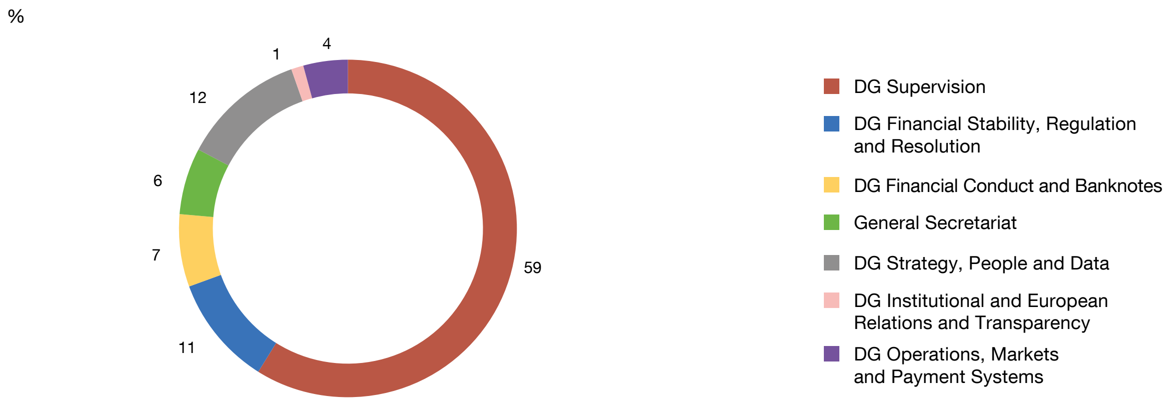
SOURCE: Banco de España.

3 Supervisory and oversight staff

At 31 December 2024, the Banco de España had 939 employees performing supervisory and oversight functions, distributed by directorate general as shown in Chart 1.1. Of these, 51.8% are women and 48.2% are men, although the distribution varies by professional group, as shown in Chart 1.2.

Chart 1.1

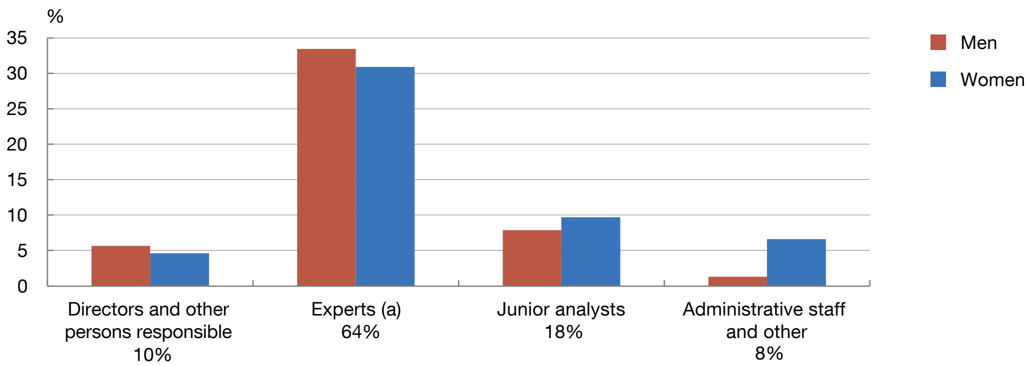
At 31 December 2024, the Banco de España had 939 employees performing supervisory and oversight functions, distributed in 7 directorates general



SOURCE: Banco de España.

Chart 1.2

The proportion of men and women is almost equal in three professional groups, notably including "Directors and other persons responsible" due to its significance. However, there are major disparities in "Administrative staff and other"



SOURCE: Banco de España.

a Also includes inspectors, economists, lawyers, inspection auditors and IT auditors.

Chapter 2

Micropudential supervision

Chapter 2
Takeaways

— In Spain, 186 credit institutions operate through permanent establishments. These credit institutions can be categorised into 10 Spanish groups of significant institutions, with an 89.8% share of the Spanish market; 56 Spanish less significant institutions or groups of institutions (5.4% share); and other subsidiaries and/or branches of foreign institutions (4.9% share).

— The consolidated assets of the Spanish banking sector totalled €4,235 billion in September 2024, including business abroad, which accounts for 42% of consolidated assets.

— In 2024, the Spanish banking sector had a loan portfolio of stable quality and sustained growth, thanks to activity outside Spain; high liquidity; constantly growing profitability (due to the increase in net interest income and fees), outstripping that of comparable European institutions; and capital ratios at record highs and comfortably above the requirements, although on average lower than those of European peers, whose risk profile is worse.

— Establishing supervisory priorities in advance reinforces risk-based supervision and the effectiveness and efficiency of actions. In 2024, actions continued to focus on the following: credit, liquidity and interest rate risk management; the functioning of management bodies, data quality and climate risk; digitalization; and technology risk.

— In 2024, there was a slight improvement in the risk profile, which is reflected in a 7 basis point decrease in the weighted average of the system's P2R supervisory requirement.

1 Spanish banking system

In the framework of the Single Supervisory Mechanism (SSM), institutions are classified as either significant institutions (SIs) or less significant institutions (LSIs) depending on their size or relative importance within each country. The European Central Bank (ECB) is directly responsible for the supervision of SIs and exercises indirect supervision over LSIs, which in the case of Spanish LSIs are supervised directly by the Banco de España (see Figure 2.1).

In Spain, 186 credit institutions operate through permanent establishments. These credit institutions can be categorised into 3 major types: SIs, LSIs and other subsidiaries and/or branches in Spain of foreign institutions.

— 10 groups of Spanish SIs, some of which carry out notable international activity, with an 89.8% share of the Spanish market;

— 56 Spanish LSIs or groups of LSIs,[1] with a 5.4% market share; and

— a further 71 groups comprising other subsidiaries and/or branches in Spain of foreign credit institutions, with a 4.9% share.

Figure 2.1
Distribution of supervisory powers over credit institutions

	Tasks assigned to the ECB within the SSM	Tasks assigned to the NCAs within the SSM
Supervision of SIs	Direct supervision of SIs.	Support to the ECB for supervision of SIs: participation in JSTs and in on-site missions.
Supervision of LSIs	Indirect supervision of LSIs.	Direct supervision of LSIs.
Common procedures	Common procedures are the responsibility of the ECB, with proposals from the NCAs: the granting and withdrawal of authorisation for credit institutions, and authorisations for the acquisition/sale of qualifying holdings in a credit institution.	Preparation of the proposal for SIs and LSIs.
Penalties	SIs: sanctioning powers in the event of non-compliance with directly applicable EU law, except for non-financial penalties and penalties for natural persons. LSIs: sanctioning powers in the event of non-compliance with an ECB decision or regulation	SIs: sanctioning powers, upon instruction by the ECB, for non-compliance with national legislation transposing EU directives; for infringements attributable to their directors and executives; and for the purpose of imposing non-financial penalties. LSIs: sanctioning powers for other cases of non-compliance, in some cases upon instruction by the ECB

SOURCE: Banco de España.

1 The Banco de España also supervises the Official Credit Institute (ICO).

Table 2.1
The 10 Spanish SI groups account for 89.8% of the assets of the banks operating in Spain

Data at 30 September 2024

	2023			2024		
	Number of groups	No. of banks in these groups	Market share in terms of assets (%)	Number of groups	No. of banks in these groups	Market share in terms of assets (%)
Spanish SIs	10	39	90.4	10	38	89.8
Other SSM SIs in Spain via subsidiary/branch	34	46	3.9	34	45	4.4
Spanish LSIs	56	67 (a)	5.2	56	66 (b)	5.4
Branches of other SSM LSIs	34	34	0.4	33	33	0.4
Branches of non-EU banking groups	4	4	0.1	4	4	0.1
TOTAL	**138**	**190**	**100.0**	**137**	**186**	**100.0**

SOURCE: Banco de España.

a 23 banks, 42 cooperatives and 2 saving banks.
b 22 banks, 42 cooperatives and 2 saving banks.

Table 2.2
The number of registered institutions decreased very slightly

Data at 31 December 2024

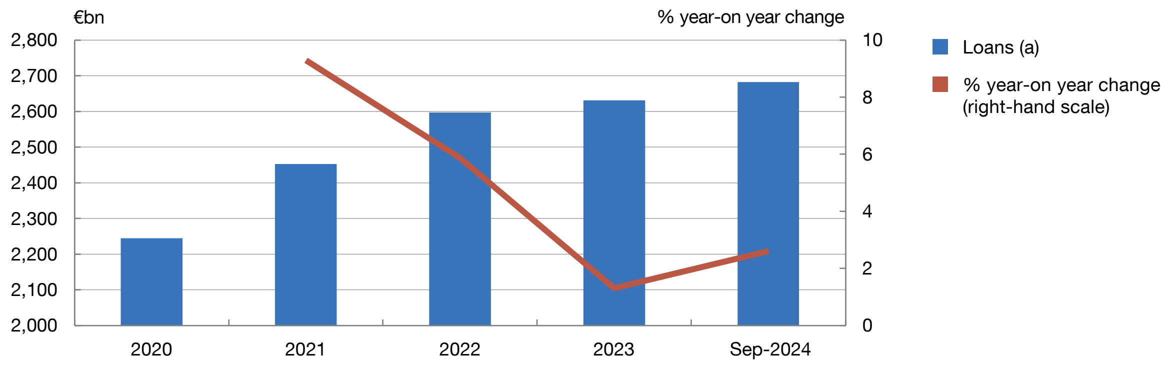
	2023	2024
Credit institutions	189	188
Banks	47	46
Savings banks	2	2
Credit cooperatives	61	61
ICO	1	1
Branches of EU credit institutions	74	74
Branches of non-EU credit institutions	4	4
Financial holding companies	7	6
Mixed financial holding companies	1	1
TOTAL	**197**	**195**

SOURCE: Banco de España.

In September 2024, the consolidated assets of Spanish banking sector institutions totalled €4,235 billion (bn) euros. Business abroad accounted for 42% of consolidated assets.

In line with their retail banking business models, in September 2024, 62% of total consolidated assets consisted of loans, of which credit to the non-financial private sector accounted for 83%. Mortgage financing to households (41%) and credit to large companies (24%) predominated, although consumer lending to individuals (16%) and credit lines to SMEs (15%) were also significant. Lending in 2024 grew thanks to activity outside Spain. Box 2.1 contains further information about the business model of Spanish SIs as compared to European SIs.

Chart 2.1
In a climate of uncertainty, sustained growth in lending due to activity outside Spain



SOURCE: Banco de España (supervisory statistics on credit institutions).

a Loans and advances included in accounting portfolios subject to impairment review under IFRS 9 (portfolios at amortised cost and at fair value through other comprehensive income). Therefore, portfolios of financial assets or liabilities held for trading and at fair value through profit or loss, and cash balances at central banks and other demand deposits at credit institutions, are excluded.

— After the pandemic, lending entered a phase of sustained growth, reaching €2,683 bn in September 2024, thanks to the contribution of activity outside Spain. On the other hand, despite the initial upturn motivated by pandemic-related aid, financing to Spanish borrowers has shown a downward trend since the summer of 2022, coinciding with the start of the monetary tightening cycle. However, a certain slowdown in the overall rate of decline was already observed in the months prior to September 2024 (with the Spanish market on the rise in large companies and consumer credit, stable in mortgages and falling in SMEs).

— This evolution was influenced by macroeconomic factors and growing global geopolitical uncertainty, which contribute to a retraction in the demand for credit, even though no restrictions in supply or tightening of lending standards were detected.

For now, credit quality has not deteriorated, despite the fact that the uncertainties generated by the geopolitical situation, the evolution of inflation and interest rates, armed conflicts and pessimism about European Union (EU) expectations remain high and call for caution.

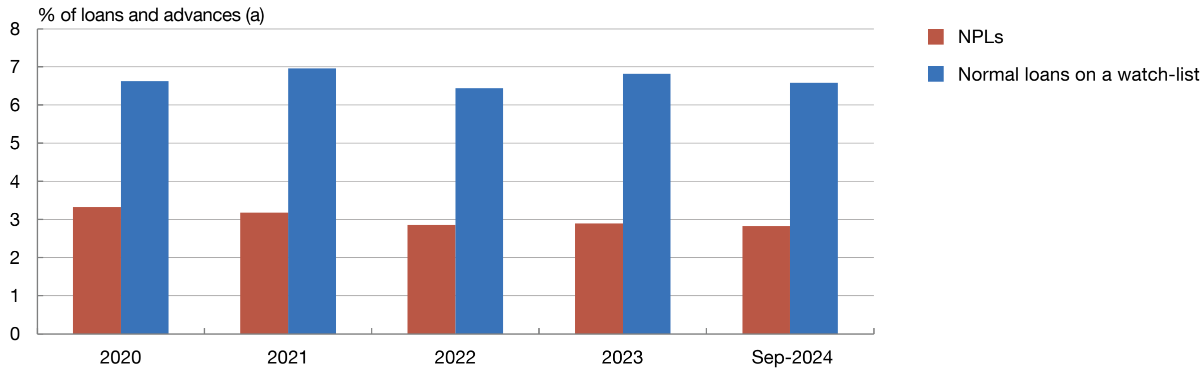
— Credit quality has not suffered, despite the upturn in inflation and the consequent monetary tightening cycle of 2022-2023. The NPL ratio (2.82% in September 2024) has stabilised at levels slightly below 3%, leaving behind the declines of recent years. Although they grew slightly, normal loans on a watch-list remained below 7% (6.58% in September 2024).

— The main reasons for this NPL ratio include the low level of private indebtedness, of both households and companies, which is currently at a record low and below the European average; the strength exhibited by the economy and employment in Spain; and the level of savings accumulated during the pandemic.

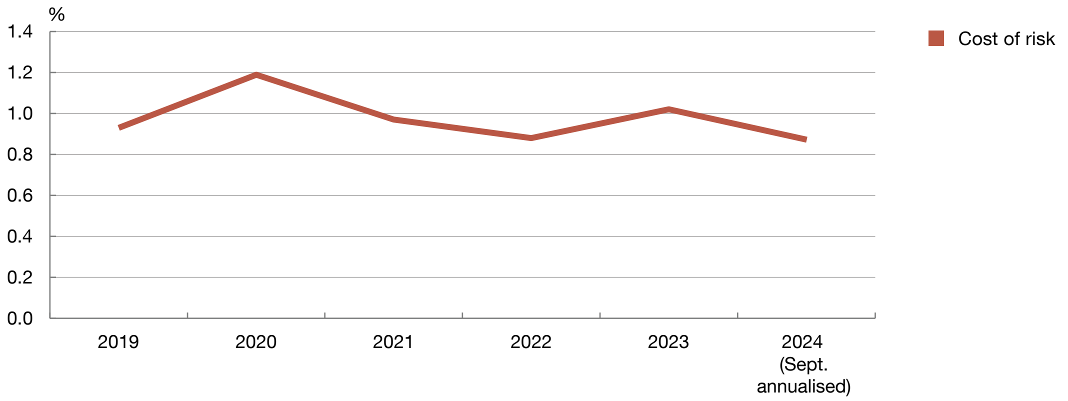
Chart 2.2

Despite the macroeconomic environment and geopolitical uncertainties, credit quality was not compromised, with the cost of credit stabilising at around 1%

2.2.a Credit quality of loans and credits (a)



2.2.b Cost of risk (b)



SOURCE: Banco de España (supervisory statistics on credit institutions).

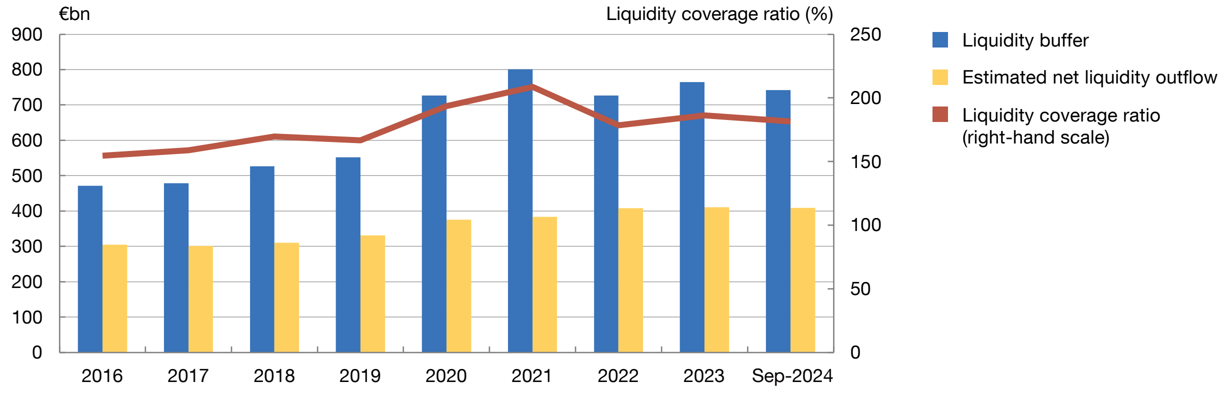
a NPLs are taken to be loans with credit impairment; normal loans on a watch-list are loans with a significant increase in risk since their initial recognition; and normal loans are all other loans. All of this is in accordance with IFRS 9. They are also referred to as Stage 3, 2 and 1, respectively.
b In summary, the cost of risk consists of the charges to income for write-downs and gross provisions due to the impairment of the loan and credit portfolio.

— It is also worth highlighting the improvement in institutions' management of troubled assets, including sales of NPL and written-off portfolios, which was encouraged by ongoing supervisory pressure.

— The cost of risk remained slightly below 1% per year (0.87% annualised in September 2024), at pre-pandemic levels, without any significant extra write-down effort by institutions being noted. In comparison to European institutions, Spanish banks' write-downs are much higher (around double), due largely to the foreign business of banks with greater international exposure, which in turn is offset by higher net interest income.

— The recently initiated downward trend in interest rates, stemming from the control of inflationary pressures, is expected to help mitigate the risk of an increase in NPLs and credit deterioration. However, growing uncertainties, mainly on the geopolitical front, make it advisable to remain cautious.

Chart 2.3
The liquidity coverage ratio maintained comfortable levels in 2024, similar to December 2023 levels



SOURCE: Banco de España (supervisory statistics on credit institutions).

The liquidity coverage ratio (LCR) remained stable in 2024 (at around 180%), notably above the regulatory minimum (100%).

— In Spain, after reaching maximum liquidity levels in 2020 and 2021 as a result of the ECB's expansionary measures, the start of the ordinary and early repayments of Targeted Longer-Term Refinancing Operations III (TLTRO III) in 2022 led to a small reduction in institutions' buffers.

— Although this repayment process was intensified in 2023, its impact on the system's liquidity was offset by a notable reduction in credit in Spain, which exceeded the decrease in deposits. In 2024, although the evolution of credit led to a slight drain on liquidity, the LCR was maintained due to lower outflows of demand deposits, reflected in the ratio's denominator.

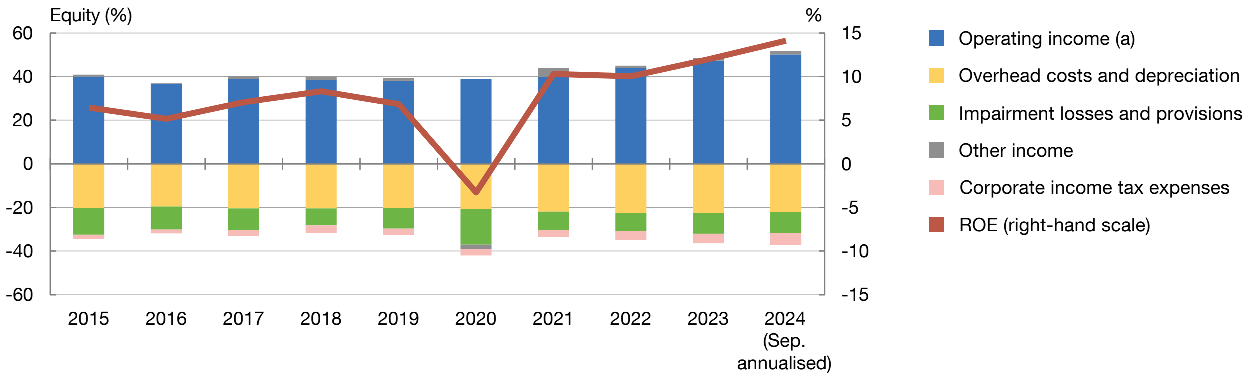
— The near completion in 2024 of the repayment of TLTRO III meant a reduction in asset encumbrance, from 26% in June 2022 to 19% in June 2024 (below the 23% weighted average ratio in the EU in June 2024).

Profitability continued to increase: for the fourth consecutive year, it was above pre-pandemic levels and profits reached a record high. This was despite inflation remaining high and the temporary bank levy, which in 2024 amounted to €1.6 bn, which equals 0.6 percentage points (pp) of capital (ROE). However, there are signs of stabilisation due to the recent fall in interest rates. The efficiency ratio continued to perform favourably due to the improvement in the operating result.

— The profitability of the Spanish banking sector (14.1% ROE in September 2024) improved in 2024, as in previous years, due mainly to the growth in net interest income and also to the increase in fee income. Both factors have more than compensated for the increase in

Chart 2.4

Recovery of profitability, with operating income growth outpacing growth in overhead costs and write-downs, following major provisions and extra impairments in 2020 (due to COVID-19 and goodwill), exceeding pre-pandemic levels



SOURCE: Banco de España (supervisory statistics on credit institutions).

a Operating income is the sum of net interest income, net fee and commission income, net income from financial operations, net foreign exchange differences and other net operating income.

overhead costs, credit impairments and provisions, allowing Spanish banks to achieve an aggregate profitability that exceeds the average of their European peers.

— The strong growth in net interest income is the result of the evolution of interest rates, the combination of a rapid rise in rates on assets, yet with a relative stagnation in volume, and a slower repricing of deposits, especially from individuals, in a context of high liquidity in the system and lower demand for credit. However, the most recent evolution points to the beginning of a possible change in trend stemming from the reduction in interest rates commenced by the ECB in June 2024.

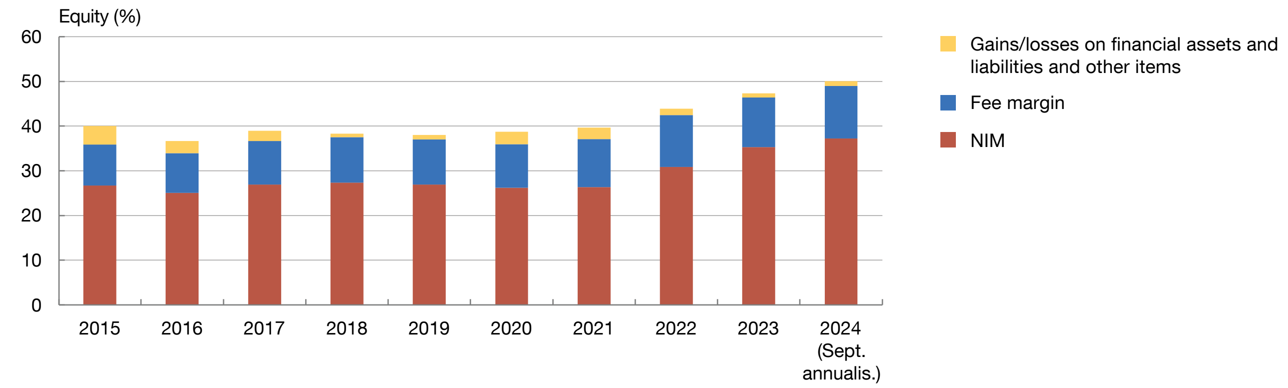
— Net fee and commission income also continued to grow, albeit to a lesser extent than net interest income, due to the increase in income from payment methods (cards) and higher income from asset management.

— The bank levy, which was introduced in 2022 and is calculated on net interest income and fees from activity in Spain, increased in 2024, with an aggregate cost of 0.6% in terms of ROE (2023: 0.5%). This higher cost, which is not tax deductible, was absorbed by the growth in operating profit, which, despite the levy, grew significantly in 2023 and 2024.

— Overall, the performance of the efficiency ratio (44.1% in September 2024) remained favourable due to an improvement in operating profit that far exceeded the increase in overhead costs.

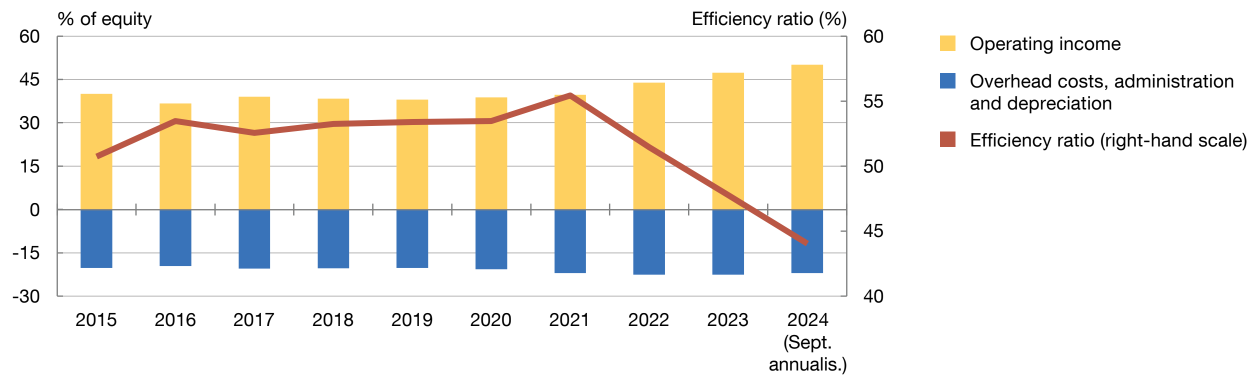
— Staff costs have grown more sharply than other overhead costs, both in Spain and abroad, in a high-inflation environment. Although it is true that inflation has been moderating in Spain, it is still high in markets of importance to the large Spanish banking groups, such as certain Latin American countries and Turkey, where hyperinflation episodes have been

Chart 2.5
Operating income continued to show the strong growth that began in 2021, driven mainly by net interest income



SOURCE: Banco de España (supervisory statistics on credit institutions).

Chart 2.6
Efficiency ratio



SOURCE: Banco de España (supervisory statistics on credit institutions).

recorded. Contributions to resolution and guarantee funds, which increased overhead costs in previous years, had less of an impact in 2024 because the target level of funds was reached in several jurisdictions.

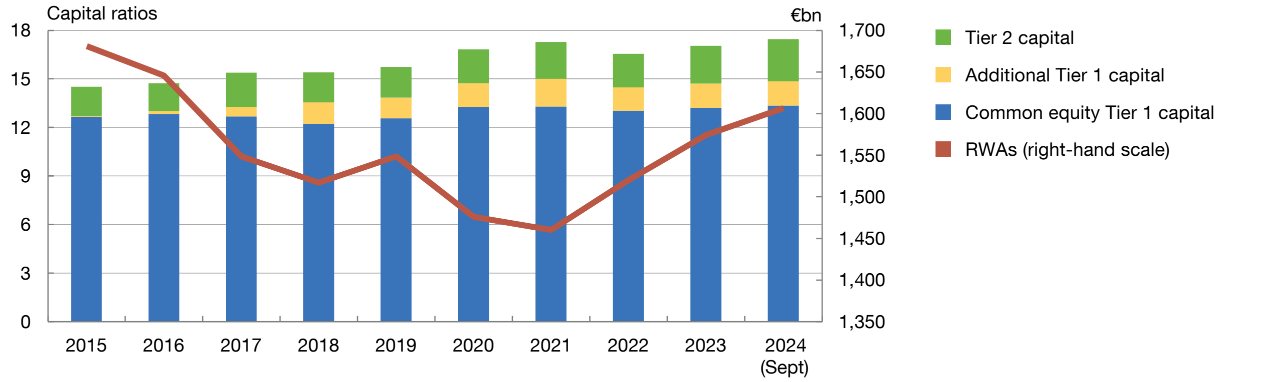
With regard to operational risk, the number of events and losses recorded continued to increase in 2024, in line with the trend of recent years.

— The bulk of the events continue to fall into the external fraud category, which is consolidating its position as one of the main threats in an environment of growing banking digitalisation.

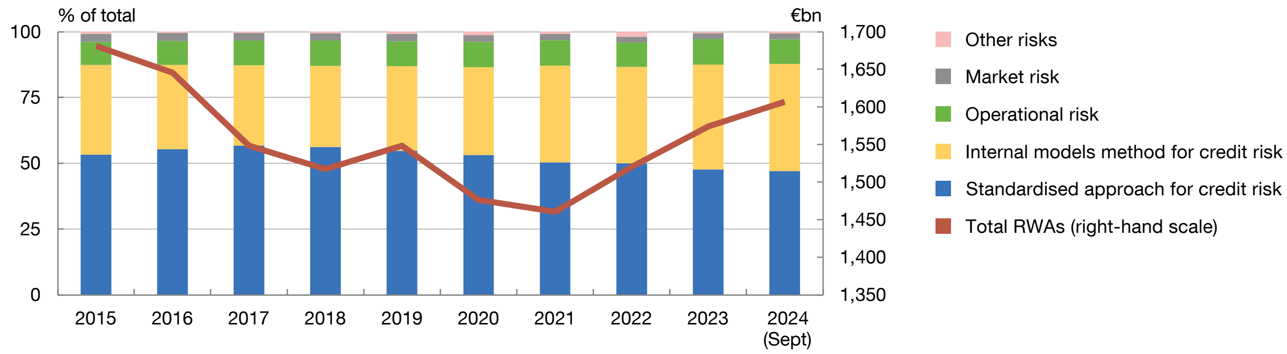
— However, most of the losses continued to fall into the conduct and customers category, which in Spain has been marked by the extraordinary provisions made by institutions in response to the latest rulings on mortgage costs.

Chart 2.7
Capital ratios stable at record highs, in a context of rising risk-weighted assets (RWAs), where credit risk is clearly predominant and the use of internal models continues to rise

2.7.a Capital ratios



2.7.b RWA breakdown



SOURCE: Banco de España (supervisory statistics on credit institutions).

The capital ratios of Spanish institutions remained stable at maximum levels, more than covering regulatory requirements, but without taking advantage of the boom in profits to reduce the differential in solvency ratios with respect to the European average.

— The notable growth in earnings since 2022 has been largely offset by the increase in dividends, growing share buybacks (see Box 2.2) and the rise in risk-weighted assets, thus leading to very moderate increases in the Common Equity Tier 1 (CET1) ratio.

— The CET1 ratio of Spanish banks remained stable at record levels in 2024 (13.3% in September 2024), although it is still below the ratio of their European peers (15.8% for SSM SIs).[2] The solvency of Spanish banks is supplemented by a level of loan loss provisions (measured as a proportion of risk-weighted assets) that is notably above the average for SSM SIs.

2 Data extracted from ECB supervisory statistics at June 2024.

- However, the gap in the CET1 ratio with respect to European peers is significantly reduced in terms of capital surplus (or management buffer) because of Spanish banks' lower requirements arising from their specific risk profile (lower P2R, macroprudential buffers and P2G).

- In 2023 and 2024, SIs increased net issues of additional Tier 1 and Tier 2 capital instruments, which helps diversify and optimise their capital structure.

- As regards risk-weighted assets (RWAs), credit risk continues to be by far the most significant (almost 88% in September 2024), given the business model of Spanish institutions, which are universal or retail banks, followed at a great distance by operational risk (just over 9%).

- It is worth noting the growing weight of internal models in the calculation of RWAs for credit risk, although it remains well below the European average.

2 Supervisory priorities

Supervisory priorities are determined on the basis of the sources of risk and vulnerabilities specific to the banking sector. Establishing supervisory priorities strengthens risk-based supervision and allows for improvements in the effectiveness and efficiency of supervisory activities.

— The process is carried out in two different spheres. On the one hand, the SSM,[3] with the participation of the Banco de España and the other national competent authorities, establishes the priorities for SIs with a medium-term horizon (three years) and a multi-annual supervisory activity plan. On the other hand, the Banco de España carries out a similar process and establishes the priorities for LSIs with a one-year horizon.

— The supervisory plan is materialized in various activities, each with a specific scope or intensity. These activities include most notably the supervisory review and evaluation process (SREP), more in-depth reviews, such as specific “deep dives” or horizontal detailed reviews, and on-site inspections.

— The text and figures below include, inter alia, references to the most salient findings obtained through supervisory actions and their connection with strategic priorities.

2.1 Supervisory focal points in 2024

The identification of institutions’ risks and the priorities for 2024 was based on an environment in which there had been several macro-financial and geopolitical shocks, including most notably the financial crisis that affected several US regional banks and Credit Suisse in Switzerland between March and May 2023. Added to this was concern about a potential deterioration in credit quality and an increase in the cost of bank funding in view of rising interest rates. Also, there were already significant structural challenges, such as climate change and digital transformation.

Figure 2.2.1 shows the 2024 supervisory focal points for SIs and certain of the findings derived from the actions taken, which are explained in more detail in section 3, all within the framework of the priorities that were updated in 2023 for the following three years. Additionally, these findings inform the process of setting the SSM’s priorities for 2025-2027, which are detailed in section 2.2. In short, the priorities for the following years are adapted on the basis of the results of the actions carried out.

Figure 2.2.2 summarises the specific risks of LSIs that were the subject of special attention by the Banco de España in 2024.

3 The supervisory priorities identified by the SSM for SIs for 2025-2027 can be found at this link.

Figure 2.2.1

Supervisory focal points for SIs in 2024

SUPERVISORY PRIORITIES FOR 2024-2026		SUPERVISORY FOCAL POINTS FOR 2024	FINDINGS
1 MACRO-FINANCIAL AND GEOPOLITICAL SHOCKS	**Credit and counterparty risk**	Review of shortcomings in credit risk management frameworks and review of vulnerable portfolios (including exposures to SMEs).	Improvements in the anticipation of emerging risks, particularly in the consideration of climate and environmental risks. There is still work to be done regarding the consideration of geopolitical risk and the classification of debtors according to their credit quality.
	Funding and interest rate risk	Asset and liability management (ALM) and structural interest rate risk (IRRBB) management have been the subject of several supervisory activities in recent years.	Identification of good practices and detection of areas for improvement in funding plans, indicator monitoring and creation of contingency plans. This area is no longer a priority for 2025, although the shortcomings identified will be followed up under the framework of ongoing supervision.
2 MANAGEMENT CAPABILITIES AND CLIMATE RISK	**Governance**	Work has continued on improving the functioning and management capabilities of governing bodies since 2020. Reviews of risk data aggregation and reporting (RDAR) capacity have continued.	Progress has been made in diversity, but shortcomings remain in collective suitability, succession planning and the functioning and composition of committees. Following the progress observed, improving the functioning of governing bodies will not be considered a priority in 2025. Overall progress in the RDAR area, although challenges remain.
	Climate and environmental risk management	Work continued on the review of compliance with supervisory expectations and the monitoring of shortcomings identified in previous years.	Significant progress, except in certain cases where supervisory pressure has been intensified.
3 DIGITAL TRANSITION AND TECHNOLOGY RISK	**Digital transition**	The review of digital transformation strategies has identified good practices and improved their supervisory assessment.	Publication of a report on assessment criteria and good practices in the area of digitalisa-tion.
	Technology risk	Building robust operational resilience frameworks, in areas such as cyber risk, data security or risks stemming from innovative technologies, has been a notable priority, with activities at various levels, such as on-site inspections or stress tests (see section 3.3).	In the area of cybersecurity, institutions have response and recovery frameworks in place, but improvements in certain areas are required.

SOURCE: Banco de España.

Figure 2.2.2
Supervisory focal points for LSIs in 2024

RISK/ SUPERVISORY PRIORITY	2024 SUPERVISORY FOCAL POINTS	FINDINGS
Credit risk: risk management and concentration in vulnerable sectors.	Particular attention was paid to the identification of shortcomings in loan origination, monitoring, accounting classification and loan-loss provisioning policy, and to the possible concentration of risk in vulnerable sectors and to possible increases in NPLs due to the rise in interest rates.	The rise in rates has not led to a significant reduction in the quality of institutions' loan portfolios, although areas for improvement in risk monitoring and pricing have been identified.
Operational risk: in particular, technology risk.	Particular attention was paid to the monitoring of institutions' measures in response to the requirements and recommendations arising from the horizontal technology risk actions carried out in 2023. The adaptation to DORA, the new regulations and the EBA guidelines on outsourcing of critical services, as well as the necessary digitalisation that institutions must undertake, made it advisable to strengthen operational risk monitoring.	Institutions have made significant progress in controls on critical outsourcing and in adapting contracts with suppliers. A horizontal supervisory review of digitalisation strategies and the implementation of DORA requirements is being carried out on a sample of LSIs.
Governance: reviewing the three lines of defence and other shortcomings identified.	The adequate separation and capacity of the three lines of defence have received special attention in recent years. Also, the composition, functions and performance of the Board of Directors or Governing Board and, where appropriate, the role of the CEO are analysed.	Although the LSIs continue to progress in making changes, there is still room for improvement in order to meet the requirements for the second and the third line, which are more difficult for smaller institutions to meet.
Climate and environmental risk: meeting supervisory expectations.	Work continued on the assessment of compliance with climate risk expectations which commenced in 2023, assessing how non-green risks are identified, originated, monitored and, where appropriate, hedged in a sample of institutions.	In line with the supervisory expectations published by the Banco de España, LSIs are making gradual progress, albeit not without difficulties, in climate and environmental risk identification, management and measurement.
Business model: sustainability	Institutions' ability to obtain sufficient recurrent earnings in an environment of falling interest rates and rising costs due to inflation is under analysis; also, their readiness to adapt to technological change (digitalisation) is assessed.	LSIs' profitability as compared to the previous year improved again, despite the gradual fall in interest rates.
Liquidity risk: management procedures and tools.	Liquidity risk management policies and procedures have been reviewed in inspections, and a cross-sectional analysis of a number of liquidity indicators has been carried out.	Although Spanish LSIs have a comfortable short- and medium-term liquidity position, following the events of 2023 in several US institutions, LSIs were asked to strengthen liquidity risk management, and the on-site review of these controls was stepped up.
IRRBB risk: impact on profitability.	The IRRBB risk management policies and procedures have been reviewed in inspections, in the LSIs most exposed to this risk and, more generally, in the framework of the SREP.	The on-site review was stepped up and LSIs were made aware of the need to actively manage and monitor IRRBB risk and to provide corrective measures.

SOURCE: Banco de España.

2.2 Supervisory priorities in 2025

Within the scope of the SSM, three supervisory priorities for SIs were established for 2025- 2027.

The first priority is to increase resilience to macro-financial and geopolitical shocks. To this end, banks must reinforce their capacity to identify deteriorations in credit quality and build up prudent levels of provisions, and they must intensify their efforts to address the credit risk management shortcomings identified in previous years.

Figure 2.3
SI supervisory priorities for 2025-2027

Banks should strengthen their ability to withstand immediate macro-financial threats and severe geopolitical shocks

- Shortcomings in credit risk management frameworks.
- Shortcomings in operational resilience frameworks in relation to technology service provision and cyber security.
- Incorporation of geopolitical risk management into various supervisory priorities.

Banks should remedy persistent material shortcomings in an effective and timely manner

- Shortcomings in business strategies and in climate-related and environmental risk management.
- Shortcomings in RDAR.

Banks should strengthen their digitalisation strategies and tackle emerging challenges stemming from the use of new technologies

- Shortcomings in digital transformation strategies.

SOURCE: SSM Supervisory Priorities 2025-27.

— Supervisory activity has revealed shortcomings related to the consideration of new risks, including geopolitical risk, in the application of the International Financial Reporting Standard 9 (IFRS 9) framework.

— In this context, the focus will be on IFRS 9, both in remedying the deficiencies identified and in carrying out new supervisory activities. Also, reviews of vulnerable portfolios, such as SMEs, will continue.

In addition, banks must also strive to resolve the shortcomings identified in the area of technology risk, particularly those related to cybersecurity and the use of external service providers, and to comply with the requirements arising from the new digital operational resilience act (DORA).

— In the current context, characterised by high geopolitical tensions, an increase in cyber incidents and the concentration of certain technology service providers, it is important that institutions strengthen their resilience to possible operational disruptions triggered by sudden events. In addition, the systemic nature of technology risk also suggests that this resilience should be strengthened.

— Consequently, the risk associated with external suppliers and cyber resilience will remain under review. The focus will also be placed on compliance with DORA. The application of DORA from January 2025 will require supervisory work to be adapted to its requirements, including the performance of advanced cybersecurity tests.

Lastly, the cross-cutting nature of geopolitical shocks calls for a supervisory strategy that reviews whether geopolitical risk is taken into consideration in different areas of risk management.

— Consequently, there will be an examination of whether and how banks take geopolitical risk into consideration in the following: risk appetite and risk culture frameworks; expected loss estimates in their application of IFRS 9; the areas of outsourcing and cyber risk; risk management frameworks; capital and liquidity planning; and internal stress tests.

— Also, geopolitical risk will be a fundamental component in the definition of the scenarios applied in the stress tests coordinated by the European Banking Authority (EBA) at the European level that will be carried out in 2025.

The second priority is the effective remediation of the shortcomings identified in the compliance with supervisory expectations related to climate and the environment and in the risk data aggregation and reporting (RDAR) capabilities.

— Banks must fully comply with supervisory expectations on the management of climate-related and environmental risks, as well as with the requirements of the CRR III/CRD VI package (including prudential transition plans), and they must address the identified shortcomings. There will also be reviews of compliance with the disclosure regulations (Pillar 3), banks' transition plans and legal and reputational risks.

— Banks must intensify their efforts to remedy the shortcomings detected in the RDAR frameworks and bring these frameworks into line with supervisory expectations. Supervision will continue to interact with banks to address shortcomings, and supervisory action will be intensified so that institutions comply with the supervisory expectations established in the RDAR guide.

The third priority relates to the need to continue strengthening digitalisation strategies. Banks must reinforce these strategies and the implementation plans in order to mitigate risks, including risks arising from the use of new technologies.

— In recent years, the SSM has prioritised the assessment of digitalisation strategies in a more comprehensive manner.

— Moving forward, there will be more of a focus on the use of key technologies, such as cloud services or artificial intelligence (see Box 2.3), and on the impact on profitability and risks of digitalisation strategies in specific business lines.

Lastly, it should be noted that, in order to ensure compliance with expectations and the resolution of unresolved shortcomings, supervision will apply escalation processes, through the use of progressively more intrusive or severe supervisory measures to incentivise corrective actions by the institutions.

The Banco de España determined the supervisory priorities for LSIs for 2025, incorporating these institutions' idiosyncratic risks and taking into account the supervisory priorities identified by the SSM for SIs. Priorities were set in the following areas: credit risk, operational risk, governance, climate risk, business model, structural interest rate risk and liquidity risk.

- In relation to credit risk, work will continue on the identification of shortcomings in granting, monitoring, accounting classification and loan-loss provisioning policy, and on the review of potentially vulnerable portfolios, particularly in relation to the potential impact of the October 2024 floods on certain institutions.

- In the area of operational risk, work will continue on the assessment and monitoring of the action plans requested from institutions to correct the shortcomings identified in previous horizontal reviews and of the adaptation to the new regulation (DORA), and on the assessment of the effects of digitalization, which entails the coexistence of new and pre-existing systems.

- In relation to governance, the focus will be placed on the sufficiency of resources, access to the board and the correct reporting line of the second and third lines of defence; the assessment of the composition, access to information, functioning and exercise of responsibilities by the board of directors or the governing board, and the composition of the delegated committees.

- Regarding the identification, measurement and management of climate risk, the scope of the on-site review of compliance with climate risk expectations that began in 2024 will be extended to other institutions.

- As regards the analysis of the business model and sustainability, work will continue on the analysis of institutions' internal capital generation capacity in an environment of falling interest rates following the increase in costs due to inflation, and on monitoring digitalisation.

- With regard to the management of interest rate risk in the banking book (IRRBB), risk management policies and procedures will be reviewed as part of the inspections scheduled at the institutions with the greatest exposure to this risk and, in general, within the framework of the SREP.

- Lastly, in relation to liquidity management, policies and procedures will be reviewed as part of the inspections scheduled, and a cross-sectional analysis of a series of liquidity indicators will be carried out.

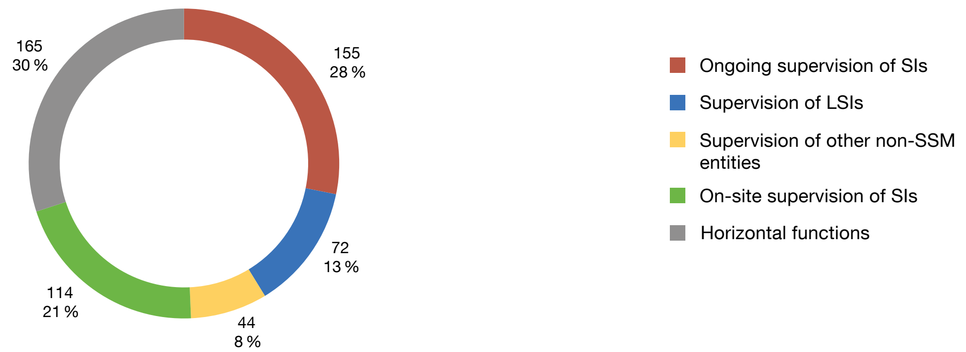
In order to address these supervisory priorities, the various supervisory activities (inspections, monitoring, horizontal actions, meetings, etc.) set out in the supervisory plans for the year will be carried out. The Executive Committee of the Banco de España approves the LSI action plan. Also, in 2025, more intrusive actions will be taken with institutions to ensure compliance with the requirements, and the degree of implementation by the institutions of the recommendations made will be controlled.

3 Supervision of credit institutions

The supervision of SIs and LSIs is mainly performed through a combination of two complementary channels: (i) ongoing off-site supervision, and (ii) on-site supervision, for which a range of microprudential tools are available. More information can be found in the **supervisory model.**

Chart 2.8

Of the 550 microprudential supervision staff, 49% are involved in the off-site and on-site supervision of SIs; another 21% supervise LSIs and non-SSM institutions; and the remaining 30% carry out horizontal supervisory support functions

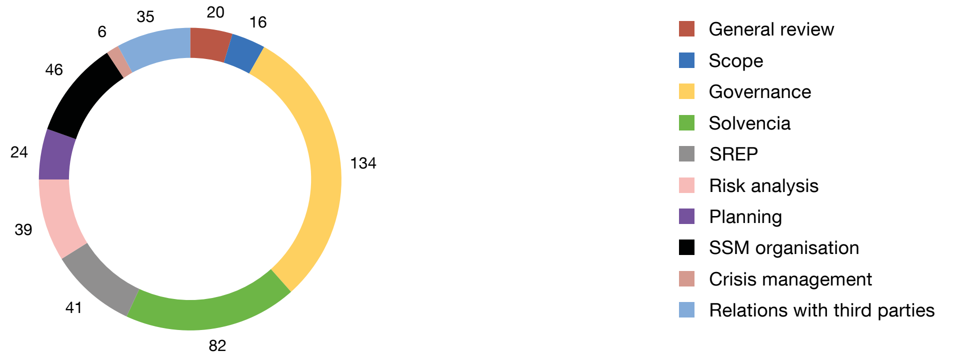


SOURCE: Banco de España.

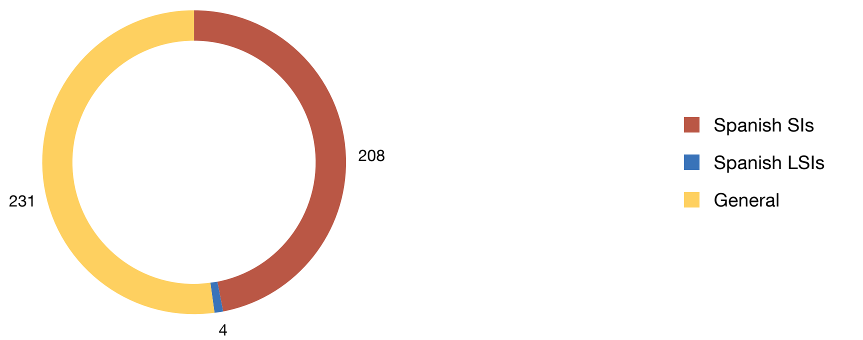
Chart 2.9

There was a slight decrease in the number of ECB decisions and actions specifically targeting Spanish institutions with respect to 2023, but a notable increase in those relating to governance, mainly due to suitability assessment processes

2.9.a By category



2.9.b By type of institution



SOURCE: Banco de España.

Chart 2.8 describes the allocation of staff to the main microprudential supervisory tasks within the Banco de España.

The Banco de España participates in decision-making regarding all credit institutions under SSM supervision by means of the presence of the Director General of Supervision and the Governor on the ECB Supervisory Board and Governing Council, respectively.

— Of the total 2,329 decisions adopted by the ECB in 2024, 443 were applicable to Spanish institutions: 212 decisions specifically addressed to them and a further 231 of a general nature (see Chart 2.9).

3.1 Supervision of significant institutions

The Banco de España makes an essential contribution to the supervision of Spanish SIs, through its presence on the joint teams (which are responsible for ongoing off-site supervision), through its participation in on-site inspections and in model investigations, and through its collaboration with the SSM working groups and expert networks. In January 2024, the SSM Supervisory Board launched an initiative to review its supervisory culture following the recommendation made by a group of experts who analysed the effectiveness and efficiency of the SREP and its implications for other supervisory processes (see Box 2.4).

— Together with the ECB, and within the SSM, the Banco de España participates in the microprudential supervision of the 10 groups of Spanish SIs. In addition, it also participates in 5 other joint teams which supervise SSM significant banking groups with a presence in Spain (through 4 subsidiaries and 41 branches).

— The on-site inspection teams are mainly composed of Banco de España inspectors, although joint inspection teams are often formed, which contribute to the creation of a common supervisory culture within the SSM.

— The working groups and expert networks, in which the Banco de España actively takes part, are a key element in the SSM supervision. These groups analyse and develop technical and supervisory policy proposals with a view to improving the functioning of the SSM.

Among the recurrent **ongoing supervision** tasks, a central role is played by those related to the SREP and the subsequent capital decision.[4] Their findings take into account not only the specific work planned in the SREP methodology, but also all the information and findings obtained in other supervisory activities.

4 The capital decision includes the capital requirement (P2R) and the capital recommendation (P2G). Requirements are mandatory and legally binding, i.e. in the event of non-compliance, institutions may be subject to supervisory measures, including sanctions. Recommendations, unlike requirements, are not legally binding.

As a result of the 2024 SREP, the P2R levels required for Spanish SIs stood at a weighted average of 1.76% (calculated by weighting the P2Rs of the SIs by their respective RWAs). The weighted average P2G remained constant at 0.83%.

— As a result of the SREP, the capital decisions resulted in a weighted average P2R of 1.76% required in 2025 (as compared to 2.1% for the average of the SSM SIs). This represented a decrease of 7 bp on average, as a result of a reduction in three institutions and stability in the other seven with respect to the 2023 SREP.

— In addition, the average in the P2G guidance (0.83%, as compared to 1.3% for the aggregate of SSM SIs) remained unchanged across all institutions with respect to 2023, as the biennial stress test coordinated by the EBA and the ECB, which serves to determine the P2G level applicable to each institution, was not conducted in 2024.

Chart 2.10 shows the quantitative and qualitative requirements and recommendations resulting from the 2024 SREP, which include most notably those related to governance, credit risk, business model and operational risk.

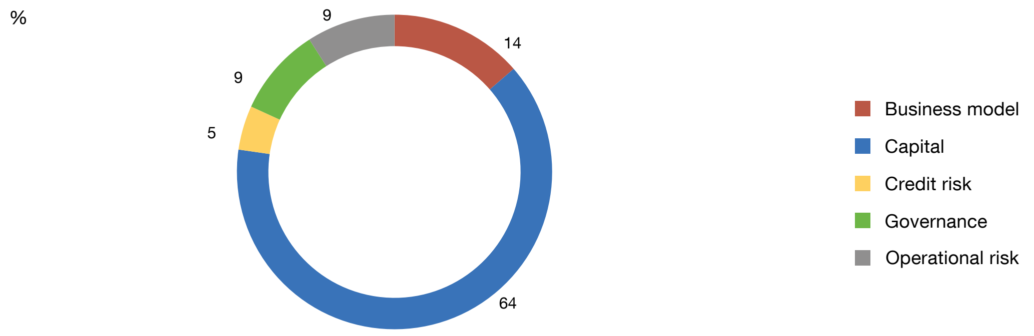
— With regard to governance, emphasis was placed on increasing the transparency of the remuneration framework for members of the management bodies, key executives and other employees in the identified group; on reinforcing diversity in the composition of the board of directors; and on the existence of adequate plans for the renewal and succession of directors. In addition, it also reiterated the importance of ensuring that the risk control function carries weight within the organisation and a degree of independence commensurate with the complexity of the banking activity carried out. Lastly, recommendations were made to ensure the proper functioning of internal audit and regulatory compliance.

— As regards credit risk, supervisory effectiveness and industry efforts helped ensure that, unlike in previous years, no institutions were identified with high levels of non-performing assets. However, in certain residual sectors, non-performing exposures remained high and, therefore, the institutions concerned were required or recommended to introduce a strategy to reduce them. In addition, in two cases, and in application of the ECB's *Guidance to banks on non-performing loans,* of March 2017, a specific additional capital requirement (Pillar 2 supervisory add-on) was allocated for the difference between the supervisory coverage expectations and the accounting provisions recorded for non-performing exposures.

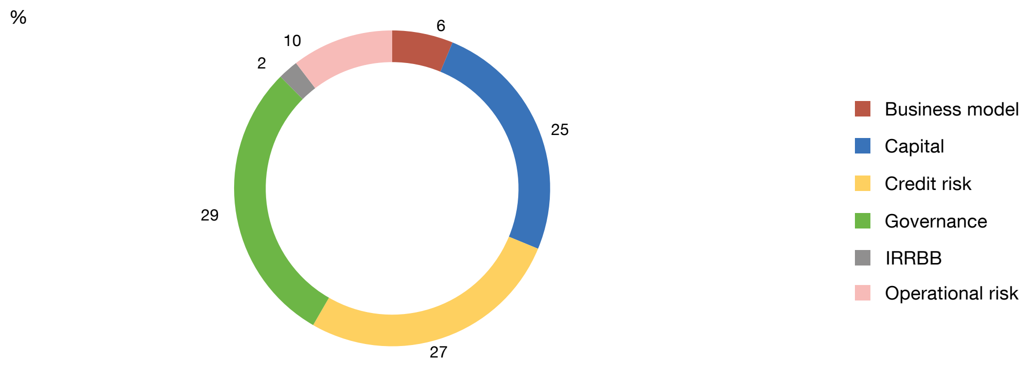
— In relation to the business model, the importance of strengthening analytical accounting was reiterated with a view to improving management reporting and ensuring the appropriate allocation of costs and income across the various business units, geographical areas, customers and products, etc. In addition, several institutions were informed of the importance of formally establishing a strategic business plan that includes all the relevant variables, both external and internal impacts, all the companies and business lines within the group, scenarios and sensitivities, as well as adequate monitoring.

Chart 2.10
As a result of the SREP on Spanish SIs, 70 quantitative and qualitative requirements and recommendations were made in 2024, of which 23 (31%) were requirements. This represents a clear reduction with respect to the 97 issued in 2023 and reflect the considerable efforts and improvements made by the institutions and the effectiveness of supervision

2.10.a Requirements



2.10.b Recommendations



SOURCE: Banco de España.

— In the area of operational risk, three SIs were urged to strengthen their provisioning system to cover, in a timely and sufficient manner, legal contingencies arising from market conduct, paying special attention to mortgage expenses. In addition, it was recommended that the second line of defence perform the fundamental task of reviewing both the calculation and the establishment of these provisions for all operational risk, not only for conduct contingencies.

In addition to the SREP, other salient ongoing off-site supervisory actions were carried out in 2024, as detailed below.

In relation to credit and counterparty risk management, the following actions are worthy of note: horizontal reviews of portfolios that are potentially more sensitive to the macroeconomic environment and of the coverage of novel risks, and in-depth reviews of refinancing policies and management of unlikely-to-pay exposures (UTPs).

— The specific horizontal reviews of sensitive portfolios included both credit risk management (granting, refinancing, application of IFRS 9 and collateral valuation) and the monitoring of the recommendations issued following the reviews carried out in 2023 (e.g. on residential and commercial mortgages).

— In the in-depth reviews of UTP risk management and refinancing policies, weaknesses were generally identified in: i) the analysis of borrowers' payment capacity; ii) the delimitation of responsibilities in the process of identifying and monitoring these risks; and iii) the functioning of early warning systems. Also, a lack of alignment with the new EBA guidelines on UTP indicators was observed.

— In addition, a horizontal review was conducted of the status of the 2023 recommendations on the capture of "novel" risks in institutions' provisioning frameworks and, in particular, the use of adjustments (overlays) to internal IFRS 9 provisioning models. It was concluded that institutions have made progress in identifying new risks. However, limitations are still found in the design of overlays and in the accounting classification of transactions (see Box 2.5).

With regard to asset and liability management (ALM) and funding and liquidity risk, the horizontal reviews of the following areas are worthy of note: i) the funding structure and viability of funding plans; ii) ALM strategy and governance; and iii) the criteria used to calculate the liquidity coverage ratio.

— The review of the funding structure and of the viability of funding plans identified good practices and spotted areas for improvement related to deviations in budgeted funding plans, in the monitoring of certain indicators and the formalisation of contingency plans.

— The review of ALM strategy and governance, which is still under way, is expected to identify good practices and potential shortcomings related to the data used throughout the ALM cycle, to organisation and procedures, and to risk identification and measurement methods.

— The analysis of the criteria applied by institutions in the calculation of the liquidity coverage ratio has made these criteria more homogenous.

In the area of governance, the following actions were carried out: i) a horizontal analysis on remuneration and risk culture; ii) a thematic review of the effectiveness and diversity of the board of directors and its capacity for debate and supervision of the institution; iii) an in-depth review of the control model (second line of defence); and iv) a horizontal review of data governance (RDAR).

— The horizontal exercise on remuneration and risk culture, which sought to ascertain how institutions reflect their risk perspective in their incentive frameworks, concluded primarily that there was a need to improve the risk alignment of the indicators used to determine variable remuneration.

— The thematic review of the effectiveness and diversity of the board of directors and its capacity for discussion and supervision of the institution highlighted weaknesses related to the succession plans for directors.

— As regards the data governance framework (RDAR), Spanish SIs accounted for 33% of the total number of SSM institutions participating in the horizontal review of the degree of compliance with the supervisory expectations stemming from the ECB guide on effective risk data aggregation and risk reporting.

— Overall progress was evident in the industry's alignment with best practices and supervisory expectations.[5] However, it is worth noting that the main challenge remaining was the definition of remediation plans to ensure the establishment of robust data governance and management frameworks that support appropriate decision-making.

— Other weaknesses identified were: i) insufficient involvement, lack of allocation of responsibilities and training weaknesses affecting governing bodies in the areas of governance and data quality; ii) insufficient scope of data governance frameworks, with the exclusion of certain key risk reports, financial information or information sent to the supervisor; iii) absence of comprehensive and effective validation by the second and third lines of defence of data aggregation processes; and iv) lack of detail and update of the documentation of the information flow of key risk indicators.

— Supervisory activities in the coming years will analyse compliance with the remediation measures.

In relation to climate and environmental risk management, the following supervisory actions stood out: i) the monitoring of compliance with supervisory expectations and the shortcomings identified in the 2022 thematic review; and ii) the assessment of the information published by institutions (Pillar 3) on environmental, social and governance (ESG) risks. In addition, two initiatives on these risks stood out: the Fit-for-55 exercise (coordinated by the EBA) and the workshops on this topic held at the Banco de España (known as "green Fridays").

— With regard to compliance with supervisory expectations by the end of 2024, two specific analyses have already been carried out. In 2023, the review was focused on assessing materiality and the business environment, and it revealed weaknesses in certain institutions. As a result, binding supervisory decisions were sent to certain institutions, including the potential imposition of penalty payments in the event of non-compliance.

— In 2024, the specific monitoring of these decisions and of compliance with the requirements set for the end of 2023 showed significant efforts and improvements, but it also revealed

5 The ECB considers the Principles for effective risk data aggregation and risk reporting, published by the Basel Committee on Banking Supervision in January 2013, to be a benchmark for good practice in this area.

that there were still non-serious weaknesses, which were reflected in new formal communications to the institutions.

— As part of the recurrent supervisory activity, a review was also performed of the ESG risk information disclosed by institutions under Pillar 3 standards, in line with EU regulations, including both qualitative and quantitative information.

— In relation to climate and environmental risk, it is also worth noting that the Fit-for-55 scenario analysis exercise, coordinated by the EBA, involved the participation of the ECB and the European Systemic Risk Board. The objective was to assess how the financial system (banking, securities and insurance) would be affected by public policies for the transition to a more decarbonised economy by 2030.

— Also, the Banco de España continued to hold its "green Fridays" in 2024. Green Fridays are specific workshops with industry participation, which in 2024 were focused on: i) reflecting on existing practices in climate scenario analysis and stress tests; and ii) analysing the challenges posed by the use of data in such exercises, particularly with regard to the energy efficiency of collateral, the climate footprint of SMEs and the physical risks that may affect them.

— In short, despite the efforts and greater awareness of the issue, challenges remain in the area of climate and environmental risk management, such as the need for institutions to develop transition plans with quantifiable intermediate deadlines and milestones for aligning their credit portfolios with the Paris Agreement objectives. It is essential to continue the dialogue with institutions and counterparties so as to analyse their ESG risk profiles, integrate them into their management and deploy the necessary actions to support the transition.

In relation to the digital transition, at the end of 2023, a specific review of institutions' digitalisation strategies was launched within the SSM, which enabled the best practices in the sector to be identified.

— The review had a high representation of Spanish SIs (28% of the total) and it was centred on the areas of business, governance and risk management. The main objective was to assess how institutions design, manage and implement these strategies, with a particular focus on risk identification and mitigation.

— One of the good practices observed is the proactive involvement of management in defining the digitalisation strategy and supervising its implementation, although the reality is that many banks still have room for improvement in this area. What is observed in most institutions is the involvement of internal control functions in defining the digital strategy.

— On the less positive side, it should be noted that many banks have not defined with sufficient granularity the performance indicators that measure the progress of digital transformation,

Table 2.3
On-site supervision at SIs. Number of inspections commenced in 2024

	2024		
	On-site Inspections	Model Investigations	Total
On-site Inspections/Investigations	21	13	34
At Spanish credit institutions	18	13	31
Led by the Banco de España	12	7	19
Led by the ECB	4	2	6
Led by other NCAs	2 (a)	4 (b)	6
At credit institutions of other SSM countries	3 (c)	0	3
TOTAL	**21**	**13**	**34**

SOURCE: Banco de España.

a Banca d'Italia and Autorité de Contrôle Prudentiel et de Résolution.
b Bundesbank and Banco de Portugal.
c The Banco de España led an inspection in France and participated in the inspections teams at German and Irish institutions.

including economic gains and losses. This makes it difficult to determine the effectiveness of their strategies or to know whether they are achieving the objectives set.

In addition, other actions were carried out which, while not falling within the supervisory priorities, are particularly salient, notably relating to market risk.

— In relation to market risk, mention should be made of a horizontal review involving three Spanish SIs on the implementation of the alternative standardised approach defined by the prudential market risk framework – fundamental review of the trading book (FRTB) – in order to analyse the degree of regulatory compliance under this new framework.

— The horizontal review identified shortcomings related to the calculation of the three components of the alternative standardised approach (the sensitivity-based approach, the default risk add-on and the residual risk add-on), the internal validation and audit review, and the methodological documentation and information reported to senior management.

With regard to **on-site inspections** of SIs in 2024 (see Table 2.3), their scope was aligned with the SSM supervisory priorities which, in turn, were geared towards further exploring the impact of the macroeconomic environment and interest rate rises on institutions.

— The design of the 2024 inspection plan was marked in particular by the impact of the macroeconomic environment on credit quality, particularly in corporate and real estate-backed lending portfolios (seven inspections), and on interest rate, liquidity and market risk management (five inspections). In addition, the planning of inspections also took into account the results of “horizontal” reviews and other areas of concern identified by the joint supervisory teams; noteworthy in this regard are the reviews of the calculation of regulatory and economic capital (three inspections).

- Also, in relation to technology risk, an inspection was carried out in 2024 at a Spanish institution that was focussed on cybersecurity and outsourcing management. In addition, the Banco de España participated in a joint inspection with the SSM of a cloud service provider serving around 40 European SIs; this joint action is not included in Table 2.3.

- With regard to grouping inspections by similar themes and characteristics, the organisational approach of "campaigns" was maintained in order to reinforce consistency in on-site inspection work. Specifically, 8 of the 18 inspections scheduled in the 2024 plan for Spanish institutions were part of one of the campaigns, in particular those assessing collateral and real estate-backed financing, collective provisioning models and credit classification for SMEs, interest rate or liquidity risk as regards the adequacy of financing and contingency plans and assessment of compliance with regulatory liquidity ratios.

- Credit risk inspections accounted for most of the weaknesses detected in 2024. The most serious weaknesses related to: i) the parameters used in internal accounting provisioning models; ii) the treatment of collateral and the haircuts applied in its valuation; and iii) the classification of transactions according to their credit risk.

- In addition, in the interest rate and liquidity risk inspections significant weaknesses were observed in: i) the models used to measure them; ii) the quality of information received by management bodies; and iii) the control framework for metrics and models.

- Lastly, it should be noted that an on-site inspection of a Spanish SI, that had commenced in 2023 and was focused on climate risk, was completed in 2024. Inspections on climate risk will continue to be carried out, either with a single subject or including the climate component in the scope of other inspections focused on other risks.

Most capital model investigations (see Table 2.3) were geared towards reviewing changes arising from both new regulatory requirements and the resolution of obligations from previous missions.

- By type of risk, in 2024 all investigations focused on credit risk models. In terms of content, most of the missions were aimed at reviewing changes in models arising from new regulatory requirements and the resolution of obligations from previous missions.

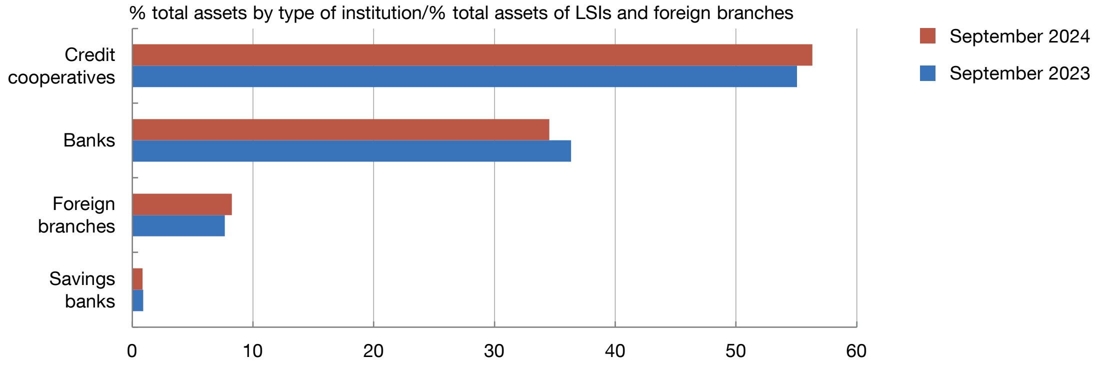
- The main weaknesses detected over the course of 2024 were concentrated in the quantification of both probability of default (PD) and loss given default (LGD) and in validation and governance processes.

3.2 Supervision of less significant institutions, non-EU branches and the Official Credit Institute

Overall, in 2024, 483 ongoing supervisory actions were carried out on LSIs and the ICO, and the economic and financial performance of 37 branches was monitored on a regular basis.

Chart 2.11

The volume of total assets of the various types of LSIs and foreign branches resulted in an increase in the weight of credit cooperatives and foreign branches, and a decrease in the weight of banks



SOURCE: Banco de España.

Also, 11 on-site inspections commenced (with particular emphasis on analysing credit quality, governance, internal control and solvency), of which 2 were completed. In addition, a further 5 inspections, which had commenced in the previous year, were also completed. Of the 11 inspections that commenced, 2 addressed technological risk, 1 of them at a major LSI technology service provider.

The supervisory actions described above resulted in 115 letters being sent to LSIs and the ICO (see Chart 2.12).

Chart 2.13 shows the breakdown by subject matter of the 528 requirements and recommendations included in the letters addressed to LSIs (stemming from the conclusions of the SREP, the review of recovery plans and inspections), the most salient content of which is described below.

The SREP plays a key role in off-site monitoring and leads to the subsequent capital decision. It is carried out in line with the common SSM methodology and incorporates all the information obtained from all the supervisory activities carried out on institutions (monitoring, thematic reviews, inspections, meetings with persons responsible, etc.). The SREP carried out in 2024 resulted in a weighted average P2R requirement for LSIs of 1.72%, while the P2G guidance remained constant at a weighted average of 0.99%.

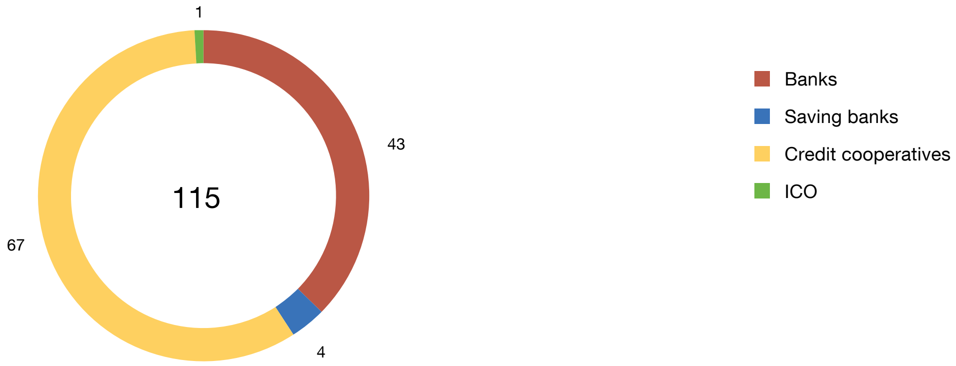
— As a result of the SREP, the weighted average P2R applicable to LSIs in 2025 was 1.72%, down 8 bp with respect to the SREP carried out in 2023. The P2R remained broadly stable: it was unchanged for 39 institutions, increased for 11 and decreased for 9. The 8 bp reduction in the weighted average P2R was largely due to the decrease in the case of 2 institutions, which previously had high requirements.

— In 2024, the need to establish a capital add-on for excessive leverage was also analysed, but in no case was it necessary to require this add-on.

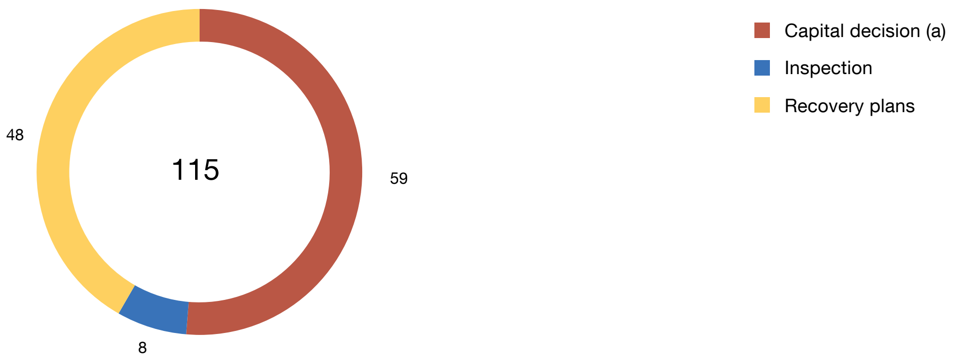
Chart 2.12

Capital decisions account for 51% of the number of letters addressed to LSIs, while another 42% relate to the assessment of recovery plans

2.12.a By type of institution (2024)



2.12.b By origin (2024)



SOURCE: Banco de España.

a The 59 capital decision letters addressed to the 58 LSI institutions or groups (in one case a letter was addressed to a subsidiary of an LSI group in addition to the group itself) and to the ICO.

- The P2G guidance, which was calibrated in 2023 for two years, remained unchanged in 2024 at a weighted average of 0.99%.

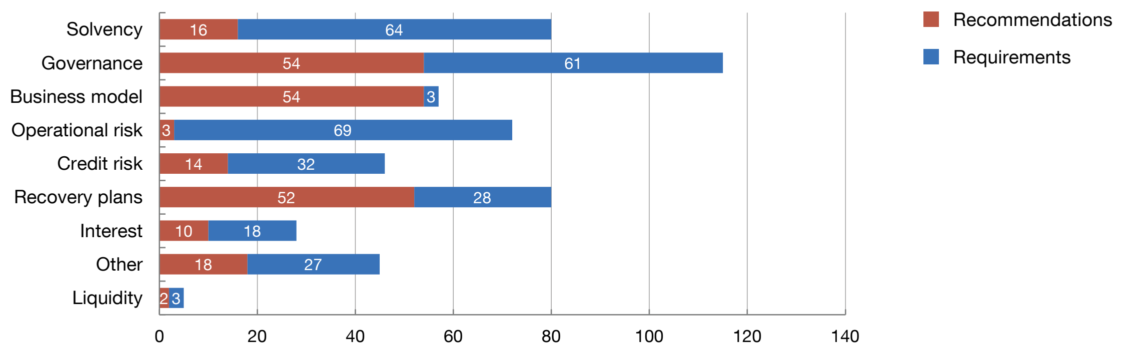
- The P2G is set using results of the domestic stress test (see section 3.3) known as the Forward-Looking Exercise on Spanish Banks (FLESB), together with the quantitative results of the stress tests performed by the institutions within their internal capital and liquidity adequacy assessment reports.

- The FLESB was also used to identify the possibility of establishing P2G guidance for excessive leverage (P2G-LR) for the first time, although this was not necessary for any LSI.

The annual letter (capital decision) to institutions with the SREP results, together with the P2R decision and P2G guidance, included requirements and recommendations to remedy the shortcomings or areas for improvement identified during supervisory activities. In 2024, the most

Chart 2.13

Noteworthy is the number of requirements and recommendations to LSIs on governance and solvency and, to a lesser extent, business models and operational risk. There are also numerous requirements and recommendations on recovery



SOURCE: Banco de España.
NOTE: "Other" contains requirements and recommendations in relation to climate risk and liquidity.

frequent requirements and recommendations referred to credit risk, operational risk, governance, business model, structural interest rate risk and the internal capital and liquidity adequacy assessment process report.

— With regard to credit risk, requirements were made to nine LSIs (one more than in 2023) to implement NPL and foreclosed asset reduction plans, as well as recommendations to implement NPL reduction measures for institutions whose non-performing loans have worsened and to take extra precautions in loan origination and the monitoring of credit risk.

— In the area of operational risk, the conclusions were related to the completion of the implementation of improvements in relation to information technology (IT) risk and of the adaptation of all critical outsourcing arrangements to current regulations, following the horizontal reviews carried out in 2023.

— These reviews had identified the following: i) a significant number of critical outsourcing arrangements had not been notified to the Banco de España; and (ii) many of these critical outsourcing arrangements did not comply with the requirements of Circular 2/2016 or the EBA guidelines on outsourcing arrangements.

— In 2024, the institutions were regularising this situation, adapting the arrangements to the higher requirements and preparing for the new DORA requirements.

— As regards governance, weaknesses were identified in relation to boards of directors: i) lack of gender balance; ii) high tenure/average age of members; iii) insufficient quality of minutes; iv) aspects of variable remuneration; and iv) the need to reinforce internal audit's independence, improve its resources and qualifications, and establish procedures for monitoring its recommendations and action plans, among other matters.

— In relation to the business model, they referred to improvements in the definition of strategic plans, in their integration into internal management and in the identification, communication and resolution of deviations, and to the need to take concrete measures in order to ensure recurring profitability, efficiency and improvement of the balance sheet structure.

— With regard to interest rate risk, recommendations were included on the need for active management, risk monitoring and corrective measures, and requirements were communicated on the need to intensify control and strengthen monitoring of interest rate risk and to return to compliance for institutions that exceed regulatory limits (impact on the scenarios considered: greater than 15% of economic value or greater than 5% of income).

— In relation to the review of the "internal capital and liquidity adequacy assessment report", requirements and recommendations were made on: i) integration of leverage in capital planning; ii) improvement of quantitative analysis in risk assessment; iii) full integration of structural balance sheet credit spread risk; iv) adequate justification of capital and liquidity stress tests; v) explanation of the use of the results of these tests in planning and strategy, and vi) scenarios included in the stress exercise.

The letters on recovery plans are mandatory, and most of the recommendations in them (33 out of 52) referred, in 2024, to the fact that these plans do not include all the indicators listed in Annex II of the EBA/GL/2021/11 Guidelines, without adequately justifying why these specific indicators are not relevant to the institution or, where appropriate, replacing them with more relevant ones.

The off-site monitoring actions also include regular monitoring of LSIs and branches, with different scopes depending on the type of institution.

— Quarterly monitoring of LSIs or groups of LSIs is intended to anticipate the detection of potential problems in the various risks. It includes an assessment of the status of the requirements and recommendations not yet resolved by each institution, which is reported to the Executive Committee of the Banco de España within the framework of the supervisory plan activities.

— In the case of branches in Spain of LSIs with headquarters in other EU Member States (not subject to prudential or liquidity requirements), their performance is monitored on a regular basis.

— The regular monitoring of branches in Spain of credit institutions from non-EU countries (non-EU branches) includes the analysis of their performance and the assessment of compliance with the solvency regulation requirements from which they have not been exempted.[6]

6 The Banco de España, upon reasoned request, may exempt branches in Spain of credit institutions with headquarters in a non-EU country from compliance with Parts Three, Four, Six, Seven and Seven bis of Regulation (EU) No 575/2013, and from compliance with Chapter 3 and Section 3 of Chapter 4 of this circular, provided that the conditions set out in Article 55 of Royal Decree 84/2015 and Rules 4.5 and 4.6 of Circular 2/2016 are met.

In addition, two horizontal reviews were carried out on two LSI samples, and monitoring continued of the review carried out in 2023 of the outsourcing of critical functions and activities.

— One of the horizontal reviews relates to climate risk management and aimed to verify the effective implementation of controls in the identification, pricing and monitoring of a selection of exposures to the most polluting sectors.

— Progress was seen in the degree of alignment and checks were made as to whether the LSIs have basic practices in place regarding: i) integration of climate-related risks into their customer onboarding processes; ii) use of qualitative and quantitative information to identify and assess climate risks; iii) adequate mechanisms for supervising climate-related credit risk; and iv) consideration of climate risks in their loan pricing framework.

— The longest delays relate to the integration of climate risks into their credit policies and collateral valuations.

— The second horizontal review, regarding credit risk, included institutions with potential shortcomings in the reclassification and coverage of their credit risk.

In relation to on-site inspections, the letters sent to institutions highlighted weaknesses in: i) governance (in the functioning of the management body and the appointment and remuneration committees, and internal audit); ii) credit risk appetite policies and guidelines; and iii) the quantification of risk-weighted assets for the calculation of solvency ratios.

In addition, the Banco de España participated in the supervisory colleges of the subsidiary of a third-country bank and the branch of an EU credit institution,[7] contributing to joint decision-making on capital and liquidity requirements; in a European resolution college of the subsidiary of a third-country bank;[8] in three supervisory colleges,[9] and in three resolution colleges[10] of central counterparties (CCPs).

7 In accordance with Article 3(2) of Delegated Regulation (EU) 2016/98, the consolidating supervisor may invite the competent authorities of host Member States where non-significant branches are established to participate in the college as observers.

8 In accordance with Article 89 of Directive 2014/59/EU establishing a framework for the recovery and resolution of credit institutions and investment firms (Article 88 BRRD), where a third country institution or third country parent undertaking has EU subsidiaries established in two or more Member States, or two or more EU branches that are regarded as significant by two or more Member States, the resolution authorities of the Member States where those EU subsidiaries are established or where those significant branches are located shall establish a European resolution college.

9 In accordance with Article 18(2)(c) of Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (commonly known as EMIR), the Banco de España participates as the competent authority responsible for the supervision of clearing members established in one of the three Member States with the largest contribution to the default fund of the CCP.

10 In accordance with Article 4(2)(c) of Regulation (EU) 2021/23 on a framework for the recovery and resolution of CCPs, the members of the resolution college shall be the competent authorities and resolution authorities of the clearing members of the CCPs established in the three Member States that, over a one-year period, make the largest aggregate contribution to the default guarantee fund.

3.3 Stress tests

The results of the FLESB[11] stress tests show that the aggregate solvency of a majority group of LSIs, exposed to macro-financial risks, would remain high and comfortably above regulatory requirements in both the baseline and adverse scenarios.

— As in previous years, the Banco de España conducted stress tests on a group of LSIs[12] with the aim of measuring their capacity to cope with potential macroeconomic and financial risks arising from a baseline scenario and an adverse scenario.

— These tests are conducted under the FLESB methodological framework – described in Chapter 3 – and serve as a reference for the supervisory review and evaluation process (SREP), particularly for determining the additional capital needed in adverse conditions (P2G).

— The aggregate results of the test[13] (see Chart 2.14) show how capital varies at the end of the time horizon in the baseline and adverse scenarios, after a series of effects have been taken into account: positive effects (such as the use of provisions and the generation of resources) and negative effects (such as impairment and other impacts), with the former clearly predominating over the latter (even in the adverse scenario). Mention should be made of the importance of the interest rate trajectory envisaged in the two scenarios (stable in the baseline scenario and rising in the adverse scenario), which is key to maintaining high net interest income.

— Solid resilience would be maintained, even in an environment where risks materialise, such as in the adverse scenario. The high level of institutions' solvency at the end of 2023 (2 pp above the 2022 year-end level) and the high net interest income in both scenarios considered are decisive in this regard.

Furthermore, the ECB/SSM alternates annually between conducting a comprehensive solvency assessment ST and a thematic ST. While in 2023 it conducted a comprehensive ST, in 2024 it conducted a thematic ST on cyber resilience covering 109 institutions supervised by the SSM, including the 10 Spanish SIs.

— The envisaged scenario assumed a successful cyberattack affecting the integrity of the databases of the systems supporting the institutions' critical services. The central objective of the ST was to assess the institutions' response and recovery in this scenario.

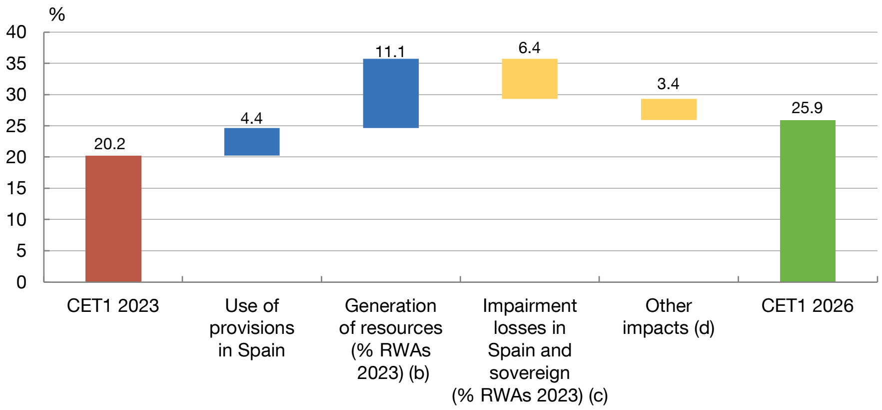
11 The Banco de España's stress test (ST) exercise, FLESB, follows a top-down approach based on regulatory and supervisory reporting and on its own estimates of the various risk models and financial performance of institutions.

12 These tests are conducted in accordance with Article 55(5) of Law 10/2014 on the regulation, supervision and solvency of credit institutions.

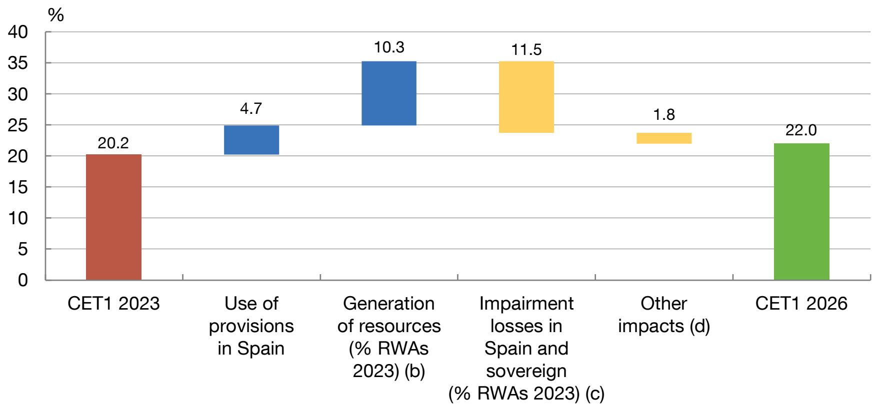
13 Following the static balance sheet principle, as in the tests conducted by the EBA, and, unlike the macroprudential exercise described in Chapter 3, without considering the possible additional adverse effects on credit risk of potential latent impairment arising from the economic effects of the COVID-19 health crisis.

Chart 2.14
LSIs' CET1 ratio increases in both the baseline scenario (+5.7 pp) and the adverse scenario (+1.7 pp) in the FLESB stress test

2.14.a Static baseline scenario (a)



2.14.b Static adverse scenario (a)



SOURCE: Banco de España.

a The yellow (blue) colour of the bars indicates a negative (positive) contribution of the item corresponding to the change in the CET1 ratio at the horizon end of the forward-looking exercise (2026) as compared to the beginning of the exercise (end of 2023/beginning of 2024).
b The generation of loss-absorbing resources is determined by net operating income in Spain.
c Impairment losses on loans and foreclosed assets in Spain, and the impact on capital of the potential impairment of institutions' sovereign exposures.
d Other consolidated profit and loss, tax and exchange rate effects, profit distribution and changes in RWAs.

— The test consisted of a theoretical exercise in which all of the institutions completed a questionnaire and provided documentation to support their answers. In addition, a sample of 28 institutions (3 of them Spanish) covering different business models and countries underwent more thorough reviews, including a real recovery test and visits by supervisors to carry out additional checks.

— The institutions had to demonstrate aspects related to their capacity to activate response and recovery plans, analyse the situation, implement mitigation measures, manage communication with stakeholders and recover theoretically affected data and systems.

— The test showed that, although the institutions have response and recovery frameworks in place, these frameworks have areas for improvement that need to be addressed. The results were taken into account in the supervisory evaluation process for each institution.

— This is a pioneering initiative that has raised awareness of the need to strengthen institutions' cyber resilience frameworks.

— Together with the ECB and other national authorities, the Banco de España participated in both the design and execution of the test.

3.4 Supervision of covered bonds and securitisations

The supervisory powers over covered bonds are attributed to the Banco de España by Royal Decree-Law 24/2021.[14]

— This supervisory regime is complemented by the designation by the issuing institutions of a cover pool control body, which performs the ongoing monitoring of the cover assets.

— Royal Decree-Law 5/2023 of 28 June 2023 introduced significant amendments in this matter, including, inter alia, those relating to the assessment of cover assets, loan exits from the cover pool and the authorisation of loan restructurings by the control body, as well as to the appointment and sanctioning regime of that control body.

In December 2024, there were 20 Spanish credit institutions issuing covered bonds under the scope of this supervision. In 2024, individual monitoring was carried out on each of the issuing institutions, inspections were conducted, and also a consolidated horizontal analysis was performed.

— These institutions have designated a total of five commercial companies as cover pool control bodies.

— Issuers submit to the Banco de España, on a quarterly basis, the confidential returns relating to covered bonds provided for in Circular 1/2023, which entered into force on 31 March 2023.

— As a new development, the 2024 Directorate General Supervision Action Plan included inspection actions targeting covered bonds. Specifically, two of the issuers were inspected, one in each half of the year.

Issuing institutions have made efforts to adapt to the requirements of the covered bond regime and the market is functioning smoothly, providing greater security to covered bond investors.

14 This regulation transposed Directive (EU) 2019/2162, thereby establishing a harmonised minimum regime in the EU with regard to the conditions for the issue and characteristics of this type of instrument, with the aim of promoting the unified development of these markets.

The cover pool control body's role is essential in this regard, and its review is a key part of the investor protection scheme.

As part of its supervisory functions, the Banco de España must authorise the programmes that include the characteristics of the covered bonds issued under them.

— Over the course of 2024, the Banco de España authorised one new programme and the increase in the amount of another programme.

— At the end of 2024, there were 28 authorised covered bond programmes, covering both issues outstanding at that date and issues that may occur until the programme maturity date and up to the maximum authorised amount.

— At that date, there were 211 outstanding covered bonds on the Spanish covered bond market (see Table 2.4), with a nominal value of around €207 billion, of which 90% corresponded to mortgage covered bonds, 4% to public sector covered bonds and 6% to internationalisation covered bonds.

In compliance with Royal Decree-Law 24/2021, the Banco de España discloses and updates periodically on its website (covered bonds) the list of authorised issuing institutions and of covered bonds issued under authorised programmes.

The Banco de España supervises the specific framework for simple, transparent and standardised (STS) securitization and also compliance with certain "general requirements" that all securitisations must meet.

— In accordance with Law 5/2015 of 27 April 2015 on the promotion of business financing, in 2023 the Banco de España assumed the supervision of the specific framework for STS securitisation, provided for in Regulation (EU) 2017/2402, when the issuers of these instruments are credit institutions or other institutions under the supervision of the Banco de España.

— In accordance with Regulation (EU) 2017/2402, the Banco de España must also supervise compliance with certain "general requirements" that all securitisations (whether STS or not) must meet, relating to risk retention, transparency of information, the ban on re-securitisation and credit granting. In this case, the scope of the supervision of the Banco de España concerns only LSIs, as well as the other institutions subject to the supervision of the Banco de España in accordance with sectoral regulations; therefore, for securitisations carried out by SIs, this supervisory competence is exclusive to the ECB.

— In 2024, monitoring was performed on all securitisations notified to the Banco de España within its sphere of competence that had been carried out between the beginning of 2019 (when Regulation (EU) 2017/2402 entered into force) and the end of 2023. A total of 54 securitisations were notified, of which 49 were STS securitisations (see Table 2.5).

Table 2.4
Outstanding covered bonds at 31/12/2024

Amounts in millions of euros

	Mortgage covered bonds		Public sector covered bonds		Internationalisation covered bonds	
	No. of issuance	Amount	No. of issuance	Amount	No. of issuance	Amount
SIs	172	180,851	8	8,290	9	11,605
LSIs	22	6,682	0	—	0	0
TOTAL	**194**	**187,533**	**8**	**8,290**	**9**	**11,605**

SOURCE: Banco de España.

Table 2.5
Individual monitoring of securitisations in relation to Regulation (EU) 2017/2402

No. of securitisations

	Traditional securitisations		Synthetic securitisations (b)		**Total**
	STS	Non-STS	STS	Non-STS	
SIs	19	(a)	16	(a)	**35**
LSIs	3	3	0	0	**6**
SLIs	11	1	0	1	**13**
TOTAL	**33**	**4**	**16**	**1**	**54**

SOURCE: Banco de España.

a Compliance with the general securitisation requirements of non-STS by SIs is under the scope of the supervision of the ECB.
b So-called "balance-sheet" synthetic securitisations which comply with the requirements set out in Articles 26(3) to 26(6) of Regulation (EU) 2017/2402.

— All STS securitisations have been notified to the European Securities and Markets Authority in accordance with the procedures established for this purpose and, pursuant to Article 28 of Regulation (EU) 2017/2402, they have used the service of an authorised third party certifying that the STS criteria have been respected.

— The originators of securitisation transactions have notified their issues incorporating the reporting requirements established by the Banco de España, which enable verification of compliance with the requirements laid down in Regulation (EU) 2017/2402.

3.5 Anti-money laundering and countering the financing of terrorism

In 2024, AML inspections were focused on reviewing governance in relation to the AML external expert report for a sample of eight credit institutions, on the general review of two LSIs selected on the basis of their risk profile and the fact that they had not yet been inspected, and on three payment institutions, as this is a sector with significant inherent risk.

— The Banco de España's actions in this area are planned annually in close cooperation with the Secretariat of the Commission for the Prevention of Money Laundering and

Monetary Offences (CPMLMO) and SEPBLAC, and with the National Securities Market Commission (CNMV) and the Directorate General of Insurance and Pension Funds (DGSFP), in order to avoid overlaps and optimise available resources, thus contributing to institutional efficiency.

— In 2024, in addition to the completion of a general inspection at an SI which commenced in 2023, the work on credit institutions included the review of AML/CFT policies, procedures and controls at two LSIs. As a result, requirements were issued relating to the need to improve the application of due diligence measures, customer transaction alerts, the detection, analysis and reporting of suspicious transactions as well as the allocation of technical and human resources.

— Also, a horizontal review of governance was performed on the external expert report on two SIs and six LSIs, with the aim of assessing the process for selecting the expert and the way in which the institutions monitor the expert's recommendations. As a result of this review, recommendations were made to strengthen the control over the monitoring of external expert report findings and on the need for an adequate remediation plan.

— In relation to other types of institutions, three general inspections were carried out at payment institutions (PIs), as this is a sector with significant inherent ML/FT risk according to Spanish and international risk assessments. As a result of these inspections, recommendations were made on the monitoring and control of agents, and on the implementation of the improvement measures identified by the institution in the assessment of its agent network.

— In addition to on-site inspections, the AML work is complemented by off-site monitoring of institutions supervised by the Banco de España. Thus, in 2024, 32 supervisory actions were carried out in order to update the risk profile of the most significant institutions, and the Banco de España oversaw compliance with the requirements and recommendations issued in previous inspections.

— At the international level, the Banco de España continued to cooperate closely with other AML/CFT supervisors, both at the bilateral level and by participating in international supervisory and regulatory fora. Notably, together with SEPBLAC, the Banco de España organised the AML supervisory colleges for 6 Spanish credit institutions and 1 Spanish PI.

— Also, the two authorities coordinated their participation in 70 AML/CFT supervisory colleges of other European institutions operating in Spain; the Banco de España participated in 21 of these colleges.

— Lastly, it is worth noting the approval in June 2024 of the new European prevention package, which includes the creation of the European Anti-Money Laundering Authority (AMLA), based in Frankfurt, which will have direct and indirect supervisory functions over regulated institutions and will become operational in 2025.

— The new package also includes a more harmonised regulatory framework in the EU, through a new regulation, that is directly applicable to all regulated institutions, and the sixth AML/CFT directive.

3.6 Common procedures, suitability assessment procedures and other procedures

Within the framework of supervision, credit institutions are subject to various administrative authorisation procedures. Common procedures are those relating to the authorisation to perform the activities specific to credit institutions, the withdrawal of such authorisation and the acquisition of qualifying holdings. They are set out in ECB Regulation (EU) No 468/2014, which establishes the framework for cooperation within the SSM between the ECB and the national competent authorities.

— In these procedures, and for Spanish institutions, the Banco de España makes an initial assessment and formulates a draft decision for each specific case. Subsequently, based on this proposal and any additional work it deems appropriate, the ECB adopts a definitive decision.

As for the other procedures, the Banco de España is responsible for those relating to Spanish LSIs and collaborates with the ECB in those relating to Spanish SIs.

Table 2.6
Procedures in respect of credit institutions involving the Banco de España

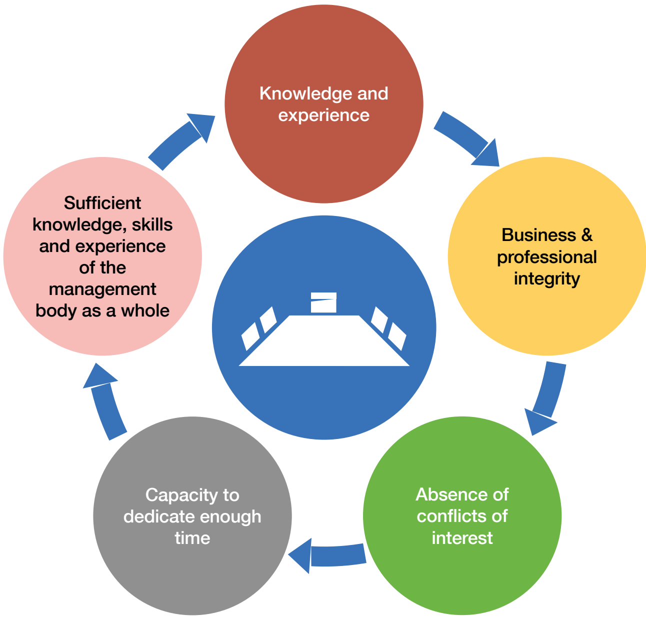
Data at 31 December 2024

	Total number
Qualifying holdings, merger, spin-off and other significant acquisitions	12
Cross-border activity of Spanish credit institutions	77
Branches in the EU	36
Branches in third countries	1
Freedom to provide services	35
Representative offices	5
Deregistration	1
Loans to directors & senior officers	31
Suitability of directors & senior officers (a)	172
Procedures relating to capital	130
Amendments to articles of association	38
Communications with other supervisory authorities or institutions	30
Other procedures	29
TOTAL	**520**

SOURCE: Banco de España.

a Includes 1 senior officer suitability assessment regarding a mixed financial holding company.

Figure 2.4
Suitability requirements assessed for directors within the SSM



SOURCE: Banco de España.

— These procedures include most notably the prior assessment of the suitability of directors and senior officers and their subsequent registration in the Banco de España's Senior Officer Register.

Table 2.6 details the common procedures and the rest of the procedures on credit institutions in which the Banco de España has participated.

Figure 2.4 offers a visual summary of the determining criteria for the suitability assessment of SSM directors.

4 Supervision of institutions other than credit institutions

Any operator wishing to provide financial services supervised by the Banco de España must obtain prior authorisation or registration. The Banco de España is the competent authority for granting and withdrawing authorisations or registering the following institutions or activities:

— Electronic money institutions (ELMIs) and payment institutions (PIs), specialised lending institutions (SLIs) which provide payment services (SLI-PIs) or which issue electronic money (SLI-ELMIs), PIs exempt pursuant to Article 14 of Royal Decree-Law 19/2018[15] and account information service providers (known as “aggregators”).

— Currency-exchange bureaux.

— Official recognition of appraisal companies.

The Banco de España is also responsible for carrying out certain actions related to the authorisation and verification of requirements for other types of institutions, and for supervising certain aspects of some of these institutions:

— Issuance of the mandatory report on the authorisation of SLIs, mutual guarantee societies (MGSs) and re-guarantee companies, the granting of which is the prerogative of the Ministry of Economy, Trade and Business.

— Verification that payment service providers that notify that their activity is covered by one of the exclusions provided for in Article 4(k) or (l) of Royal Decree-Law 19/2018 meet the necessary criteria.

— Supervision of Sareb (the asset management company for assets arising from bank restructuring)[16] and banking foundations.[17]

— From 30 June 2024,[18] authorisation, supervision, inspection and sanctioning of issuers of asset-referenced tokens (ARTs) and electronic money tokens (EMTs). The Banco de España

15 These are small payment institutions (SPI) that are subject to a process of registration in the PI register, subject to less stringent requirements than those required in an PI authorisation process, insofar as the total average value of payment transactions executed in the preceding 12 months, including any agents for whom it assumes full responsibility, does not exceed €3 million per month. Only certain regulatory provisions of Royal Decree-Law 19/2018 apply to them.

16 The Banco de España supervises fulfilment of Sareb’s sole corporate purpose, in order to identify deviations therefrom that jeopardise the attainment of Sareb’s overall legal objectives.

17 Law 26/2013 of 27 December 2013 on savings banks and banking foundations confers on the Banco de España control of compliance with certain rules related to the influence of the banking foundation over the sound and prudent management of the investee credit institution, in the event that the foundation holds an ownership interest of, at least, 30% of the share capital of the credit institution or which allows it to exercise control. This compliance control involves the submission for approval by the Banco de España of management protocols and annual financial plans.

18 The date of entry into force of Titles III and IV of Regulation (EU) 2023/1114 (MiCAR) relating to the issuance, offer to the public and admission to trading of asset-referenced tokens (ARTs) and electronic money tokens (EMTs).

is also responsible for verifying issuers' compliance with the requirements for eligibility for the exemptions under Articles 16(2) and 48(5) of MiCAR. For more information on the regulation of ARTs and EMTs introduced by MiCAR, see Box 2.6.

In 2024, the Banco de España introduced several improvements to the authorisation and registration procedures.

— The review of certain aspects of the projects was brought forward to the pre-application stage, which enabled the early identification of potential problems.

— The forms published on the Sede Electrónica (Electronic Headquarters) were improved in order to expand and specify the documentation to be provided with them.

— Certain manual tasks were automated in order to streamline procedures; this process will continue with a view to enhancing efficiency.

— In the MiCAR area, the Banco de España made "expressions of interest" forms available on the Sede Electrónica so that those interested in issuing and offering to the public and requesting admission to trading of ARTs or EMTs can notify the Banco de España before initiating the formal procedure.

— Table 2.7 lists other categories of institutions other than credit institutions that are registered with the Banco de España.

It is worth noting the upward trend in the number of electronic money or payment service providers (PSPs)[19] in the Spanish market. The number of registered PSPs other than credit institutions increased from 49 at the end of 2018 to 82 at the end of 2024 (51 PIs, 12 ELMIs, 14 PIs that are exempt pursuant to Article 14 of Royal Decree-Law 19/2018, and 5 aggregators). This trend is shaping a heterogeneous ecosystem with diverse business models, which requires increased supervisory efforts. The number of PSPs with payment instruments excluded under Article 4 of the aforementioned Royal Decree-Law[20] also continues to grow.

— With regard to authorisation processes, 23 applications for authorisation of ELMIs or PIs were resolved, of which 10 were authorised, 12 were withdrawn and 1 was rejected.[21] Also, 10 requests were processed regarding the exclusion from the scope of application of the payment services regulation of certain payment instruments that can only be used in a limited way, resulting in 4 being accepted, 5 dismissed and 1 withdrawn.

19 The PSP category comprises the following types of institution: a) credit institutions, b) ELMIs, c) PIs, d) exempt PIs, and e) account information service providers (aggregators).

20 The payment service providers excluded under Article 4 of Royal Decree-Law 19/2018 that are included in Table 2.7 are subject to a separate registration regime at the Banco de España and only certain regulatory provisions of the aforementioned Royal Decree-Law are applicable to them.

21 A significant proportion of these dismissed or rejected projects had business plans that were not sufficiently mature or viable. It should be noted that this sector in Spain has a large number of existing operators, with a high concentration of activity within few players and difficulties in making the business profitable.

Table 2.7
Register of institutions other than credit institutions. Upward trend

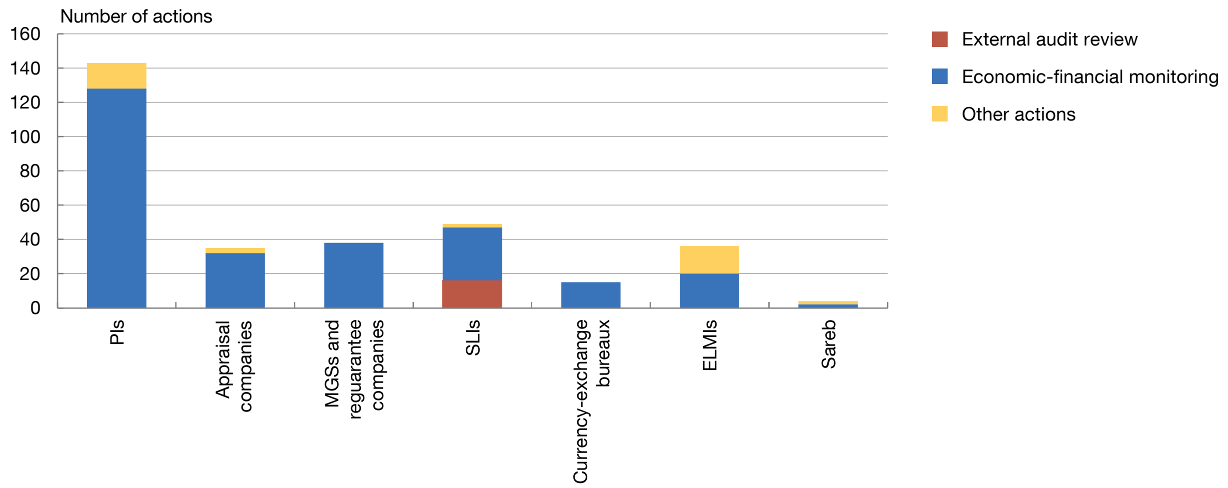
Data at 31 December 2024

	2022	2023	2024
SLIs	24	25	23
SLI-PIs	9	9	10
Branches of financial institutions subsidiaries of EU credit institutions	1	1	1
MGSs and reguarantee companies	19	19	19
Appraisal companies	32	32	31
Currency-exchange bureaux (a)	16	15	15
PIs	52	50	51
PIs exempt under Article 14 of Royal Decree-law 19/2018	10	14	14
Payment service providers with excluded payment instruments (b)	18	23	25
Account information service providers	3	4	5
ELMIs	10	10	12
Branches of EU PIs	9	8	9
Branches of EU ELMIs	4	6	8
TOTAL	**207**	**216**	**223**

SOURCE: Banco de España.

a Not including establishments authorised only to purchase currency using euros.
b Payment service providers with excluded payment instruments under Article 4 of Royal Decree-Law 19/2018.

Chart 2.15
High number of off-site supervisory actions on institutions other than credit institutions (outside the scope of the SSM), the vast majority of which are economic-financial monitoring



SOURCE: Banco de España.

— In addition, 7 notifications were received from various European supervisory authorities requesting the establishment of branches in Spain by PIs and ELMIs, all of which received favourable reports.

Monitoring these institutions involved a total of 320 actions in 2024, the breakdown of which is shown in Chart 2.15. Also, 8 inspections were carried out (1 PI, 1 ELMI, 2 MGSs and 4 appraisal

Table 2.8

Other procedures performed by the Banco de España on institutions

Data at 31 December 2024

	PIs	ELMIs	SLIs	MGSs	Appraisal companies	Currency-exchange bureaux	Sareb	Banking foundations	Total other institutions
Qualifying holdings, mergers, spin-offs and other significant acquisitions	12	3	3		5	3			26
Cross-border activity of Spanish credit institutions (a)	2,435	89	0						2,524
Branches in the EU	8	1							9
Branches in third countries									0
Freedom to provide services	259	75							334
Agents	2,168	13							2,181
Deregistration	4		1		1				6
Suitability of senior officers	62 (b)	21	53	49	10	4			199
Procedures relating to capital	4	1	5	1					11
Amendments to articles of associatio	6	0	3	4					13
Authorisation of management protocol and financial plan									0
Communications with other supervisory authorities or institutions						1			1
Other procedures			4	1				10	15
TOTAL									**2,795**

SOURCE: Banco de España.

a Each daily notification per recipient country and institution is deemed a procedure.
b Includes 3 SLI-PI suitability procedures.

companies), of which 4 were completed. In addition, to complement this, the details of the high number (2,795) of other procedures carried out by the Banco de España in relation to these institutions are shown in Table 2.8.

4.1 Specialised lending institutions

Supervision of this category of institutions was performed mainly through 49 off-site actions, including most notably 31 economic and financial monitoring exercises and 16 external audit reviews (see Chart 2.15). No inspections were carried out on this group in 2024. It is worth noting the high number (53) of senior officer suitability assessment procedures (see Table 2.8).

4.2 Payment institutions and electronic money institutions

Supervisory actions[22] on PSPs other than credit institutions, in particular PIs and ELMIs, included on-site inspections, the monitoring of ongoing supervisory measures and off-site supervisory actions:

- As well as completing 1 on-site inspection at an ELMI that began in 2023 and commencing an on-site at 1 PI, monitoring was performed on the implementation of the corrective measures required of 2 ELMIs as a result of 2 on-site inspections (the inspection completed in 2024 and another earlier inspection).

- In addition, 179 off-site actions were carried out (see Chart 2.15), including most notably 148 monitoring actions on the economic and financial situation of IPs and ELMIs and the review of compliance by 16 institutions (including among them all ELMIs) with the requirements for the guarantee and protection of payment service users' funds.

- Mention should be made of the high number of senior officer suitability assessment processes (83), due in part to the numerous changes in capital structure mentioned below.

With regard to the supervision of operational aspects and the safeguarding of funds in the area of PSPs other than credit institutions, of particular significance were the outsourcing of operational functions, communications related to international activity and requests for changes to the safeguarding method.

- There were 54 outsourcing notifications by PIs and ELMIs, most of which related to critical operational functions, more than double the number in the previous year. Also, within the EU, the Banco de España participated in the Joint-ESAs' "dry run" exercise on ICT Third Party Providers[23] in order to help the PIs and ELMIs prepare for the submission of information on contractual arrangements with third parties required by DORA.

- As regards the method of protecting funds received from payment service users for the execution of payments, 3 requests were registered for a change to the sole safeguarding method used to date.[24] Of these requests, 2 were in progress and 1 was completed.[25]

22 The Banco de España has distributed the supervision of PIs and ELMIs internally between the Directorate General Supervision and the Directorate General Operations, Markets and Payment Systems. To simplify matters: (i) the Directorate General Supervision supervises solvency, the shareholder structure and business model from a profitability perspective; and (ii) the Directorate General Operations, Markets and Payment Systems supervises the safeguarding of funds and the operational and technological aspects of payment service provision.

23 https://www.eba.europa.eu/activities/direct-supervision-and-oversight/digital-operational-resilience-act/preparation-dora-application

24 Separation of such funds from any other funds and their deposit in a separate account with an EU credit institution, with an express reference to their status as customer funds of the institution concerned.

25 Of the requests in progress, one seeks to safeguard customer funds by investing them in liquid, secure and low-risk assets that have no credit risk weight in accordance with Article 114 of Regulation (EU) No. 575/2013, while the second has communicated its intention to safeguard them through an insurance policy or other comparable guarantee from an insurance company or credit institution. The latter is the method chosen by the institution that has already been authorised to change its method.

In terms of results and profitability in the specialised payment service provider sector, in recent years there has been marked polarisation, with institutions operating with very uneven solvency margins and approximately half of PSPs reporting losses and difficulties in meeting their business expectations.

— Consequently, in the last five years there have been up to 35 cases of non-compliance with capital requirements due to scant internal capital generation.

— In 2024, work was carried out to establish a classification on the basis of the supervisory risk profile of solvency and profitability of Spanish PIs and ELMIs, as well as to define specific action plans that enable closer monitoring of the institutions with the highest risk profile.

— The shareholder structures of institutions in the sector have undergone numerous changes in recent years, although in 2024 there was a slight slowdown in investor appetite for this sector compared to previous years.

With the aim of providing greater transparency on supervisory expectations for specialised PSPs in relation to institutions' good governance, sustainability of their business models and capital generation capacity, the Banco de España's Directorate General Supervision is expected to publish in the course of 2025 a document setting out supervisory expectations as to how PIs and ELMIs should progress in risk management and control of their activity in the above-mentioned issues. In addition, a supervisory action plan on these matters will be designed.

— These expectations revolve, inter alia, around institutions' good governance and the need for internal reflection on the sustainability of their business models and their capital generation capacity, including, where necessary, the availability of recapitalisation plans.

— As this is a sector in which institutions carry out very diverse activities, each institution is expected to be able to identify the aspects that are relevant to it and take the necessary actions so that the risks assumed are adequately managed and controlled and that users' funds are fully secured.

— The design of a supervisory action plan is also planned, with a cross-institutional review of business models based on a broad sample of institutions with recurring problems in the generation of earnings and viability, with a view to adopting supervisory measures.

4.3 Appraisal companies

Since 2018, on-site inspections have been carried out at several appraisal companies which, together, account for an 80.7% market share of the total volume of appraisals. In 2024, the supervision of appraisal companies included 35 off-site actions (see Chart 2.15) and 4 inspections, of which 2 were completed in 2024.

— Of the 35 off-site actions, 32 consisted of economic and financial monitoring, and, of the 4 inspection visits, 2 were completed in 2024.

— The selection of companies to be inspected is based on both size and risk profile, which is determined using all available information on the companies, including data from valuations issued in the previous year.

The officially recognised appraisal company sector is concentrated and, in addition, a significant part of its business comes from credit institutions. Therefore, taking into account the banks´ potentially stronger position in terms of bargaining power, a review was carried out to analyse the manner in which credit institutions contract appraisal companies, interact with them and carry out quality control on appraisals. As a result of the review, it was observed that certain practices could undermine the independence of appraisal companies or adversely affect the quality of appraisals.

— Indeed, 7 companies or groups of companies issued appraisals accounting for 67% of the total volume of appraisals in 2023, while at the other extreme, the 10 appraisal companies with an individual market share of less than 1% together issued only 3.8% of this volume.

— A significant part of the business of appraisal companies continues to come from credit institutions, which, since 2013, can no longer hold qualifying holdings in appraisal companies, a measure that was adopted to foster the independence of the sector and avoid potential conflicts of interest.

— In 2023, the Banco de España carried out a cross-institutional action, under the powers attributed to it by Law 10/2014 as mortgage market supervisor, in order to analyse the manner in which credit institutions contract appraisal companies and perform quality control on appraisals.

— This work was carried out by sending a questionnaire and conducting subsequent interviews with the heads of credit institutions, which together accounted for more than 90% of the credit market in Spain.

— Following these tasks, a letter was sent in 2024 to the various credit institution associations to warn of certain practices that could undermine the independence between credit institutions and appraisal companies or adversely affect the quality of appraisals.

5 Supervision of payment service providers

The PSP group (made up of credit institutions and institutions other than credit institutions) reported 32 major operational or security incidents related to payment services, mostly affecting the availability of online banking services.

— In 2024, distributed denial-of-service attacks on online banking stood out as an emerging cause of incidents, although operational incidents continued to play a predominant role.

— Two incidents reported by different PSPs stood out, both of which originated from the same correspondent service provider, which, when faced with a data security problem, decided to temporarily suspend its services for a relatively long period of time until it had sufficient evidence of its resolution.

— The Regulation on digital operational resilience for the financial sector (DORA), which replaces the regime for reporting major payment-related operational or security incidents, became applicable on 17 January 2025. Accordingly, part of the supervisory resources has been devoted to adapting systems, processes and tools to the requirements of this regime, for the purpose of facilitating institutions' compliance with the new reporting obligations.

— The new procedures were communicated to all PSPs other than credit institutions, informing them of the steps required to use them (which differ significantly from the current procedures) and announcing the organisation of an upcoming practical seminar.

The payment and fraud statistics for the first half of 2024 (see Box 2.7) show an increase in the number of fraudulent transactions in absolute and relative terms for transfers and, conversely, a decrease in card and electronic money payment transactions in both absolute and relative terms.

— In 2024, there was an increase in the fraud rate for transfers in which strong customer authentication (SCA) was applied, accompanied by a significant decrease in the average value of fraudulent transactions. This was fundamentally due to the increase in the type of fraud involving the manipulation of the payer to authenticate a payment that appears legitimate but is in fact fraudulent. The spread of this practice, together with a shift in the target of fraud from corporate environments to instant credit transfers between end users, led to a decrease in the amount defrauded per transaction.

— The type of fraud has not changed significantly, although cases of manipulation of the payer by fraudsters continue to gain relative weight and account for more than 80% of total transfer transactions.

As regards the specific interfaces provided by account servicing PSPs in accordance with the provisions of Delegated Regulation 2018/389, the monitoring tasks continued in 2024 and, where appropriate, the potential problems reported by third-party PSPs were remedied or fixed:

— It is worth noting the general positive trend in terms of both the availability and usability of the aforementioned interfaces, which has led to a decrease in the number of reported complaints or operational problems.

— In addition, greater awareness of the need for collaboration was observed among the various players involved.

With regard to international cooperation, the Banco de España participated in knowledge-sharing activities on fraud with the Central Bank of Serbia and on the application of SCA with the Central Bank of Ukraine. It also participated in activities organised by the Latin American Reserve Fund (FLAR) related to payment systems and services.

6 Oversight of legal vetted access to activity and name reservation

Spanish legislation establishes that only certain duly authorised institutions or persons can carry out certain financial activities, such as the collection of deposits, provision of payment services or foreign exchange, or use certain names, such as the terms “bank”, “payment institution” or “electronic money institution”. The Banco de España’s functions include overseeing compliance with these legal restrictions and, it acts, where appropriate and with the prior authorisation of the Ministry of Economy, Trade and Business, in accordance with the Fourth Additional Provision of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions.

Since the end of 2023, the supervision of vetted access to activity and name reservation has been performed centrally by the Financial Fraud Prevention Unit, within the General Secretariat.

The Banco de España’s supervision of compliance with vetted access to activity and name reservation is a fundamental pillar of the preservation of stability and confidence in the financial system and the protection of its users, especially in the context of the emergence of new players and new forms of financial service provision through digital channels.

In 2024, 52 supervisory actions were performed against legal entities or individuals that may have been carrying out activities restricted to institutions supervised by the Banco de España, or simply making improper use of a name pertaining to supervised institutions.

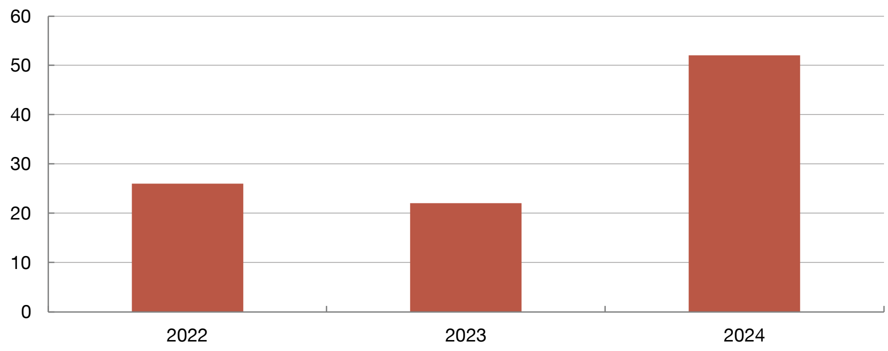
— As can be seen in Chart 2.16, in 2024 the Banco de España significantly intensified its efforts in the supervision of vetted access to activity and name reservation, as the number of actions in the previous year was exceeded by far.

Chart 2.17 contains the breakdown of the actions carried out in 2024 by type of activity investigated.

Almost one-third of these actions were related to the possible provision, by persons not authorised or registered in the official registers of the Banco de España, of payment services, an innovative sector that has seen significant growth in recent times, driven by major technological advances. In April 2022, the Banco de España signed up to the General Protocol for Collaboration in the Fight against Financial Fraud (also known as the Action Plan against Financial Fraud), which was also signed by other authorities such as the Ministry of Economy, Trade and Business, the CNMV, the Public Prosecutor’s Office, various state and autonomous community law enforcement bodies and SEPBLAC, the main objectives of which include strengthening cooperation among the signatories, enhancing prevention and combatting fraudulent offers with a view to protecting financial service customers and investors.

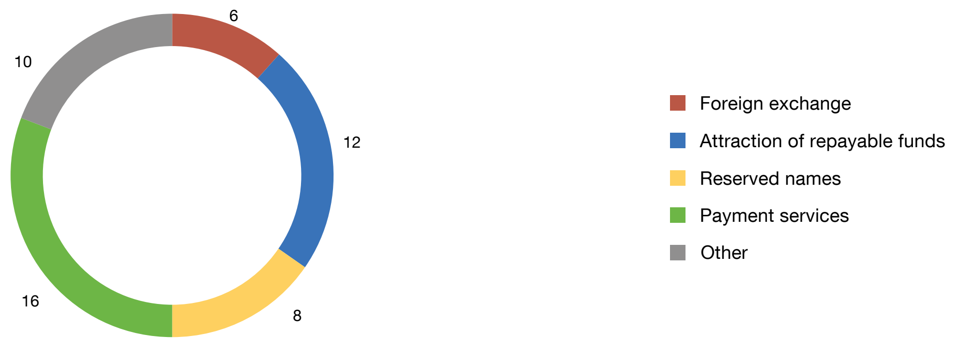
The oversight of vetted access to activity and name reservation in 2025 will have two main objectives: on the one hand, to consolidate the current model of centralised supervision in a

Chart 2.16
Clear increase in actions relating to restricted activity and reserved names



SOURCE: Banco de España.

Chart 2.17
Actions initiated in 2024 according to the type of activity under investigation



SOURCE: Banco de España.

single unit within the Banco de España; and, on the other hand, to strengthen links with institutions connected to the prevention of financial fraud.

— In 2025, the aim is to consolidate the supervisory model by reinforcing the resources allocated to the oversight of financial intrusion and adapting them to the current dynamic and digital context.

— Within the framework of the Action Plan against Financial Fraud, the signing of cooperation agreements with the most relevant institutions in the fight against financial fraud will be promoted, with the aim of improving coordination and the detection and response capacity against fraudulent activities.

7 SupTech function and sandbox (digital innovation controlled testing space)

7.1 SupTech Function

In 2024, two international experts issued their evaluation report on the SupTech function at the Banco de España, highlighting the achievements made and pointing to possible areas for further improvement. This has facilitated the update of the SupTech roadmap, guiding the development of new tools and their use in supervisory processes.

— Broadly speaking, SupTech can be defined as the use of innovative technology (e.g. machine learning and big data) by supervisory authorities to support their work.[26]

— As supervisor, the Banco de España has access to various sources of information. Most notably, it has access to three main types of information: i) aggregate information in the form of confidential returns; ii) granular information on loans, securities, etc.; and iii) unstructured data in the form of text, such as news, contracts or reports.

— The purpose of the SupTech function is to help supervisors transform the large volume of available data into useful information for decision-making.

— As mentioned in the Supervisory Report 2023, an evaluation of the SupTech initiative was conducted that year by two of the leading international experts in this matter. As well as highlighting the progress made in recent years, the evaluation pointed to certain areas for improvement, which are being addressed through an action plan drawn up in 2024.

— One of the core features of this plan is the updating of the roadmap with the main milestones to be achieved in the following two years, i.e. in 2025 and 2026. The main pillars of the plan are:

- Developing new SupTech tools and enhancing the use of available SupTech tools, through greater accessibility and integration in supervisory processes.

- Fostering a culture of innovation in the Directorate General Supervision and in the Banco de España as a whole. In this regard, it is worth highlighting the recent creation of a cross-institutional group on artificial intelligence to promote its use.

- Offering comprehensive SupTech training, with the creation of different itineraries, with various levels depending on the degree of knowledge to be achieved, and the definition of the objectives and metrics necessary to monitor progress.

26 Simone di Castri, Stefan Hohl, Arend Kulenkampff and Jermy Prenio. (2019). "The suptech generations". FSI Insights, 19. https://www.bis.org/fsi/publ/insights19.htm

Figure 2.5
SupTech tools being explored

	NATURAL LANGUAGE PROCESSING TOOL ON COMPANY NEWS	GEOLOCATION AND GEOGRAPHIC INFORMATION SYSTEM
WHY	There is unstructured information on companies that is published in the news which, if properly exploited, can provide useful information for supervisory analysis.	Supervisors face the challenge of obtaining more information, e.g. on the climate risk associated with institutions' exposures (loans, credit) and their collateral, without increasing the regulatory burden on institutions.
HOW	The tool can be divided into 3 blocks: — It identifies the companies that appear in the news. — It establishes, through the use of graphs, the relationships that may exist between them. — On the basis of the above information, it analyses market sentiment associated with companies, or anomalous patterns that may indicate problems associated with these patterns. Based on this analysis, early warnings are designed.	This involves linking the information available at the Banco de España with information from public sources, such as the land registry or the INE, or the information contained in environmental risk maps (e.g. maps of flood zones), using geolocation tools. Thus, company headquarters or collateral can be geolocated.
WHAT	This tool would contribute to the design of an early warning system for companies that might face economic or financial difficulties.	This type of analysis opens up a vast range of opportunities. An example could be the possible identification of credit investment whose collateral presents a certain risk of flooding.

SOURCE: Banco de España.

- Seeking to be considered an international benchmark and maintaining collaboration with the SSM. One of the major milestones of 2024 was the successful development of a use case for Navi, the SSM Grafos tool. The application allows the structures of groups of credit institutions to be presented via graphs on the basis of the information contained in the FINREP 40 return.

The process of creating new tools involves four major lines of work: i) improvements in the quality of information received from institutions, particularly by reconciling aggregate and granular information; ii) detection of changes in trends and anomalous data; iii) advanced data visualisation; and iv) development and implementation of forward-looking and natural language processing tools.

Figure 2.5 provides information on two forward-looking tools that are currently being explored. In line with the evaluators’ recommendations, both tools use new information sources and explore new risks.

7.2 Financial innovation controlled testing space: sandbox

The financial sandbox, created in 2020, provides benefits both to promoters of innovative projects for the financial sector and to sectoral authorities.[27]

In 2024, the Banco de España conducted an exercise to analyse the impact of the sandbox on the promoter projects monitored by the Bank. To this end, bilateral meetings were held and information was gathered on their experience and on the status of these initiatives. In addition, the promoters shared suggestions with the Banco de España on how to improve the functioning of the tool.

— The main benefits include most notably the usefulness of interaction with the supervisor in order to redefine initial proposals and optimise the associated processes.

— It allows potential regulatory barriers to be identified and regulatory doubts related to the Banco de España's sphere of competence to be resolved.

— The sandbox is also considered to add value to improve promoters' image both internally and vis-à-vis third parties. In certain cases, it has even facilitated access to financing and potential customers.

— Furthermore, the controlled testing space fulfils the authorities' objective, as it helps supervisors better understand the implications of digital transformation and how it fits into the current regulatory framework.

— In April 2024, the document Questions and answers on the functioning of the regulatory sandbox and the Banco de España's consultation channels related to financial innovation, was published on the Banco de España's website to improve innovation facilitators' understanding.

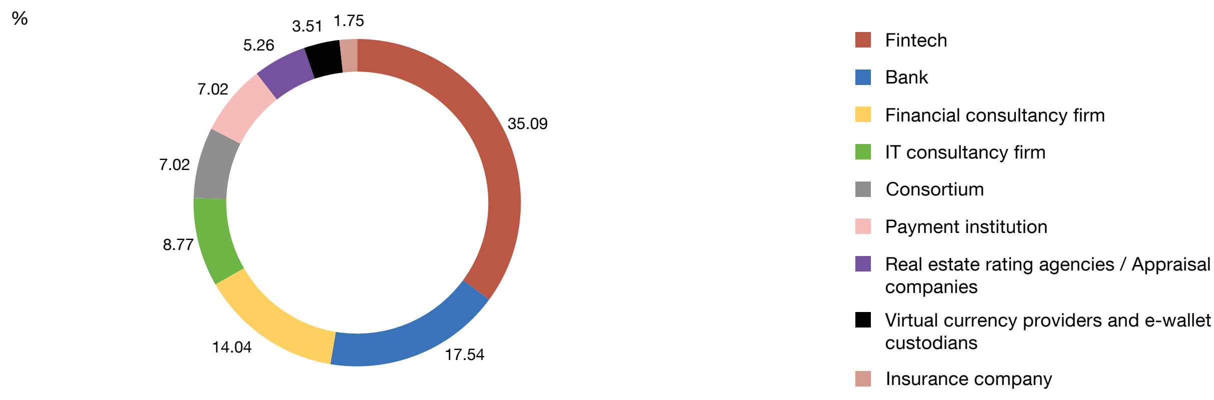
As regards the sandbox's first eight calls, the promoters of the projects analysed by the Banco de España were mainly fintechs, banks and financial consultancy firms, as shown in Chart 2.18. In projects with a favourable prior assessment, the most widely used technologies were distributed ledger technology, artificial intelligence and biometrics or digital identity, as shown in Chart 2.19.

Throughout 2024, projects from five calls coexisted. During that period the seventh and eighth calls were launched, with one project assigned to the Banco de España, which will also participate as an observer authority in another project.

27 For more information on the functioning of the sandbox, see the Banco de España blog post "Sandbox: the testing environment for financial innovation".

Chart 2.18

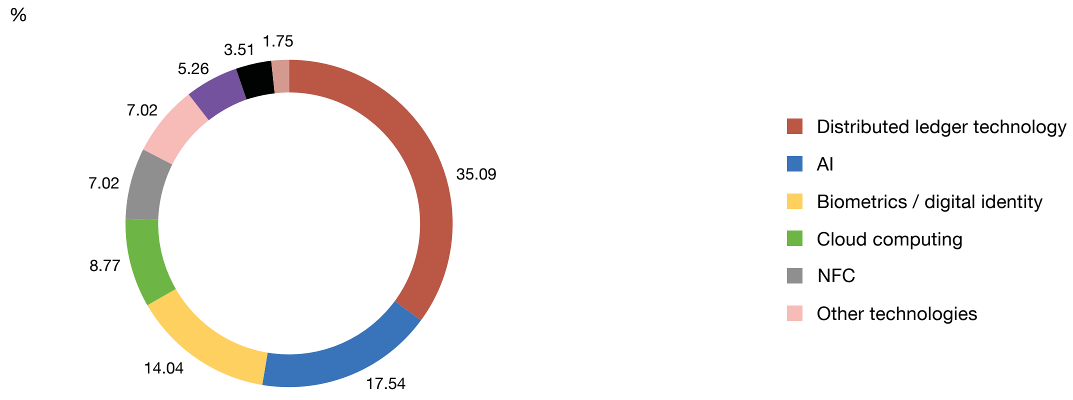
Among the types of promoters in the sandbox projects analysed by the Banco de España, fintechs stand out most, followed by banks and financial consultancy firms



SOURCE: Banco de España.

Chart 2.19

Among the projects with favourable prior assessment, distributed ledger technology prevails, followed by AI and biometrics/digital identity



SOURCE: Banco de España.

— In the seventh call,[28] the Banco de España was assigned a project, which received a favourable prior assessment. However, it did not reach the testing phase.

— In the eighth call,[29] the Banco de España will participate as an observer authority in one project.

In addition, over the course of 2024, testing was completed and the documents containing the conclusions of one project from the fourth call and four projects from the fifth call were

28 Announced by the Resolution of the General Secretariat of the Treasury and International Financing of 16 January 2024, with an application submission period between 1 March and 15 April 2024.

29 Announced by the Resolution of the General Secretariat of the Treasury and International Financing of 28 June 2024, with an application submission period between 2 September and 11 October 2024.

published. These projects are based on a mobile app called DNI Wallet, the details being as follows:

- The “Monei” project consists of a payment solution that, through the use of blockchain technology, allows payment transactions to be made with so-called EURM tokens that aim to maintain their value stable at par with the euro. With this solution, the project’s promoter seeks to compete with other card-based or SEPA transfer-based payment solutions.

- The “Tarjeta Openbank en DNI Wallet” (Openbank Card in DNI Wallet) project consists of the creation of a customer card (Openbank Card) as a method of identity verification for customers and non-customers to carry out multiple transactions. For this purpose, this card is stored in the DNI Wallet app, which provides direct access to the app and to the Openbank website. It also checks that the corresponding ID document (DNI) has been neither tampered with nor revoked and that it has not expired.

- The “Onboarding financiero con DNI Wallet” (Financial Onboarding with DNI Wallet) project consists of a solution for reliably identifying a potential customer during the onboarding process. To this end, the data set included in the ID document chip presented via the DNI Wallet is used. In addition, the customer’s ID document is checked to ensure that it has been neither tampered with nor revoked and that it has not expired.

- The “Segundo factor de autentificación con DNI Wallet” (Second authentication factor with DNI Wallet) project uses the DNI Wallet app as a second authentication factor when the user wishes to modify their personal data on the institution’s website. On the one hand, it checks that the ID document has been neither tampered with nor revoked and that it has not expired. On the other hand, it checks that the ID document presented physically is the one previously selected by the user in the DNI Wallet app.

- The “Identificación física en oficina con DNI Wallet” (Physical identification in the branch with DNI Wallet) project allows a user’s identity to be checked in the physical branch and verifies that their ID document has been neither tampered with nor revoked and that it has not expired. For this purpose, the DNI Wallet app is used instead of the physical ID card.

None of the projects tested in the sandbox, from its launch to date, is applicable to a better performance of the supervisory functions carried out by the Banco de España.

Box 2.1

BUSINESS MODEL OF SPANISH SIGNIFICANT INSTITUTIONS VERSUS EUROPEAN ONES

The integration of a group of countries into a banking union, such as the European one, does not necessarily mean that their banking systems are homogeneous. In fact, there are substantial differences between the various countries. The aim of this box is to highlight some of the differences between Spanish and European significant institutions (SIs), with the focus on their business model.

Firstly, Spanish SIs represent an overwhelming majority of the Spanish banking system, in contrast to certain jurisdictions. Thus, 94% of the market share held by Spanish institutions (excluding foreign subsidiaries and branches) corresponds to the ten Spanish SI groups, as compared to 84% of the average for the SIs that make up the Single Supervisory Mechanism (SSM)[1] or, for example, 61% in Germany. Therefore, talking about the business model of Spanish SIs could be likened to talking about the business model of Spanish banks, unlike in some cases, such as Germany, where this could be very nuanced.

When we analyse the business model of Spanish SIs, in comparison to SIs of other countries, the first thing we see is the greater weight of commercial banking and, in particular, retail banking.

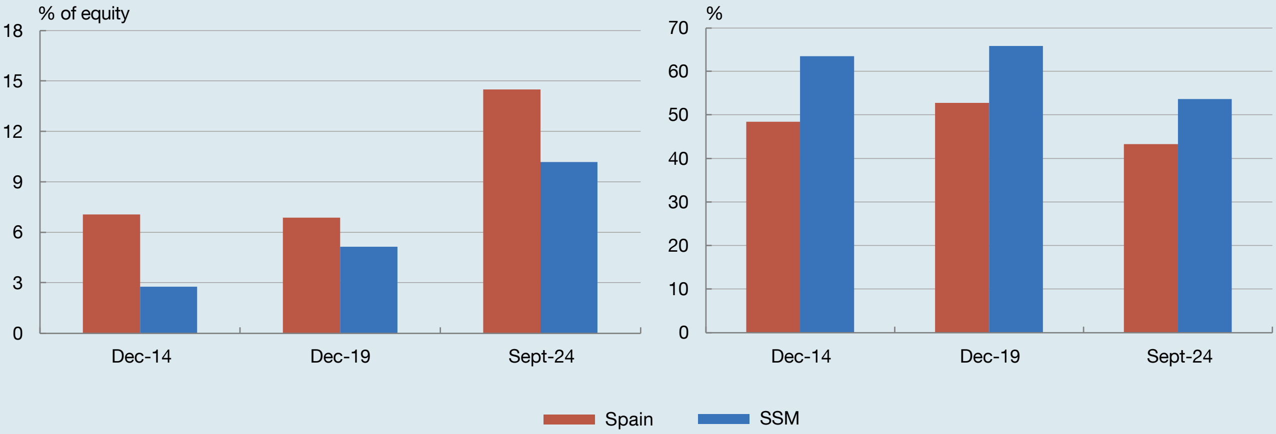
Thus, on the asset side, there is a higher proportion of loans to households and SMEs (40.1% of assets, as compared to 31.8% for the European (SSM) average) and a greater weight of variable-rate loans (49.6% vs. 31.1%, although the difference is narrowing). The latter entails a greater natural sensitivity of net interest income to interest rate movements, which has played a significant role in the recent increases in Spanish banks' profitability. In addition, the weight of the trading book, which is more typical of investment banking activities, remains relatively small, as shown by off-balance sheet items, e.g. the significantly lower weight of trading derivatives (in notional amounts).

On the liability side, there is also a greater weight of retail funding, basically deposits from households and SMEs (44.2% vs. 33.7% in the SSM), which means that the proportion of liabilities covered by the deposit guarantee fund is higher than in other jurisdictions (34.5% vs. 25.8% in the SSM). In addition, the weight of time deposits with respect to total deposits is significantly lower than in other countries (17.8% vs. 42% in the SSM). These two factors provide Spanish institutions with a more stable and profitable funding base, which has further reinforced the greater increase in asset profitability, as mentioned above.

All of this is also clearly reflected in the income statement, where net interest income is overwhelmingly predominant (representing 75.4% of gross income, against 59.2% for

Chart 1
RoE (SIs)

Chart 2
Efficiency ratio (SIs)



SOURCE: Produced by the Banco de España.

1 Both here and from this point onwards, the average includes Spanish institutions.

Box 2.1
BUSINESS MODEL OF SPANISH SIGNIFICANT INSTITUTIONS VERSUS EUROPEAN ONES (cont'd)

the European average). Commissions come in a secondary but important position (23% vs. 28.5% in the SSM), and the rest of net income is fairly residual, while in other countries the latter is more significant. This income structure makes Spanish banks' profitability more recurring and predictable.

When one compares profitability and risk (risk-weighted assets; RWAs), Spanish institutions generate more gross income per unit of risk than the European average (8.5% vs. 6.8% in the SSM), with a similar level of operating expenses (3.7% of RWAs), thereby translating into better efficiency levels (43.3% vs. 53.6% in the SSM).

In the first nine months of 2024, loan loss provisions as a percentage of RWAs were almost three times the European average (1.4% annualised vs. 0.5% in the SSM), which has been a regular situation since the creation of the SSM, although the difference has usually been less marked (the average over the last five years was around double the European average).

In a context in which the greater provisioning needs arising from the global financial crisis would already have been met, that situation could be due, on the one hand, to the greater weight of retail banking, as mentioned above, and, on the other hand, to the higher proportion of exposures in emerging countries.

All in all, and despite the latter, Spanish SIs' profitability is higher and more recurring than the European average (return on equity -RoE- of 14,5% vs.10,2% in the SSM), since their business is more stable and geographically diversified.

And this greater organic capital generation capacity has regularly driven better capital projections in European stress tests (as regards the exercise conducted in 2023, +275 bp vs. +126 bp in the SSM under the baseline scenario, and –245 bp vs. –478 bp in the adverse scenario). As a result, Spanish banks have consistently enjoyed, in the supervisory review process, a lower supervisory additional capital guidance under Pillar 2.

Box 2.2
SHARE BUYBACK PROGRAMMES IN BANKING

Share buyback programmes are common practice in many countries, but in the case of Spanish institutions, they are a recent phenomenon. They began to be implemented in 2021, following the COVID-19 crisis, after the European Central Bank´s recommendation on the non-distribution of dividends was finalised. At that time, there was a sharp upturn in buybacks worldwide, due to excess liquidity in banks and the absence of attractive investments given the high asset valuations following a decade of negative interest rates.

Share buybacks basically consist of the institution purchasing its own shares on the market, reducing the number of shares in circulation with a view to subsequently redeeming them. The main objectives of these transactions are to:

- Increase shareholder remuneration. This increase occurs when the buyback is extraordinary, i.e. when it was not previously included in the annual remuneration policy.
- Optimise the use of capital (avoiding the excess of an expensive instrument) and improve certain financial metrics, such as earnings per share.
- Generate value for shareholders who do not participate in the buyback. For the buyback to create value, two conditions must be met: the transaction must not prevent the institution from meeting its operating and future growth needs, and the market price at which the buybacks are made must represent a discount on their book value.

Bearing in mind these objectives and the cases observed in Spanish banks, a distinction can be made between two types of share buybacks:

1) Buybacks included in the annual shareholder remuneration policy, combined with cash dividends.
2) Extraordinary or non-recurring buybacks, which are intended to reduce excess capital and, ultimately, optimise the use of capital.

In Spain, share buyback programmes must be approved by the General Shareholders' Meeting, must not exceed 10% of the share capital and must be authorised by the National Securities Market Commission. These programmes are mainly regulated by the Securities Markets Law and Regulation (EU) No 596/2014 on market abuse. Share buybacks must meet a number of conditions, such as:

- The market must be informed of the terms and conditions of the transaction.
- In order to prevent market manipulation, the volume of shares that can be repurchased under open market conditions during a given period is restricted.
- In order to prevent the misuse of insider information, purchases are prohibited during certain periods linked to corporate events.

In addition, in the case of banks, prior authorisation from the supervisor is required when reducing eligible own funds, in compliance with Regulation (EU) No 575/2013 and Delegated Regulation (EU) No 241/2014.

Table 1
Detail of the evolution of share buybacks

Millions of euros	2021	2022	2023	2024	Total buybacks executed from 1/1/2021 to 31/12/2024
Santander	1,706	1,921	2,769	1,525	7,921
BBVA	3,160	422	1,781		5,363
CaixaBank		1,800	500	1,751	4,051
Unicaja				100	100
Sabadell		204	93		297
TOTAL	**4,866**	**4,347**	**5,143**	**3,376**	**17,732**

SOURCE: Banco de España.

Box 2.2
SHARE BUYBACK PROGRAMMES IN BANKING (cont'd)

Such authorisation may be granted provided that the institution has satisfactorily demonstrated to the competent authority that its own funds, after the buyback, will exceed the regulatory requirements by the margin deemed necessary by the competent authority, in accordance with Article 104(3) of Directive 2013/36/EU. Even if the execution of the buyback takes some time, the amount is deducted from own funds from the date on which it is authorised or reported to the market, whichever comes first.

Since 2021, five Spanish significant institutions have executed share buyback programmes for an aggregate amount (see Table 1) of €17,732 million (representing 126 basis points of the aggregate CET1 of those institutions); of this amount, just over €7,500 million correspond to extraordinary programmes.

Based on supervisory experience over the last four years, the following conclusions can be drawn:

- Given the solvency levels of Spanish banks, and given that their projections show comfortable capital positions, the supervisor has not identified any impediments to these transactions to date.
- Since 2021, Spanish banks have been slightly more active in this type of transaction than the average for institutions in the Single Supervisory Mechanism, in terms of buybacks relative to annual net profit. In general, institutions carry out these buybacks as a way of using their excess capital to boost their share price while rewarding their shareholders.
- It cannot be said that buybacks are better or worse than cash dividends from a supervisory perspective. However, cash dividends continue to be the main form of shareholder remuneration, while buybacks are the most widely used tool for optimising capital, in the event of a surplus, due to their potential to generate value.

Box 2.3

ARTIFICIAL INTELLIGENCE: AN AREA OF GROWING OPPORTUNITIES AND NEW SUPERVISORY CHALLENGES

In recent years, artificial intelligence (AI) has experienced a dramatic rise in popularity. This is due both to continuous advances in computational capabilities and to the emergence of large, state-of-the-art foundation models[1] capable of processing vast quantities of information. New AI models make it possible to tackle tasks normally associated with human intelligence, such as translating languages, answering questions or even reasoning.

These technologies are used by financial institutions, for example, to automate and optimise administrative tasks, analyse large volumes of data or in customer relationship applications. Thus, we are seeing AI-powered conversational assistants (chatbots) that can handle customer queries 24 hours a day, the use of advanced classification algorithms to detect financial fraud, and the application of AI to assess customer credit risk, among other applications.

From a general point of view, these general-purpose technologies have the potential to boost productivity across the entire economy. However, their use also entails risks, some of which are particularly relevant in the area of conduct supervision, where models can cause discrimination in the granting of credit, on the basis of biases in the data used to develop them, that violates the fundamental rights of customers. It is worth recalling the difficulty in explaining these models, as they use billions of parameters, thereby making it complicated to understand the factors that determine the results obtained, which is why they are known colloquially as “black boxes”.

To address this situation, Regulation 2024/1689 of 13 June 2024 on AI regulates the use of AI systems in the European Union (EU) with an approach based on risk levels and the protection of fundamental rights. It therefore identifies AI systems used in the granting of credit to natural persons as high-risk AI systems. In the case of these high-risk systems, developers and users must carry out comprehensive assessments of the risks associated with their models before they are put into production. In particular, the European regulation states they must comply with risk management and data governance requirements, have adequate technical documentation, analyse their results as well as have sufficient levels of accuracy, robustness and cybersecurity. It specifically stresses that AI systems must ensure that they are transparent and explainable. The latter entails providing clear information on how the models work and how decisions are taken on the basis of said models. Similarly, they must apply supervisory mechanisms to ensure that automated decisions are reviewed (and, if necessary, corrected by persons).

Once these high-risk AI systems go to production, the regulation identifies that they must be supervised by market surveillance authorities. These authorities are designated at the national level and, in the case of credit models, the banking supervisory authority must also report incidents to the European Central Bank (ECB).

In view of the foreseeable designation of the Banco de España as the market surveillance authority for the use of AI in lending to physical persons, the Bank is already working towards assuming these powers. This surveillance work will include, inter alia: supervision and control of supervised institutions’ compliance with the regulation; assessment of the compliance of these models with the regulations; international collaboration with other market surveillance authorities for the exchange of information and the consistent application of the regulation throughout the EU; monitoring of incidents; and promotion of innovation.

In the exercise of these functions, the Banco de España will have to coordinate with other bodies, including the Spanish Agency for the Supervision of Artificial Intelligence. Thus, for example, the European Banking Authority and the ECB, together with the national competent authorities of the Single Supervisory Mechanism, have been working on the use of AI in regulatory capital calculation models, setting regulatory expectations and supervisory techniques. These expectations will be reflected in the update of the ECB's Guide to Internal Models, which is due to be published in 2025.

In short, the rise of AI and the opportunities and challenges it brings have led the Banco de España to set up a cross-institutional working group which, together with the deployment of the market surveillance authority function, includes various lines of work to ensure the necessary human and computational resources, the deployment of use cases in the various functions exercised by the Bank and the development of an internal governance model that ensures the ethical and responsible use of AI.

1 Foundation models are models trained on large quantities of data that can subsequently be specialised to perform specific tasks through retraining with more specific data.

Box 2.4

PROGRESS MADE IN THE SUPERVISORY CULTURE OF THE SINGLE SUPERVISORY MECHANISM

In January 2024, the Supervisory Board of the Single Supervisory Mechanism (SSM) launched an initiative to review its supervisory culture, following the recommendation made by a group of experts that, in 2023, analysed the effectiveness and efficiency of the Supervisory Review and Evaluation Process (SREP) and its implications for other supervisory processes.

Throughout the year, work was carried out to define the elements of supervisory culture, which affects, to some extent, all the national competent authorities within the SSM. Initially, the focus was on the successful implementation of the initiatives that are deemed strategic by the Supervisory Board:

- **Achieving greater effectiveness and efficiency in supervisory activity:** enhancing its impact on institutions through the implementation of reforms to the SREP, such as the reduction in process times and greater use of proportionality for smaller and less complex institutions. The aim is also to enhance the impact of supervision through strategies for the progressive application of increasingly severe and/or intrusive supervisory measures when institutions exhibit unjustified delays in resolving the problems identified and communicated by the supervisor.

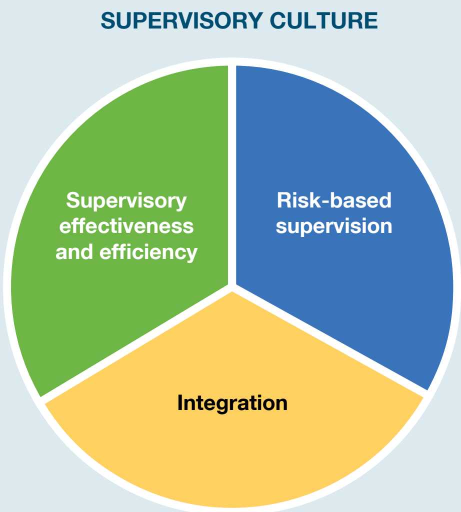
  The aim of the above is not only to reduce the bureaucratic burden and the complexity of internal processes, but fundamentally to resolve the problems identified within a reasonable time horizon.

- **Strengthening risk-based supervision:** prioritising the identification of the most important vulnerabilities so that institutions can address their remediation, in view of emerging risks and the current greater uncertainty.

  The supervisory risk tolerance framework is key to achieving this objective. The framework promotes the use of expert judgement to identify, for each institution, the areas in which less supervisory risk should be assumed, so that greater supervisory intensity can be focused on these areas. The designed process is based on global supervisory priorities and identifies, in each exercise, the priority risk areas in each institution, in order to finally define the specific supervisory action plan for the year.

- **Integration of the SSM:** furthering the integration of the various national authorities that make up the SSM to create a working environment that allows them to act as a coordinated and efficient team. To this end, several initiatives have been undertaken, such as the development of common IT tools, the organisation of staff mobility programmes between the competent national authorities and the European Central Bank, and the promotion of cross-border training plans.

Figure 1
Progress made in the SSM supervisory culture



SOURCE: Banco de España.

Box 2.4

PROGRESS MADE IN THE SUPERVISORY CULTURE OF THE SINGLE SUPERVISORY MECHANISM (cont'd.)

> The review carried out on the occasion of the SSM's tenth anniversary highlighted the considerable progress that has been made. However, there are still areas where further improvements are needed to make the process more effective, efficient and focused on priority risk areas and to achieve greater integration.

The cultural change is already underway. And these initiatives are part of the review of the main components of the SSM's strategic framework, including its mission, values and vision. In order to achieve this objective, the various layers of the organisation are being involved and contributing their opinion on the potential improvements to the strategic initiatives identified by the Supervisory Board. Ultimately, these initiatives to improve the supervisory culture will enable us to reconfigure and enhance the way we work, collaborate and supervise banks, which should result in higher-quality supervision.

Box 2.5

RISK COVERAGE THROUGH IFRS 9 OVERLAYS

One of the objectives set by the European Central Bank (ECB) in its supervisory priorities for 2024 was to strengthen credit risk management.[1] In this area, supervisory activity continued along the same lines, with a new thematic review of loan loss provisions, as a follow-up to the review carried out in 2023.

Thus, in 2024, the ECB conducted an exercise to ascertain whether institutions were taking certain risk factors into account in their loan loss provisions, recognised in accordance with International Financial Reporting Standard 9 Financial Instruments (IFRS 9). Another purpose of this review was to understand the use of adjustments to loan loss accounting models, the procedure for calculating these adjustments and the governance of the process.

The results and main conclusions of this review were published in July 2024 in the report *IFRS 9 overlays and model improvements for novel risks*.[2]

First, the ECB identified a number of factors affecting credit risk, which it called "novel risks": climate change, high interest rate environment, high inflation, geopolitical instability, energy price rises and supply chain disruptions.

These risks are characterised by the limited capacity of traditional loan loss provisioning models to capture them, due to the lack of historical data on them. Consequently, in order to incorporate these risks adequately into their loan loss provisions, institutions need to make changes to their methodologies. Thus, it is common for them to make adjustments to their models, either to the data or to the model output. These adjustments are commonly referred to as "overlays".

Once these novel risk factors had been identified, the ECB collected information from 53 significant institutions on these factors and on overlays, which enabled it to identify best practices in this area. In addition, the ECB was able to assess each institution's progress with respect to the review carried out in 2023 and thus have a measurement of supervisory effectiveness.

The main conclusions published by the ECB in its report were:

- Institutions show improvements in the incorporation of novel risk factors into their expected loan loss provisions in comparison to the 2023 review. Of particular note is the improvement in the consideration of climate and environmental risk, which is now taken into account by 55% of institutions in the exercise.
- The use of overlays, provided they are based on robust analyses and subject to strong governance, is fundamental to incorporating risks that are not adequately captured by traditional models into estimates of loan loss provisions.
- Institutions must continue to pay attention to governance. Although the majority of institutions have processes in place to identify novel risks and determine the necessary overlays, approximately half still lack clear allocation of responsibilities or robust review mechanisms.
- Although the ECB acknowledges that, in general, progress has been made, it continues to observe certain limitations in the design and implementation of overlays:
  - The practices employed do not always allow for the differentiation of impacts and of the sectors or customer groups most exposed to each risk.
  - In certain cases, a generic overlay is recorded to cover a wide range of risks; a practice that does not allow for an assessment of whether each risk is adequately covered.
  - Occasionally, there is an excessive reliance on expert judgement in the quantification of the overlay.
  - The recording of overlays does not always translate consistently into the reclassification of exposures to worse credit quality categories. It should be remembered that when an identifiable risk affects a transaction's default risk, it should also be taken into account when assessing whether reclassification is necessary.

It is worth noting that, although the ECB's work is focussed on the six novel risks mentioned above, its conclusions could be extended to the recording of overlays due to

1 For further details, the supervisory priorities of the Single Supervisory Mechanism for 2024-2026 can be found at the following link.

2 BCE. (2024). *IFRS 9 overlays and model improvements for novel risks. Identifying best practices for capturing novel risks in loan loss provisions.* https://www.bankingsupervision.europa.eu/ecb/pub/pdf/ssm.IFRS9novelrisks_202407~5e0eb30b5c.en.pdf

Box 2.5
RISK COVERAGE THROUGH IFRS 9 OVERLAYS (cont'd.)

other factors that are not adequately considered in loan loss provisioning models or to other limitations of these models.

Lastly, the ECB indicates that it will continue to monitor the most lagging institutions and it even envisages the application of specific supervisory measures in certain cases.

Box 2.6

MARKETS IN CRYPTO-ASSETS EUROPEAN UNION REGULATION (MICAR): REGULATION OF STABLECOINS

The European Union was the first major jurisdiction to introduce a comprehensive regulatory framework for crypto-asset activities through the Markets in Crypto-Assets (MiCA) Regulation or MiCAR. This regulation is in response to the potential expansion of the crypto-asset sector and its interconnection with the traditional financial sector. Its objective is to ensure financial stability and consumer protection in the crypto-asset market. MiCAR, is applicable, in general, from the end of 2024 (with a transitional period of 18 months), but the titles regulating the issuance of so-called “stablecoins”, which is under the supervision of the Banco de España, are applicable from 30 June 2024.

MiCAR regulates two types of stablecoins: a) asset-referenced tokens (ARTs), whose value remains stable in relation to other assets or a combination of assets; and b) electronic money tokens (EMTs), whose value remains stable in relation to an official currency.

Despite their name, stablecoins are not always stable, and this instability can spread to the financial system, as demonstrated by the cases of the FTX platform and Silicon Valley Bank. Therefore, MiCAR introduces specific requirements for the issuance, public offering and admission to trading of these coins.

Before issuance, issuers must publish a white paper detailing the main characteristics of the issuance, as well as the issuer's rights and obligations towards holders. After issuance, they must invest the funds received in secure, low-risk assets, have adequate own funds and comply with operating, organisational and governance rules.

Despite its many benefits, the implementation of MiCAR poses several challenges to issuers, supervisors and regulators, some of the most significant of which are mentioned below.

One of the main challenges is the delimitation of the various types of crypto-assets and their classification, since MiCAR does not apply to crypto-assets considered to be financial instruments or other already regulated financial products, such as deposits, or to unique and non-fungible crypto-assets.

Also, the issuance and provision of crypto-asset services is a global phenomenon, which adds complexity to their supervision and regulation. International business models and the decentralised nature of many crypto-assets make it difficult to locate the provision of the service precisely and to identify the institutions responsible. This poses a significant challenge for regulators, who must achieve extensive, effective coordination at the international level to ensure effective and consistent supervision.

The Banco de España, as the competent authority under MiCAR for exercising supervisory, inspection and sanctioning functions in relation to ART and EMT issuers, must coordinate with other competent national and European authorities for the supervision of generally global business models.

Furthermore, prudential supervisors not only supervise a large proportion of issuers, but must also be particularly attentive to the connections between the banking sector and crypto finance; and especially to the systemic risk arising from the potential contagion that could occur as a result of mass withdrawals of bank deposits held by crypto companies as an investment in low-risk assets of funds received.

In summary, although MiCAR represents a significant step forward in the regulation of crypto-assets, its implementation is not without challenges, such as the delimitation of the types of crypto-assets, the need for effective international coordination and the possible links to the banking system. Addressing these challenges is essential to ensuring that the regulation meets its objectives of financial stability and consumer protection in a global and constantly evolving market.

Box 2.7

EVOLUTION OF FRAUD IN PAYMENT OPERATIONS

Since 1 January 2020, payment service providers (PSPs) have been required to provide their national competent authority with statistical data on fraud relating to the various means of payment, under the PSD2 regulatory framework and its subsequent developments. The European Central Bank (ECB) Regulation on payment statistics also requires PSPs to report this information. With regard to Spanish PSPs, the Banco de España has been monitoring fraud reporting with a view to gradually improving the quality of the data provided by supervised institutions and being able to assess their evolution more effectively.

The collection of these data facilitated the publication in 2024 of a joint report by the ECB and the European Banking Authority,[1] which is to date the most comprehensive publication on payment fraud within the European Union (EU).

Chart 1
Evolution of fraud rates with and without SCA in credit transfers and card transactions by number of transactions

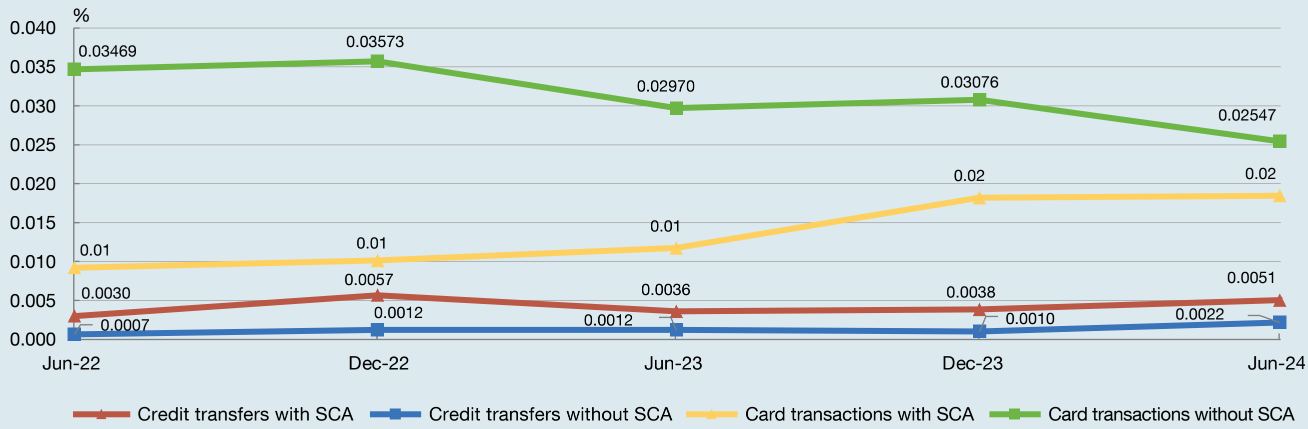


Chart 2
Causes of fraud in card transactions

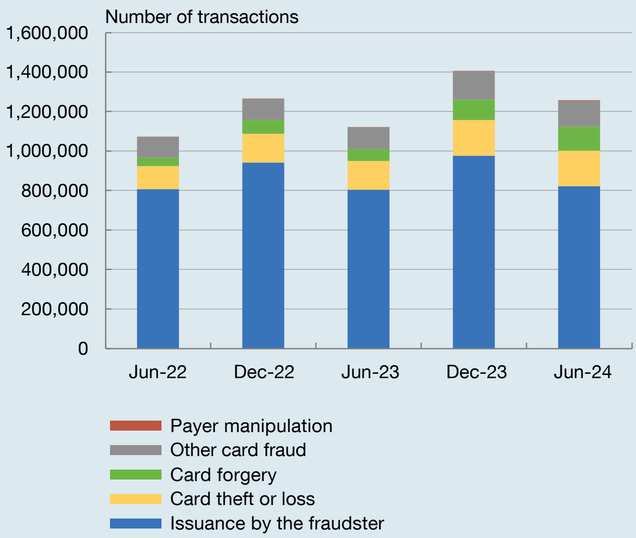
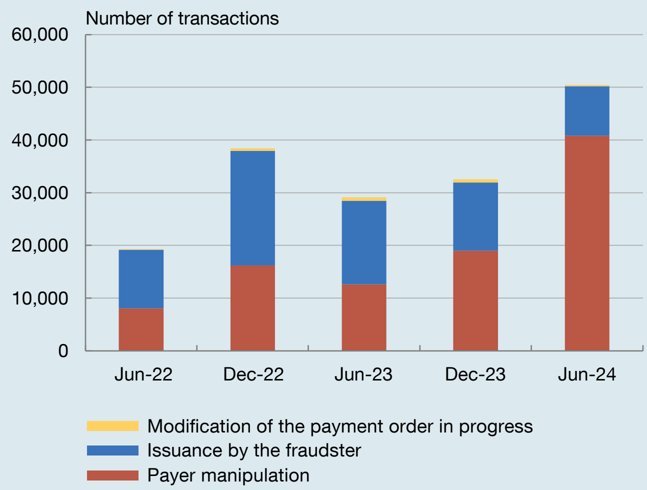


Chart 3
Causes of fraud in credit transfers



SOURCE: Compilation of payment and fraud statistics based on the requirements of Regulation (EU) No 1409/2013 of the European Central Bank, amended by Regulation (EU) No 2020/2011 of 1 December 2020 on payment statistics, which establishes the framework for the collection of statistics on payments by the European System of Central Banks.

1 Banco de España press release dated 1 August 2024.

Box 2.7
EVOLUTION OF FRAUD IN PAYMENT OPERATIONS (cont'd.)

At the national level, the evolution of data for the last two years does not diverge greatly from the findings of the aforementioned European report. Credit transfers and card transactions are the payment methods with the highest number and value of fraudulent transactions. By way of example, the data from the joint report by the ECB and the European Banking Authority show a fraud rate in terms of number of transactions in the European Economic Area in the first half of 2023 of 0.003% for credit transfers and 0.015% for card transactions, while at the domestic level, these rates are 0.002% and 0.023%, respectively.

Among the breakdowns required by the regulation, the application of strong customer authentication (SCA) in payment transactions is an essential source of information on the role of this measure in mitigating the fraud risk.

Chart 1 shows the effect of SCA on card transactions and credit transfers, revealing that, in contrast to what might be expected, in both cases the fraud rate appears to be rising in transactions with SCA.

This fact is brought about by fraudsters seeking new ways to operate despite SCA, mainly through customer manipulation and identity theft, which lead customers to correctly authenticate transactions (even by applying SCA) that are actually fraudulent.

Payer manipulation and identity theft occur in transactions that are generally high value, through techniques such as phishing, vishing, spoofing or similar, known as "social engineering fraud techniques". However, the implementation of SCA has helped keep the fraud rate at relatively low levels, although it will be necessary to pay attention to the effects of the greater use of instant credit transfers in the future, where fund movements are almost instantaneous.

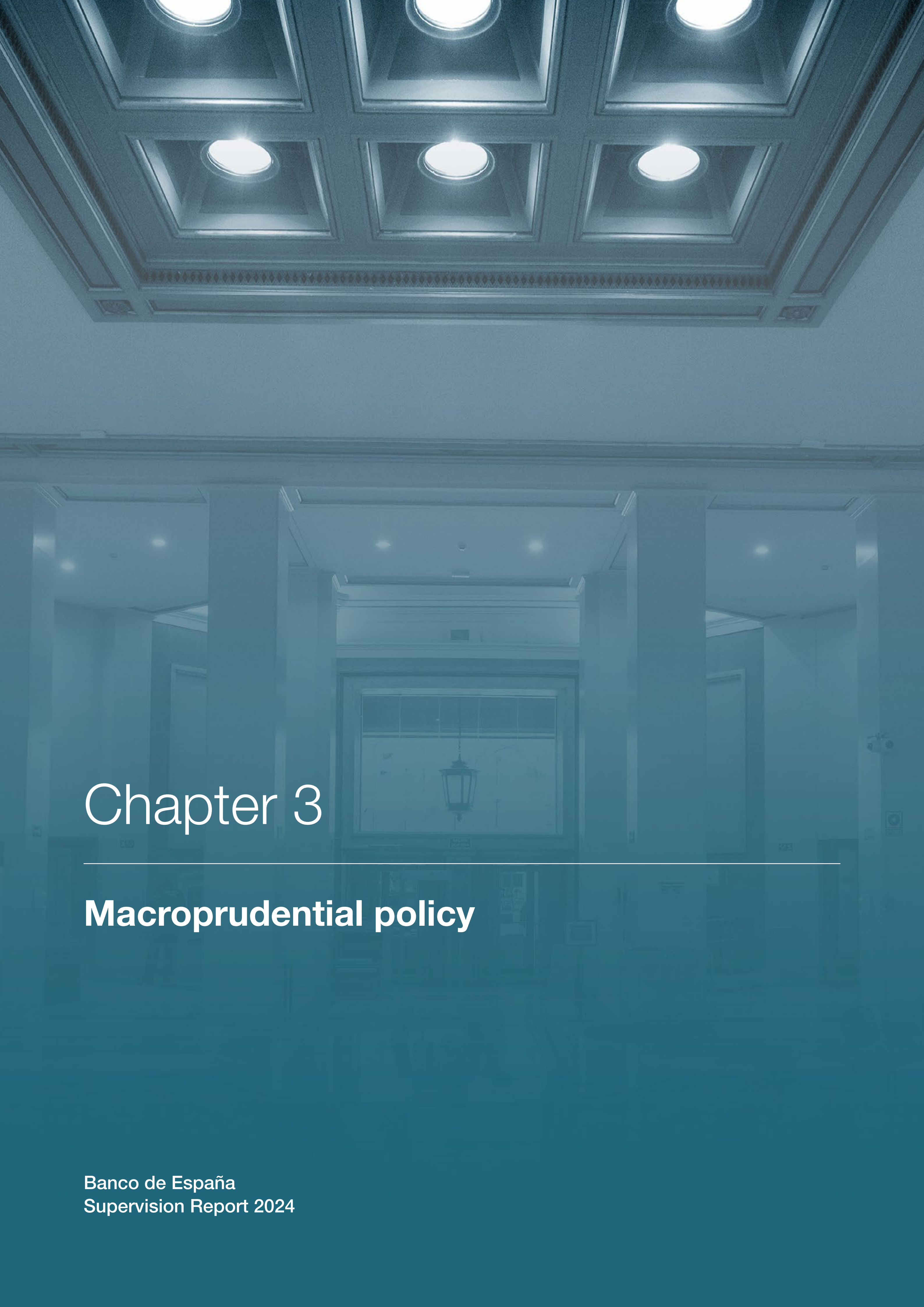
In this regard, Chart 3 shows how, in the case of credit transfers, fraud involving the manipulation of the payer by the fraudster is gaining relative weight each year (particularly due to so-called "CEO fraud") and now accounts for almost 80% of the number of fraudulent transactions. In the case of card transactions (see Chart 2), the theft of personal security credentials for issuing orders by fraudsters has been declining, as a result of the greater complexity introduced by the increasingly widespread use of SCA.

The above data would seem to show that, although SCA has had a positive impact on the fight against fraud, it is not effective, on its own, to eliminate it, due to its limited capacity to combat fraudulent social engineering practices.

This fact has given rise to various regulatory initiatives aimed, inter alia, at improving protection against fraud. In this regard, DORA[2] will demand more rigorous technology risk management by PSPs, which should mitigate the risk linked to the exploitation of technical vulnerabilities. The so-called Instant Payments Regulation[3] includes the obligation for the PSP of the payer to offer the payer a service ensuring the verification of the payee to whom the credit transfer is sent, immediately after the relevant information is provided and before the payer is offered the possibility of authorising the transaction. Also, the current PSR/PSD3 proposal contains various operational measures aimed at reinforcing the application of SCA, such as real-time monitoring of transactions, the possibility of sharing information on fraud among PSPs, cooperation between electronic communications service providers and PSPs to ensure the confidentiality and security of communications and raising awareness among payment service users about fraud.

2 Regulation (EU) 2022/2554 of the European Parliament and of the Council of 14 December 2022 on digital operational resilience for the financial sector and amending Regulations (EC) No 1060/2009, (EU) No 648/2012, (EU) No 600/2014, (EU) No 909/2014 and (EU) 2016/1011.

3 Regulation (EU) 2024/886 of the European Parliament and of the Council of 13 March 2024 amending Regulations (EU) No 260/2012 and (EU) 2021/1230 and Directives 98/26/EC and (EU) 2015/2366 as regards instant credit transfers in euro.



Chapter 3

Macroprudential policy

Chapter 3
Takeaways

— In 2024, the Banco de España reassessed the adequacy of the levels of the macroprudential capital buffers that address the build-up of cyclical and structural systemic risks.

— Thus, the Banco de España approved a new framework for setting the countercyclical capital buffer for exposures located in Spain. On 1 October 2024, this buffer was set at 0.5%, which will be required as from 1 October 2025.

— In 2024, one global systemically important credit institution, Banco Santander, which is also an other systemically important institution (O-SII), and three further O-SIIs were identified and, in addition, the capital buffers for these four institutions were set.

— The stress tests carried out by the Banco de España (known as FLESB) in 2024 showed an adequate degree of aggregate resilience of the Spanish banking sector in the event of the materialisation of the proposed scenarios of deterioration in macro-financial conditions.

— The Banco de España continued to participate in tasks related to macroprudential coordination, at both the Spanish and European level.

1 Introduction

The Banco de España's macroprudential policy seeks to improve the banking sector's capacity to deal with the materialisation of systemic risks, as well as to reduce the vulnerabilities that make this materialisation more probable or more intense, thus mitigating its adverse effects on the real economy. These systemic risks can be cyclical, when they oscillate between periods of expansion and contraction of economic and financial activity, or structural, when they are linked to characteristics of the financial system that are more stable from a temporal point of view, as is the case of the existence of institutions that are especially relevant for the proper functioning of the system (for example, due to their size or their important role in critical functions, such as payments). In order to mitigate these risks, the main macroprudential tools available consist of a series of additional capital requirements (known as "buffers"), limits on credit concentration and limits on lending conditions.

In 2024, the Banco de España reassessed the adequacy of the levels of macroprudential capital buffers with which it addresses the accumulation of cyclical and structural systemic risks. The main development in this area was the Banco de España's approval of a new framework for setting the countercyclical capital buffer (CCyB) for exposures located in Spain. The most notable element of the new CCyB framework is the setting of its target rate at 1% for a standard level of cyclical systemic risks, midway between a high and a low level. Under the previous framework, the CCyB could only be activated when systemic risks were high.

This new framework will strengthen the resilience of the banking sector throughout the financial cycle. Specifically, during adverse cyclical phases, the release of this capital buffer will help to sustain the provision of bank financing to the real economy. Therefore, this tool will help to reduce the cyclical volatility of the financial system and of the Spanish economy.

In this respect, the latest tests carried out by the Banco de España on the banking system show an adequate degree of aggregate resilience to the hypothetical deterioration of macroeconomic and financial conditions. In any case, the stress test results should be interpreted with the necessary caution, partly due to the uncertainty inherent in these exercises.

In relation to macroprudential coordination with other authorities, the Banco de España is one of the member institutions of the Spanish macroprudential authority (AMCESFI). At the European level, the Banco de España continued to collaborate with the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and national authorities on the identification and assessment of systemic risks in various regulatory developments and on issues related to the implementation of macroprudential policy measures in Member States.

2 Macroprudential tools and stress tests

In accordance with current regulations, the Banco de España can set various macroprudential capital buffers and activate other tools to address the accumulation of systemic risks.

— The CCyB and the buffers for Spanish global systemically important institutions (G-SIIs) and domestic (or, formally, "other") systemically important institutions (O-SIIs) are the main tools available to the Banco de España to address cyclical and structural systemic risks, respectively.

— Additionally, the Banco de España has other tools at its disposal, which to date it has not been necessary to activate: the sectoral CCyB, the systemic risk buffer (SyRB), limits on the sectoral concentration of credit exposures and the possibility of setting limits on lending conditions.

— Decisions relating to macroprudential measures are based on the regular monitoring of systemic risks and vulnerabilities using econometric models and indicators as well as stress tests.

2.1 Countercyclical capital buffer

In 2024, the Banco de España approved a new framework for setting the countercyclical capital buffer for exposures located in Spain, setting the target for this buffer at 1%, provided that cyclical systemic risk remains at an intermediate level. In order to minimise any possible adverse effects, it was decided to increase this buffer gradually, activating it at 0.5% on 1 October 2024, with binding effects on institutions from 1 October 2025.

— The review of the framework for setting the CCyB is justified by the experience accumulated in Spain in monitoring cyclical systemic risks and by the evidence available on the use of this buffer in other European countries in recent years. Using information specific to Spain, the Banco de España also analysed the costs and benefits of increasing institutions' capital requirements during different phases of the credit cycle.[1] This work showed that activating the CCyB outside periods of crisis has low costs, while its availability and release during crises may help to maintain the provision of credit to the economy during these adverse phases, thus significantly mitigating their economic impact.

— Also, the review of the framework for setting the CCyB took into account certain methodological limitations of the credit-to-GDP gap, which until last year was the main, although not the only, indicator for monitoring cyclical systemic risk. Due to its construction, this indicator tends to identify signs of increased cyclical systemic risk with some delay

1 Ángel Estrada et al. (2024). "Analysis of cyclical systemic risks in Spain and of their mitigation through countercyclical bank capital requirements". Occasional Papers, 2414, Banco de España. https://doi.org/10.53479/36573

after prolonged periods of deleveraging.[2] The legislation allows for the use of supplementary quantitative and qualitative information to react to the potential limitations of this indicator, an option that the Banco de España has already used in the past, but which it has now developed to a greater extent in the revised CCyB framework.[3]

— The new framework for setting the CCyB considers three phases in relation to cyclical systemic risk: materialisation of risks; intermediate or standard level; and high level. While the previous framework only considered the activation of the CCyB in a high cyclical systemic risk phase, under the new framework a CCyB target of 1% has been set, calibrated on the basis of the results of stress tests[4] in situations of intermediate cyclical systemic risk.

— The current phase of cyclical systemic risk is identified, in the first instance, through a table of 16 key indicators, which in 2024 were at values consistent with an intermediate level for this risk (see Table 3.1). This table is supplemented by additional quantitative and qualitative information, which analyses, for example, the availability of capital above the requirements on the part of the institutions and their capacity to accumulate additional capital.

— With the aim of minimising any possible adverse effect on the provision of credit to the economy, the Banco de España opted to increase the CCyB gradually up to the target of 1%. Thus, on 1 October 2024, an initial activation was carried out at 0.5%, with binding effects on institutions as from 1 October 2025.

— The process for this first activation began in May 2024, with the publication of the initial proposal and the launch of the procedures related to the public consultation and information and to the notification of the relevant authorities. Subsequently, final approval was granted at the end of September (see Box 3.1).

2.2 Systemically important institutions

In 2024, the Banco de España carried out the annual exercise of identifying and setting the capital buffers for G-SIIs and O-SIIs. These buffers remained unchanged with respect to 2023.

— Systemic institutions are deemed to be those which, in the event of solvency problems, may have an adverse effect on the financial system and the economy, globally in the case of G-SIIs or domestically in the case of O-SIIs.

2 Jorge E. Galán. (2019). “Measuring credit-to-GDP gaps. The Hodrick-Prescott filter revisited”. Occasional Papers, 1906, Banco de España. https://repositorio.bde.es/handle/123456789/8807?mode=full

3 See sections 1 and 2 of Banco de España. (2024). *Revision of the framework for setting the countercyclical capital buffer in Spain: Briefing note.* https://www.bde.es/f/webbe/INF/MenuVertical/EstabilidadFinanciera/Colchon_capital/Marco_revisado_octubre.pdf

4 See section 3 of Banco de España. (2024). *Revision of the framework for setting the countercyclical capital buffer in Spain: Briefing note.* https://www.bde.es/f/webbe/INF/MenuVertical/EstabilidadFinanciera/Colchon_capital/Marco_revisado_octubre.pdf

Table 3.1
Key indicators of cyclical risk monitoring

		Latest data observed	Previous observation	1-year projection
Macroeconomic indicators	Output gap	0.74	0.42	0.98
	Year-on-year real GDP change	3.32	3.18	2.28
	Unemployment rate	11.21	11.27	
Macro-financial indicators	Adjusted credit-to-GDP gap	-7.08	-7.99	-1.53
	Credit intensity	1.38	-0.03	2.84
	Debt servicing ratio	17.55	17.89	16.35
	Rate of change in credit to households and firms	1.12	-0.02	2.40
	Econometric models of credit imbalances	[-10.1 -3.3]	[-9.9 -3.5]	[-11.1 -3.7]
	Rate of change in house prices	8.15	7.85	6.04
	Real estate sector price imbalance indicators	4.00	2.47	3.92
Market indicators	Systemic risk indicator	0.14	0.10	
Banking system indicators	RoE	14.31	13.89	
	NPL ratio	3.43	3.43	
	Net interest income to total assets	2.48	2.53	
	Price-to-book ratio	0.91	0.86	
	RoE Spain	14.36	16.60	
Memorandum items	CET1 ratio	13.34	13.29	
	LCR	181.36	185.64	
	Efficiency ratio	0.42	0.42	
	Cost of bank liabilities	2.07	2.05	

COLOUR CODES

One-sided risk indicators		Two-sided risk indicators		
Standard level	High risk	Materialisation of risks	Standard level	High risk
Value < 75th percentile	Value > 75th percentile	Value < 25th percentile	25th percentile < Value < 75th percentile	Value > 75th percentile

BANKING SYSTEM COLOUR CODES

One-sided risk indicators		Two-sided risk indicators		
Standard capacity to generate capital	Low capacity to generate capital	Low capacity to generate capital	Standard capacity to generate capital	High capacity to generate capital
Value < 75th percentile	Value > 75th percentile	Value < 25th percentile	25th percentile < Value < 75th percentile	Value > 75th percentile

SOURCES: National Institute of Statistics and Banco de España.
NOTE: The “Latest data observed” column refers to September 2024, and the “Previous observation” column refers to June 2024. For the indicators that are negatively correlated with the macro-financial cycle (unemployment rate and systemic risk indicator), the position of the high and low risk levels would be the opposite to that described in the colour codes. The one-sided indicators are the debt service ratio and the NPL ratio.

— The systemic importance of each institution is measured by means of the weighted sum of certain indicators that assess an institution's size, degree of interconnectedness with the rest of the financial system, substitutability of services provided, complexity and cross-border activity (see Chart 3.1).

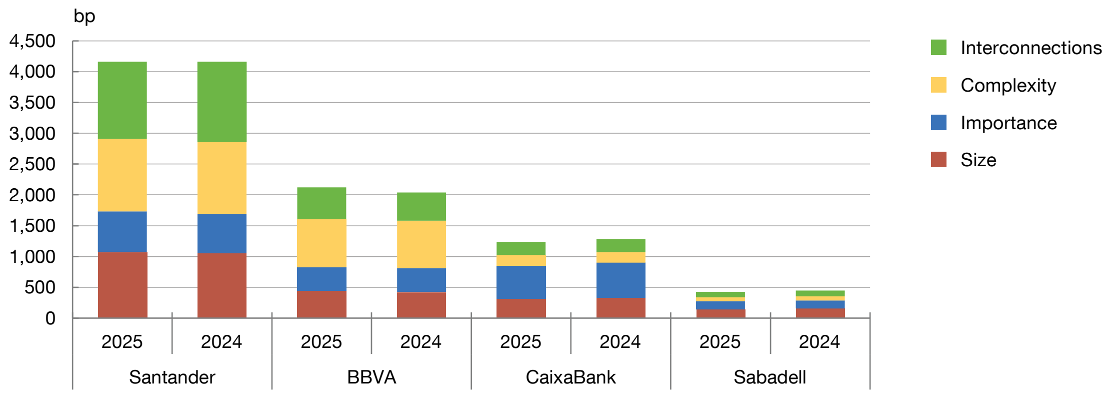
— An additional capital requirement is imposed on systemic institutions to reinforce their resilience, incentivise prudent risk-taking and correct the potential competitive advantage stemming from the expectation that, in the event of problems, they would be bailed out given their systemic nature.

— In November 2024, the Banco de España announced[5] that for 2025 it maintained as O-SIIs the four institutions that had already received this designation in the previous year, setting their associated capital buffers for 2025 (see Table 3.2) at levels identical to those for 2024.

— Subsequently, in December 2024, it was announced[6] that Banco Santander was still identified as a G-SII, and its corresponding requirement for 2026 was set at the same level as that determined for 2025.

Chart 3.1

Systemic importance scores of the O-SIIs for 2025 and 2024. Breakdown by category of indicator



SOURCE: Banco de España.

5 Banco de España. (2024). The Banco de España updates the list of other systemically important institutions and sets their macroprudential capital buffer rates for 2025: Press Release. https://www.bde.es/f/webbe/GAP/Secciones/SalaPrensa/NotasInformativas/24/presbe2024-97.pdf

6 Banco de España. (2024). The Banco de España designates a Global Systemically Important Institution and sets its macroprudential capital buffer rate for 2026: Press Release. https://www.bde.es/f/webbe/GAP/Secciones/SalaPrensa/NotasInformativas/24/presbe2024-102.pdf

Table 3.2
Systemically important institutions and associated capital buffers

LEI code (a)	Institution	Designation	Capital buffer requirement 2024	Capital buffer requirement 2025
5493006QMFDDMYWIAM13	Banco Santander, SA	G-SII and O-SII (b)	1.25	1.25
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, SA	O-SII	1.00	1.00
7CUNS533WID6K7DGFI87	CaixaBank, SA	O-SII	0.50	0.50
SI5RG2M0WQQLZCXKRM20	Banco de Sabadell, SA	O-SII	0.25	0.25

SOURCE: Banco de España.

a The LEI code is the Legal Entity Identifier.
b In the event that an institution is designated as a G-SII or O-SII, the effective requirement is the largest of the two associated buffers. Consequently, for Banco Santander, S.A. the O-SII buffer (1.25%) prevails over the G-SII buffer (1.0%).

2.3 Stress tests

Stress tests carried out by the Banco de España in 2024 show that the Spanish banking sector would maintain adequate levels of aggregate solvency, even in an adverse scenario of severe deterioration of economic activity and financing conditions.

— At least once a year, for macroprudential purposes, the Banco de España assesses the Spanish banking sector's resilience under various scenarios using its internal methodological framework, known as the Forward-Looking Exercise on Spanish Banks (FLESB).[7] The results and the main methodological improvements developed during the exercise are presented in each autumn edition of the Banco de España's Financial Stability Report. The basic structure of this stress test framework can be found in the November 2013 Financial Stability Report. This methodological framework follows a top-down approach, since it applies assumptions and models developed by the Banco de España itself. The information used, which is available from regulatory and supervisory reporting, is highly granular for business in Spain and allows for the projection of the evolution of institutions' balance sheets[8] and income statements. The solvency analysis within this framework focuses on estimating the evolution of the CET1 ratio under different scenarios over a three-year time horizon.

— As in previous exercises, the baseline scenario reflects the expectations of the evolution of the economic environment at the closing date of the scenarios,[9] while the adverse scenario contemplates the hypothetical materialisation of various risks. In this latest exercise, the

7 Banco de España. (2013). Financial Stability Report, 11/2013. https://repositorio.bde.es/handle/123456789/10993.

8 The dynamic balance-sheet assumption is applied in the FLESB so that each institution's loan portfolio evolves in a manner consistent with the aggregate growth in credit under the macroeconomic scenario.

9 On this occasion, it corresponds to trajectories of macroeconomic and financial variables estimated in the national central bank European projections exercise of December 2023. In its exercises, the Banco de España also applied subsequent projection scenarios, corresponding to September 2024, which show a slight improvement in estimated solvency with respect to the baseline scenario of the main exercise.

adverse scenario maintained the stagflation narrative and the degree of severity of the shocks used in the adverse scenario of the stress test[10] coordinated by the European Banking Authority (EBA) in 2023. The risks to the macro-financial environment that were considered included the possibility of worsening geopolitical tensions and disruptions to global value chains, which would generate an environment of recession, rises in inflation and higher interest rates.

— The results of the exercise showed an adequate aggregate resilience of the Spanish banking sector for the 2024-2026 horizon, in both the baseline and adverse scenarios (see Chart 3.2). The analysed institutions' starting aggregate CET1 solvency ratio in 2023 (13.1%) would increase to 15.1% in 2026 [+2 percentage points (pp)] in the baseline scenario. In the adverse scenario, the aggregate CET1 ratio would fall to 10.4% at the end of the exercise horizon, giving rise to capital consumption of 2.7 pp.

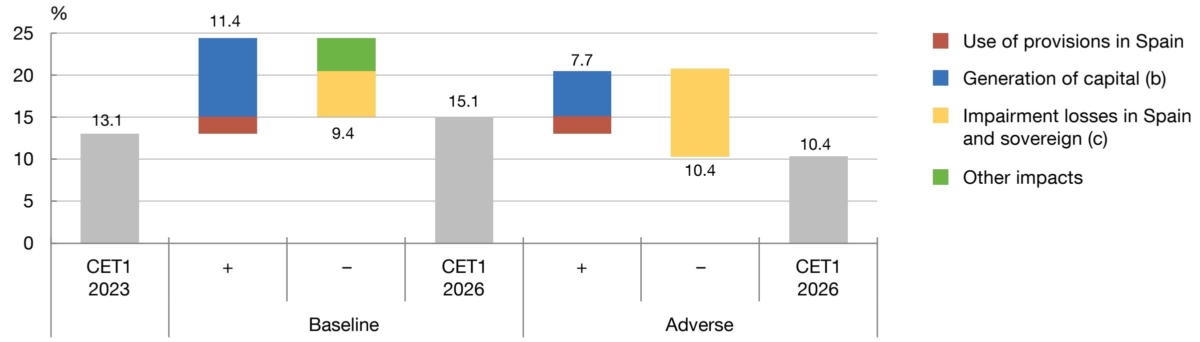
— The exercise revealed significant differences among different groups of institutions, both in terms of the starting level of solvency and in the end results. In particular, the less significant institutions (LSIs), under the direct supervision of the Banco de España, showed greater resilience on the whole than other groups of institutions, given their higher starting solvency ratio, lower risk-taking and a more conservative business model. With regard to their 2023 CET1 ratio (20.2%), increases are projected by 2026 in both the baseline scenario (+4.3 pp) and the adverse scenario (+0.8 pp).

— For their part, significant institutions (SIs) are capable of generating capital in the baseline scenario but would face a certain degree of capital consumption in the adverse scenario. In the case of institutions with a significant international presence, this capital consumption would be 2.3 pp (which would lead to a CET1 ratio of 12.5%). Their diversified international business model contributes to this limited solvency consumption. This increase contrasts with the projected 4.2 pp reduction in the ratio of the other SIs (which would fall to 8.9% of CET1 at the end of the time horizon).

— The aggregate results of stress tests should always be handled with the necessary caution, as they are subject to uncertainty (for example, regarding the effective evolution of the economic environment). Also, the distribution of results among institutions is heterogenous. Therefore, it is necessary for microprudential supervision and macroprudential policy to remain very vigilant with regard to risks and for institutions to consider prudent provisioning and capital plans that allow them to have resources to absorb potential unexpected losses arising from the materialisation of adverse scenarios.

10 See the corresponding EBA documentation. (2023). *EBA launches 2023 EU-wide stress test: press release.* https://www.eba.europa.eu/publications-and-media/press-releases/eba-launches-2023-eu-wide-stress-test. In addition, an analysis was performed on an intermediate scenario designed by the Banco de España, which envisages a more persistent inflationary environment with less severity in terms of growth of economic activity than the adverse scenario. The results can be seen in Banco de España. (2024). "Box 2.1 Forward-looking assessment of the Spanish banking system's resilience". *Financial Stability Report. Autumn 2024,* p. 97-104. https://repositorio.bde.es/handle/123456789/37977.

Chart 3.2
In the baseline scenario of the FLESB stress test, institutions would be able to increase their CET1 ratio over the 2024-2026 horizon, while in the adverse scenario, greater impairment losses and lower capacity to generate capital would lead to a slight reduction in the CET1 ratio, although it would remain above the minimum thresholds required (a)



SOURCE: Banco de España.

a The net effect of the positive (negative) flows are indicated by the figure above (below) the corresponding bar. The initial and final CET1 ratios are presented as "fully-loaded". The other impacts include, inter alia, the change in RWAs between 2023 and 2026 and the effect of the ICO guarantees. Aggregate results include institutions supervised directly by both the SSM and the Banco de España.
b This variable includes net operating income in Spain and net income attributable to business abroad. Thus, the possible capital generated by the banking group as a whole is compared with the impairment losses in Spain and sovereign, which are the focus of these exercises.
c This variable shows the projection over the three years of the exercise of gross losses due to credit portfolio impairment for exposures in Spain and other types of loss (associated with the fixed-income portfolio, the management of foreclosed assets and the sovereign portfolio).

2.4 Other macroprudential tools

No systemic imbalances have been identified that would justify the activation of the other macroprudential tools at the Banco de España's disposal.

— Credit exposures to non-financial firms from various sectors of economic activity and to the household sector did not show any signs of systemic risk in their evolution over the course of 2024 that would require the additional activation of other macroprudential capital tools: sectoral CCyB, sectoral or general activation of the SyRB and limits on the sectoral concentration of credit exposures.

— Also, there were no signs of a relaxation of lending standards for firms and households that would require the activation of macroprudential limits.[11]

11 The loan-to-income ratio (LTI) and the loan-to-value ratio (LTV) are two examples of these lending standards on which limits could be set. For more information on the recent evolution of these credit standards, see Banco de España. (2024). "Chapter 3. Systemic risk and prudential policy". In Banco de España. (2024). Financial Stability Report. Autumn 2024, pp. 107-124. https://repositorio.bde.es/handle/123456789/37983?mode=full

3 Macroprudential coordination with other authorities in Spain and in the Single Supervisory Mechanism

At the national level, the Banco de España, together with the Ministry of Economy, Trade and Business, the National Securities Market Commission and the Directorate General of Insurance and Pension Funds, form part of the AMCESFI. This collegiate body, created in 2019, is tasked with the regular analysis of risk factors for the Spanish financial system and the coordination of macroprudential policies.

— The Banco de España participates actively in the two main structures of the AMCESFI: the Council (the Vice-President of which is the Governor) and the Technical Committee for Financial Stability (the President of which is the Deputy Governor).

— The AMCESFI's powers include issuing and publishing alerts and recommendations on issues that might affect financial stability and opinions on proposed macroprudential policy measures previously communicated to the AMCESFI by its members.

— In 2024, the AMCESFI issued three favourable opinions on Banco de España macroprudential measures: i) one of which referred to the setting of the CCyB at 0.5% on relevant exposures located in Spain; and ii) two of which referred to the reciprocity recommended by the ESRB concerning the SyRBs adopted in other Member States (Italy and Portugal).

— One of the AMCESFI's main lines of work is the study of interconnections (among sectors such as banking, investment funds and insurance) and of the risks stemming from climate change. More recently, the analysis of vulnerabilities associated with the growing use of artificial intelligence in the financial system has also been added.

— Within the scope of the Single Supervisory Mechanism (SSM), the Banco de España collaborates with the ECB and other national authorities on macroprudential matters, in particular through the Financial Stability Committee (FSC) and its working sub-structures. Thus, the Banco de España participates in technical discussions on recent developments in the identification and assessment of systemic risks, regulatory new developments and issues related to the implementation of measures and other related actions in Member States of the banking union.

— In 2024, the Banco de España notified the FSC of all its macroprudential actions. Thus, the proposals for quarterly CCyB measures (including the setting of a percentage of 0.5% applicable from 1 October 2025) and annual G-SII and O-SII measures, applicable in 2025 and 2026, respectively, were communicated. Each of these proposals was non-objected by the ECB.

— The work of the FSC, geared mainly towards the banking sector in the banking union countries, is coordinated with that of the ESRB's Advisory Technical Committee, whose macroprudential mandate and scope encompass the European Union and financial system as a whole (see Chapter 7).

— The main work of the FSC is presented at the ECB's Macroprudential Forum, which regularly brings together the members of the ECB's Governing Council and Supervisory Board.

Box 3.1

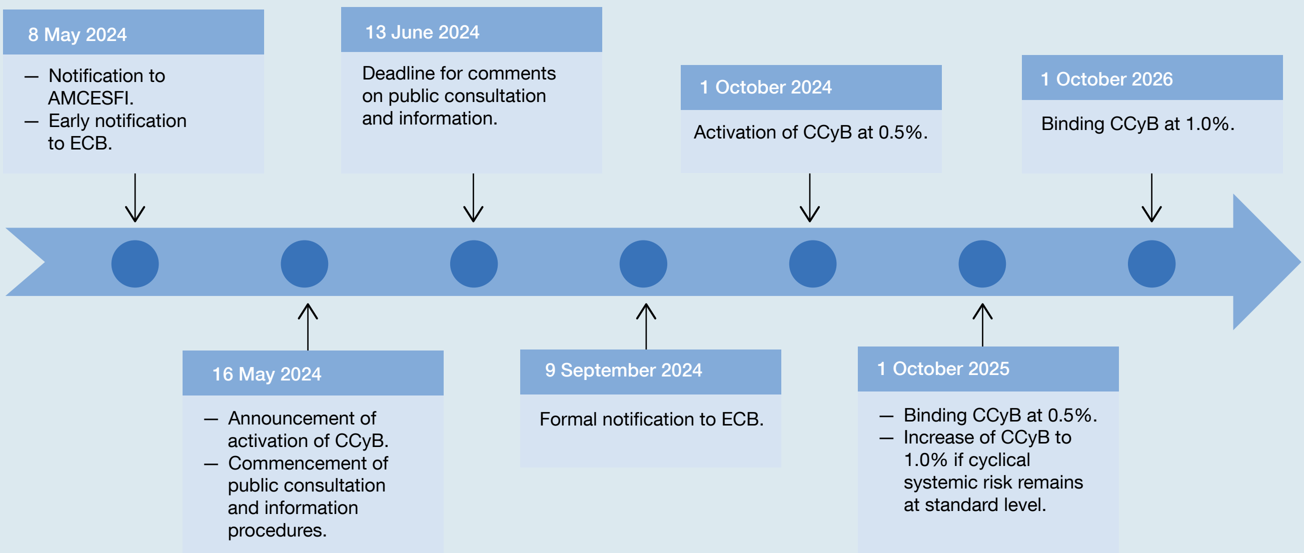
THE PROCESS OF ACTIVATING THE COUNTERCYCLICAL CAPITAL BUFFER: A LONG WAY TO GO BEFORE FULL APPLICATION

In 2024, the Banco de España set the countercyclical capital buffer (CCyB) at a level above 0% for the first time. This macroprudential measure has required a long and complex process, since, as well as complying with the specific banking regulations applicable to macroprudential buffers, the Banco de España is also subject to general regulations on administrative resolutions, in particular Law 39/2015, which regulates the common administrative procedures of public administrations. The decision was also based on a new methodological framework for setting the CCyB in Spain; accordingly, particular importance was attached to explaining and justifying the decisions taken and responding to comments from potentially affected individuals and institutions.

On 16 May 2024, the Banco de España presented its proposal, announcing the start of two public procedures.[1] On the one hand, a public consultation on the new methodology for setting the CCyB applicable to exposures located in Spain. On the other, public information on the draft decision on the CCyB rate that would be in force from the fourth quarter of 2024 (see Figure 1). The Banco de España had previously notified the Spanish Macroprudential Authority (AMCESFI) and the European Central Bank of the decisions it intended to adopt, together with the analyses and methodologies used. A technical document analysing the cyclical systemic risks in Spain and the costs and benefits of reducing them through countercyclical bank capital requirements[2] was also published on that date, together with AMCESFI's favourable opinion on the Banco de España's proposals.[3]

All remarks and comments received were taken into consideration in the preparation of the final documents. In particular, the remarks received during the public consultation and information were analysed and assessed in detail and, subsequently, the Banco de España's assessment of each remark was published.[4] Lastly, on 1 October 2024, the Banco de España published all the information relating to the definitive resolution on

Figure 1
Main milestones in the activation of the CCyB by the Banco de España



SOURCE: Banco de España.

1 See the press release of 16 May 2024: https://www.bde.es/f/webbe/GAP/Secciones/SalaPrensa/NotasInformativas/24/presbe2024-39.pdf.

2 Ángel Estrada et al. (2024). "Analysis of cyclical systemic risks in Spain and of their mitigation through countercyclical bank capital requirements". Occasional Papers, 2414, Banco de España. https://repositorio.bde.es/handle/123456789/36573?mode=full

3 See the AMCESFI opinion: https://www.amcesfi.es/f/webwam/RCL/Publicaciones/archivos/Opinion_CCA_AMCESFI_ES.pdf.

4 See the summary and assessment of the comments received: https://www.bde.es/f/webbe/INF/MenuVertical/EstabilidadFinanciera/Colchon_capital/ Resumen_observaciones_recibidas_CCA_2024T4.pdf

Box 3.1

THE PROCESS OF ACTIVATING THE COUNTERCYCLICAL CAPITAL BUFFER: A LONG WAY TO GO BEFORE FULL APPLICATION (cont'd)

the level of the CCyB, which entered into force on the same date.[5] Any subsequent change to the CCyB level would require a repeat of the same legal procedure described above. However, if the methodology for setting the buffer remains unchanged,[6] it will not be necessary to resubmit it to public consultation.

The CCyB activation process took several months from the initial announcement to the formal decision, added to which was the time previously spent within the Banco de España on reviewing and applying the methodological framework with a view to deciding on the appropriate level of the CCyB. Although this process could be shorter in future decisions, as it will be based on the new approved framework, the legal requirements will continue to impose a lengthy and laborious procedure. Simplification of this process by the legislator seems necessary to enable macroprudential policy to adapt more swiftly to a changing macro-financial environment and thus better fulfil its function.

5 See the final resolution on the CCyB in force since the fourth quarter of 2024: https://www.bde.es/f/webbe/INF/MenuHorizontal/AreasActuacion/ politica_monetaria/Resolucion_CCA_2024T4.pdf.

6 See the document on the methodological framework for setting the CCyB: https://www.bde.es/f/webbe/INF/MenuVertical/EstabilidadFinanciera/Colchon_capital/ Marco_revisado_octubre.pdf.

Chapter 4

Supervision of institutions’ conduct

Chapter 4
Takeaways

- The objective of conduct supervision is to verify that institutions offer their customers appropriate and transparent treatment in accordance with regulations and standards of conduct in the provision of banking and payment services, adopting the necessary measures where appropriate.
- The supervisory priorities in 2024 were: i) to verify the proper application of the rules and measures intended to favour groups facing difficulties; ii) to ensure that institutions' competitive practices and strategies respect customers' rights and interests; iii) to enhance supervisory knowledge on new market players and trends; and iv) to reinforce institutions' internal controls.
- The actions carried out in 2024 include most notably those related to: i) the verification of the application of measures related to codes of good practice and measures intended to alleviate the rise in mortgage loan interest rates; ii) the joint marketing of products; iii) new digital banks; iv) customer service departments; v) controls on fraud in card payments and digital channels; and vi) commercial communication policies.
- In 2024, a committee of experts evaluated the conduct supervision carried out by the Banco de España and made a series of recommendations. In response, the Banco de España designed an action plan for 2024-2025, which seeks to adapt supervision to the challenges of the future.

1 Institutions' conduct supervision model

The purpose of conduct supervision is to verify that institutions offer their customers appropriate and transparent treatment in accordance with regulations and standards of conduct in the provision of banking and payment services, adopting the supervisory measures necessary for this purpose where appropriate. Its strategic objective is to promote the proper functioning of the financial system and, consequently, to boost confidence in the banking system.

— In recent years, the extent of the Banco de España's commitment to the protection of bank customers has evolved in scope and depth. This has occurred at the same time as regulation in this area has developed and changes have taken place in the manner in which institutions sell products and relate to customers. The ultimate aim of supervising compliance with the rules governing how institutions should act is to bring about a change to their culture, promoting a relationship model that takes into account the interests and needs of their customers.

— Conduct supervision follows a risk-based approach, in this case conduct risk, which is taken to be the possibility that banking activity may have an impact on customers' rights and interests. To this end, the entire risk management process is addressed —by the institution as well— with the aim of influencing it, instead of focusing on a corrective and legalistic approach that only seeks to identify institutions' regulatory non-compliance.

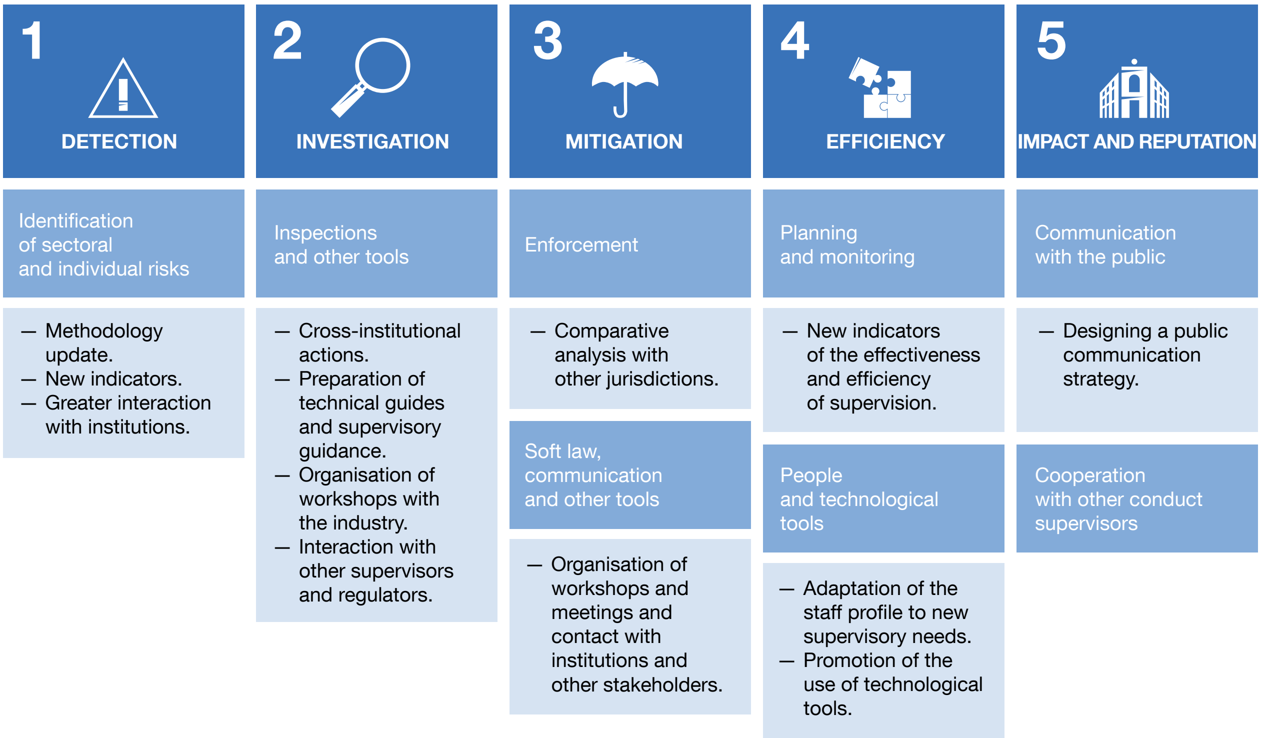
In 2024, a committee of independent experts carried out an external evaluation of the Banco de España's conduct supervision function, the details of which can be found at this link. The evaluators highlighted the achievements made in recent years —including most notably the transformation towards a more forward-looking and risk-based supervisory approach— and identified areas for improvement. In response to their recommendations, the Banco de España designed an action plan for 2024-2025 that includes various measures covering the entire supervisory process, from the definition of conduct risk to the public communication strategy.

— Given that there is no internationally recognised framework for evaluating conduct supervision, the committee of experts proposed, as a starting point, a conceptual conduct supervision model against which to evaluate this function at the Banco de España.

— The evaluation against this conceptual model allowed the committee to identify areas for improvement and make recommendations. The implementation of the recommendations will help the Banco de España adapt to the challenges of the future and will ensure that its working procedures and methodologies are more robust and more in line with international best practices. This will strengthen public confidence in supervised institutions, foster integrity in the behaviour of the financial sector and provide greater legal certainty to the market.

— The 2024-2025 action plan, designed by the Banco de España in response to this evaluation, includes measures that fall into five areas: i) detection, which seeks the early identification of new risks —both those arising from market trends and those specific to each institution—

Figure 4.1
2024-2025 Action Plan



SOURCE: Banco de España.

and the monitoring of already identified risks; ii) investigation, which seeks to understand, in a given situation, the underlying pattern in the institution's behaviour and assess its severity; iii) mitigation, which drives change in institutions' conduct; iv) efficiency of supervision; and v) impact and reputation of this supervisory function. The specific measures for each of these areas are shown in Figure 4.1.

— The measures proposed in the action plan include most notably those related to the establishment of mechanisms and spaces for interaction with various stakeholders —such as the banking sector itself or consumer associations— that are key to improving the effectiveness of supervision. In particular, these interactions are of interest when it comes to identifying current and emerging risks to customers, designing effective regulatory solutions or communicating supervisory expectations. For more details on the use of this supervisory tool over the course of 2024, see Box 4.1.

— Also worthy of note in the action plan are the measures aimed at reinforcing internal coordination and optimising the resources available for supervisory tasks, with the objective of improving supervisory efficiency and providing a more agile and effective response to the challenges of the financial sector.

2 Supervisory actions

In 2024, four supervisory priorities were defined, as detailed in Figure 4.2, due to their effects on risks to customers: i) the correct application by institutions of rules and measures intended to favour groups facing difficulties; ii) the verification that institutions' competitive practices and strategies respect customers' rights and interests; iii) the enhancement of supervisory knowledge of new market players and trends; and iv) the reinforcement of institutions' internal controls, aimed at identifying and mitigating risk. These priorities led to supervisory actions —such as monitoring, inspections, cross-institutional reviews, meetings and other types of interactions— on specific areas.

— The Banco de España sets its supervisory priorities on the basis of certain factors with an impact on conduct risk. In 2024, it took into consideration factors such as: the macroeconomic context, with the strong and rapid rise in interest rates; financial innovation, with new marketing channels and products, accompanied by the entry of new competitors; fraud; and the increase in the joint sale of products.

— The actions carried out in 2024 include most notably those related to: (i) the application by institutions of rules and measures to cater for customers facing difficulties in mortgage loans and consumer loans, and regulations to alleviate the rise in interest rates on mortgage loans; (ii) the joint sale of insurance and mortgages; (iii) the business model of the new digital banks; iv) customer service departments (CSDs), in terms of both their functioning and the information on CSDs provided on institutions' websites; v) fraud management in card payments and digital channels and the fraud prevention measures implemented by institutions; and vi) adverts and commercial communication policies. The aspects reviewed and the main findings and results in relation to these actions are described further below.

— In addition, in 2024 the Banco de España continued with the actions related to institutions' application of responsible lending principles and to the verification of control processes and systems for compliance with the code of conduct applicable to contributors to the mortgage loan reference index (IRPH by its Spanish abbreviation). An action was also initiated to enhance the supervisor's knowledge of the activity of real estate lenders and credit intermediaries.

— The priority areas and actions for the year were set out in the 2024 supervisory activity plan.

As part of the priority related to groups facing difficulties, in 2024 it was checked that institutions had procedures in place for the application of the protection measures set out in the codes of good practice (CGPs) applicable to mortgage loans, and institutions' consumer credit solutions for this type of customer were reviewed. Also, actions were carried out on the application of regulations to alleviate the rise in interest rates on mortgage loans.

Figure 4.2
Supervisory priorities and actions

SUPERVISORY PRIORITIES	AREA OF SUPERVISORY ACTIONS
Correct application of the rules and measures intended to favour groups facing difficulties.	Instruments for dealing with customers facing difficulties: CGP and consumer loans.
	Conversion of the variable interest rate to a fixed rate.
Verification that institutions' competitive practices and strategies respect customers' rights and interests.	Joint marketing of tied-in products.
	Responsible lending principles: consumer loan.
Enhancement of supervisory knowledge of new market players and trends.	New digital banks.
	Real estate lenders and credit intermediaries.
	Checks on data contributions for the preparation of the IRPH.
Reinforcement of institutions' internal controls for identifying and mitigating risk.	CSDs.
	Controls on fraud in card payments and payments through digital channels.
	Commercial communication policies.

SOURCE: Banco de España.

— Against a background of rapid rises in interest rates, which may have a negative impact on debtors' payment capacity, actions relating to banking customers facing potential financial difficulties continued in line with previous years' actions. These actions were deployed in two main focus areas: i) policies for the appropriate treatment of customers in vulnerable situations due to their personal characteristics, their circumstances or market conditions; and ii) compliance with regulations facilitating the change from variable interest rates to fixed rates in mortgage-backed loans.

— Specifically, the actions carried out in the mortgage area involved analysing the degree of application of the protection measures established in the CGPs to which the institutions adhere, and the information provided to customers on the possibility of availing themselves of these measures. In addition, the policies on the conversion of variable interest rates to fixed rates and the suspension of early repayment fees were reviewed, as detailed in Box 4.2. This latter action led to the reimbursement of fees to customers amounting to €5 million.

— In the area of consumer credit, attention was paid to the way in which institutions are implementing solutions to serve customers facing financial difficulties. In addition, the review continued of policies and controls related to the analysis of customers' payment capacity, staff training and the design and marketing of these operations. The objective of

Figure 4.3
Actions to protect customers facing financial difficulties

REAL ESTATE CREDIT AGREEMENTS						
Analysis of the degree of application of the two CGPs in force: — Code of Good Practice for the viable restructuring of debts secured by mortgage on the primary residence, included in Royal Decree-Law 6/2012, in force since 11 March 2012 and amended by Title III of Royal Decree-Law 19/2022. — New Code of Good Practice for mortgagor debtors at risk of vulnerability, created by Title II of Royal Decree-Law 19/2022, in force until 31 December 2024.						
9 institutions	Areas for improve-ment	Internal controls and working plans to ensure the correct application of the CGP.	Specific training for employees.	Monitoring of and reporting to management bodies.	Information available on their websites.	Notifications on the viability of restructuring.

CONSUMER LOAN AGREEMENTS				
Analysis of: — Products that institutions make available to customers to refinance debt. — Warning systems for detecting customers facing financial difficulties. — Protocols for dealing with these customers.				
8 institutions	Areas for improve-ment	Comprehensive and active management of the debts of customers facing financial difficulties and early detection.	Provision of personalised advisory services.	Internal controls implemented for the management of default.

SOURCE: Banco de España.

this review was to verify institutions' compliance with responsible lending principles in the marketing and contracting of consumer loans.

— Figure 4.3 shows the conclusions obtained from the actions carried out to assess the tools for assisting customers facing financial difficulties.

As part of the priority related to institutions' competitive practices and strategic behaviour, supervisory actions were carried out to analyse the marketing of insurance together with mortgage loans.

— In recent years, institutions have been developing commercial strategies based on the sale of other products and services —such as insurance— in conjunction with the granting of financing.

— Along these lines, several inspections were carried out with the aim of assessing the marketing of insurance together with mortgage loans for home purchases. Figure 4.4 shows the scope of the inspections and the main areas in which shortcomings or weaknesses were identified.

In recent years, new competitors have entered the market as a result of digital transformation. As part of the priority of obtaining greater supervisory knowledge, in 2024 an action was carried

Figure 4.4
Supervisory actions on the contracting of insurance together with mortgage loans

SCOPE OF INSPECTIONS

3 institutions	Review of mortgage loan marketing and staff remuneration policies, with verification of a sample of cases.

AREAS WITH SHORTCOMINGS AND WEAKNESSES

Internal controls and procedures.	Obligations to provide prior information to the customer.
Obligations, limitations and prohibitions established for tie-in sales.	Bringing marketed insurance into line with customer needs.

SOURCE: Banco de España.

out in order to ascertain the implications of this phenomenon for conduct risk and, consequently, for conduct supervision.

— Digital transformation has brought about a change in the offering of banking products and services and in the way institutions relate to their customers. This phenomenon has even led to new operators entering the market that make more intensive use of technological innovation in their activities, particularly in the design, marketing and provision of banking services.

— With the aim of enhancing supervisory knowledge of these new digital banks, in 2024 an action was launched to collect information on this matter directly from institutions by means of a questionnaire. Figure 4.5 shows the objectives and areas on which this supervisory action was focused.

As part of the priority of making progress in strengthening institutions' internal controls, various supervisory actions related to the functioning of CSDs and the information on CSDs provided on institutions' websites were carried out in 2024.

— The function of institutions' CSDs is particularly important, not only because of their customer complaints and claims handling and resolution activity, but also because of their role as an internal control mechanism. Thus, CSDs contribute to the early detection of incidents and the transmission of this information to the competent areas of the organisation.

— In addition to the ongoing monitoring of CSDs' activity, amendments to their rules of procedures were reviewed to check that they are in line with the CSD regulations and guidelines[1] and changes of the CSDs' head officers were noted.

1 *Guidelines on the organisational and operating criteria of customer service departments at institutions supervised by the Banco de España,* published on 19 July 2021.

Figure 4.5
Supervisory action on new digital banks

OBJECTIVE	Determine the conduct risk arising from their activity and establish a new supervisory framework for this type of institution.			
AREAS ANALYSED	Business model	Governance and internal controls	Compliance with conduct and transparency regulations	Service provision regime
	— Portfolio of banking products and services. — Points of sale and sales channels. — Customer profile. — Commercial strategy.	— Conduct risk management policies and procedures. — Internal organisation, reporting lines and outsourcing of services.	— Product design. — Adequate explanations and precontractual information. — Contracting, withdrawal and cancelation. — Ancillary products.	— Implications of operating simultaneously as a branch and under the freedom to provide services.

SOURCE: Banco de España.

— Also, cross-institutional reviews and inspections were carried out in order to verify the proper functioning of CSDs and the adequacy of the information on CSDs provided on institutions' websites, taking into account, in both cases, the CSD regulations and guidelines. Figure 4.6 shows the revised requirements that CSDs must meet to ensure their effectiveness as a key part of institutions' internal control. In certain cases, weaknesses were observed in the functioning of the CSD as an early warning mechanism, while in other cases the weaknesses were related to the location of and website access to information on the CSD and to the timeframes for resolving complaints and claims.

As part of the priority to strengthen the institutions' internal controls, the work on the actions related to procedures for fraud risk control and prevention in the use of cards and payments through digital channels continued, from a conduct standpoint.

The measures adopted by institutions to mitigate their effects were also reviewed. In particular, cross-institutional reviews were carried out and sectoral interactions took place, which contributed to enhancing supervisory knowledge of the matter. This will enable good practices to be identified that will help strengthen institutions' internal controls.

— The actions from the 2023 supervisory plan on this matter included cross-institutional reviews at five institutions. These increased the supervisor's knowledge of the way in which institutions manage the risk of fraud, from a customer protection point of view, in the use of cards and payments made through digital channels and, in particular, of the preventive measures they apply.

— This review continued in 2024, with seven new institutions, which will consolidate and increase knowledge of how financial institutions manage fraud. In addition, exchanges took place with

Figure 4.6
Institutions' CSDs

CSD OPERATING REQUIREMENTS		
Procedures	Organisational structure and allocation of resources	Risk identification and mitigation tools
— Appointment of the head of the CSD. — Conflict of interest policy. — Remuneration. — Staff training. — Handling and monitoring of claims.	— Organic and functional independence. — Sufficiency of technical and human resources. — Channels of communication with the management and intervention body. — Membership of cross-institutional committees or bodies.	— Identification of recurring or systemic problems as an early warning mechanism. — Identification of operational, legal and conduct risks. — Adaptation to the principles and criteria set out in the CSD Guidelines. — Adoption of the criteria set by the Banco de España or the courts in their rulings. — Transfer of the criteria established by the CSD in its resolutions to the institution's day-to-day operations.

WEBSITE REPORTING REQUIREMENTS		
Content	Access to file a claim	Publication of the CSD communication channels
— Indication of a postal and email address. — Reference to the possibility of contacting the Banco de España to file a complaint or claim. — Publication of the CSD's operating rules. — References to applicable regulations on transparency and customer protection in financial services. — Deadlines for the resolution of complaints by the CSD.	— Prominent location. — Quick and easy. — Clear access route. — Limited number of intermediate screens. — Inclusion of terms such as "claims" or "CSD".	— Clearly visible. — All together in the same section.

SOURCE: Banco de España.

banking and consumer associations, and other bodies, in order to understand the problems and possible solutions so as to minimise fraud. Once the new actions have been completed, the main supervisory expectations in the area of fraud risk prevention will be identified among those applied by the institutions and they will be shared with the industry with the aim of improving fraud risk management. This will contribute to strengthening institutions' internal controls.

— Figure 4.7 shows information on both the cross-institutional reviews and the exchanges on the matter.

In the area of advertising in the context of the priority of making progress in strengthening institutions' internal controls, supervision was focused on the review of procedures and controls and of institutions' conduct risks. In addition, priority was given to the review of vehicle finance adverts and adverts disseminated on social networks and websites.

— The supervision of the advertising activity was centred on the review of internal procedures and controls, and of the conduct risk analysis plans and models developed by the institutions. These plans and models identify the risks derived from their advertising activity and the controls established to mitigate them.

— In addition, the supervision of adverts continued, prioritising vehicle finance advertising and adverts disseminated on social media and websites (banners), on the basis of the risks

Figure 4.7
Fraud in card payments and digital channels

CROSS-INSTITUTIONAL REVIEWS	
2024	7 institutions
2023	5 institutions

EXCHANGES HELD	
Banking associations	Understand the problems, the solutions and the measures implemented by the institutions to minimise fraud.
Consumers and Users Organisation (OCU)	Ascertain customers' concerns and worries and the possible solutions proposed for the incidents detected.
Spanish National Cybersecurity Institute (INCIBE)	First contact for collaboration in fraud management.

SOURCE: Banco de España.

Figure 4.8
Findings of the review of adverts

INCORRECT ADVERTS AS A PERCENTAGE OF TOTAL ADVERTS REVIEWED		
12% in social media	13% on websites (banners)	22% in vehicle financing

SOURCE: Banco de España.

identified the previous year. Following the intensification of these reviews, an increase of almost 50% in the degree of non-compliance was observed in the case of the adverts reviewed on social networks and websites and more than 30% in the case of vehicle finance adverts, compared to 2023. That confirms the advisability of continuing to prioritise the supervision of adverts on these media and products, which have higher rates of non-compliance. Figure 4.8 shows the breakdown of incorrect adverts belonging to the aforementioned areas.

3 Conduct supervision in figures

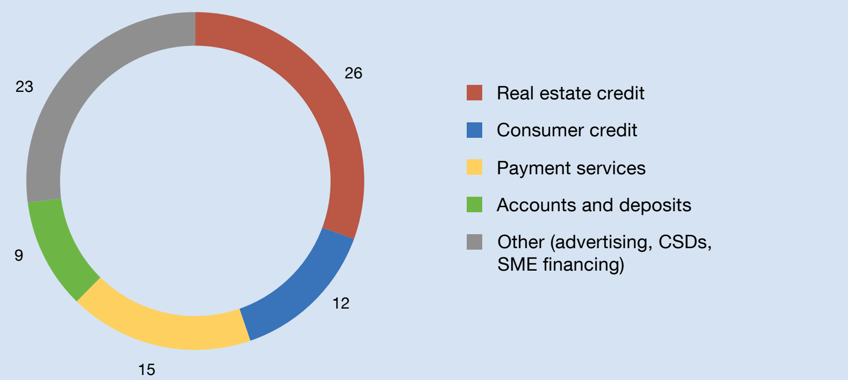
In 2024, 85 supervisory actions were carried out, many of which were cross-institutional, affecting 665 supervised institutions, including 66 credit institutions. With the aim of correcting the shortcomings and weaknesses identified in these actions, the Banco de España adopted 145 supervisory measures. These measures are graded according to the nature and seriousness of the non-compliance detected, and may consist of sending letters to clarify the treatment

Figure 4.9
Conduct supervision in figures. 2024

SUPERVISORY ACTIONS, MEASURES AND OTHER SUPERVISORY ACTIVITIES

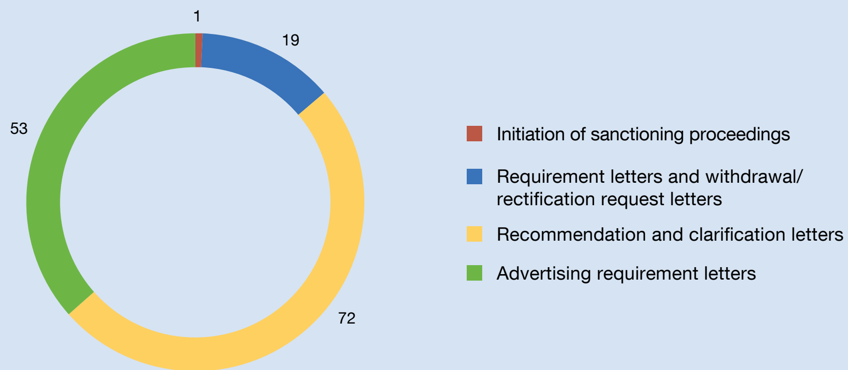
85

supervisory actions, of which 30 were unplanned actions



145

supervisory measures



342

activities regarding CSD head officers and verification of CSD and ombudsman regulations

329

letters to institutions

11

letters to other bodies (CNMV and DGSFP)

2

letters to customer ombudsmen

SOURCE: Banco de España.

applicable to certain products and situations, recommend a certain action to the institution or require compliance, cessation or rectification of its behaviour. In certain cases, sanctioning proceedings may even be initiated. In addition, 342 letters were sent in relation to CSD head officers and the regulations governing the functioning of CSDs and customer ombudsmen.

— The topics on which supervisory actions were taken were focused mainly on areas of activity relating to real estate credit and payment services (see first panel of Figure 4.9).

— The supervisory measures adopted include most notably the initiation of one sanctioning proceeding and the issuance of 72 requirement letters and requests for cessation and rectification, of which 53 were related to advertising activity and 19 to other areas. In addition, 72 letters were sent with recommendations and clarifications (see second panel of Figure 4.9).

— Furthermore, the Banco de España verifies that the rules of procedures of the CSDs and customer ombudsmen are in line with regulations and with supervisory expectations. Also, it makes a record of the CSD head officers, and publishes both the rules of procedures and the identity of these head officers on its website. In the context of these verifications, 342 letters were sent (see third panel of Figure 4.9).

Box 4.1

INTERACTION AND COMMUNICATION AS CONDUCT SUPERVISION TOOLS

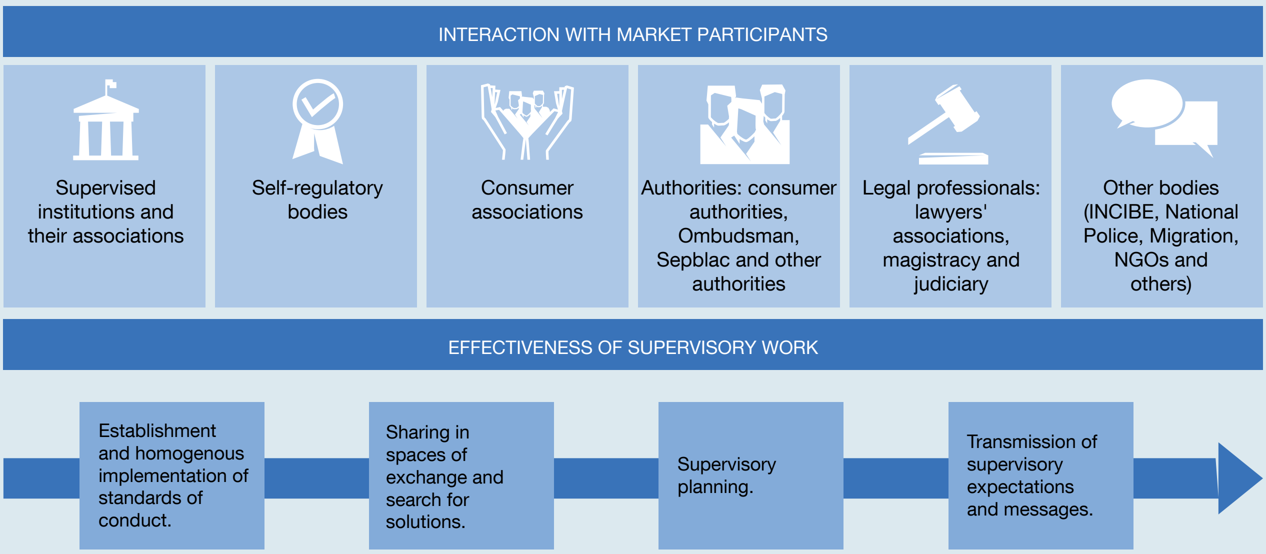
In order to achieve adequate protection of bank customers, supervision must have an impact on institutions' conduct. To this end, the supervisor has several complementary tools at its disposal, including most notably interaction and communication with various market participants, authorities and bodies.

Such interaction and communication help detect risks and favour their mitigation, and also reinforce the preventive nature of supervision —by anticipating problems— and enable effective solutions to be designed. Consequently, all aspects of conduct supervision benefit from these interactions.

The main interactions in 2024 are summarised below:

- Firstly, the establishment of a regulation geared towards protecting customers, ensuring that their interests and needs are taken into account in the design and marketing of banking products, is an essential preventive element of supervision. In order to contribute to the drafting and subsequent implementation of this regulation, the Banco de España organised workshops and held exchanges: i) with supervised institutions, self-regulation systems and consumer associations, for the definition of some of the content of the new circular on transparency and customer protection; and ii) with supervised institutions, for the consistent implementation of the *Guidelines on the governance and transparency of revolving credit*.[1]
- In addition, the information obtained in exchanges with consumer and user associations, with the General Council of Consumers and Users and with other authorities, such as the Ombudsman, was very useful as a complement to internal analyses for the purpose of establishing supervisory priorities.
- Also, the proper communication of supervisory expectations, priorities and the most immediate areas of interest is essential for supervision to be effective. Regular meetings with institutions and the exchanges that took place within the Supervisory Forum —an annual meeting whose purpose is precisely to convey supervisory expectations and priorities to the sector— contributed to this task.
- In a changing environment, with new risks and challenges, the exchange of information is essential to provide a better service to citizens and increase security and confidence in the provision of banking

Figure 1
Interaction for supervisory effectiveness



SOURCE: Banco de España.

1 *Guidelines on the governance and transparency of revolving credit for institutions subject to Banco de España supervision,* published on 13 December 2023.

Box 4.1
INTERACTION AND COMMUNICATION AS CONDUCT SUPERVISION TOOLS (cont'd)

services. On the one hand, as regards fraud, a topic of particular interest in recent years, exchanges with the Spanish National Cybersecurity Institute (INCIBE), the National Police and banking associations made it possible to share identified risks and make progress in designing solutions. On the other hand, in relation to the personalised provision of financial services, financial inclusion and social cohesion, communication with the Directorate General for Migration Management and with various NGOs contributed to a better understanding of the problems associated with issues such as access to payment accounts by certain groups.

- Lastly, it is worth mentioning that the Banco de España participated in various forums for legal professionals, both in the context of meetings held in lawyers' associations and at meetings with the judiciary and magistracy. This channel of communication and understanding helped identify areas of interest and concern.

Box 4.2

MEASURES TO ALLEVIATE THE RISE IN INTEREST RATES ON MORTGAGE LOANS

In response to the rise in interest rates, the legislator approved a series of alleviation measures aimed at reducing the cost of early loan repayments and the conversion to fixed interest rates for debtors. The conduct supervision plan for 2023 and 2024 included actions aimed at verifying the proper application of this regulatory response (see Figure 1). Specifically, inspections were carried out at ten institutions, whose business volume represented a significant percentage of the sector. In the course of these inspections, the fee regime was reviewed, along with the information and documentation provided to the borrower. The work involved the review of procedures, complaints, transaction inventories and file samples.

These inspections revealed a clear preference on the part of customers for the early repayment of loans as compared to the conversion from fixed interest rates to variable rates through subrogations or novations. It was concluded that, in general, institutions had respected the regime of suspension of fees in early repayments. However, transactions were detected in which these regulations had not been complied with, due mainly to the short period available for the implementation of the IT adaptations necessary for their automatic application.

As a result of these actions, the interpretation of the regulations was standardised, the information made available to customers was improved, and processes that led to incorrect application of the fee regime are being corrected and automated.

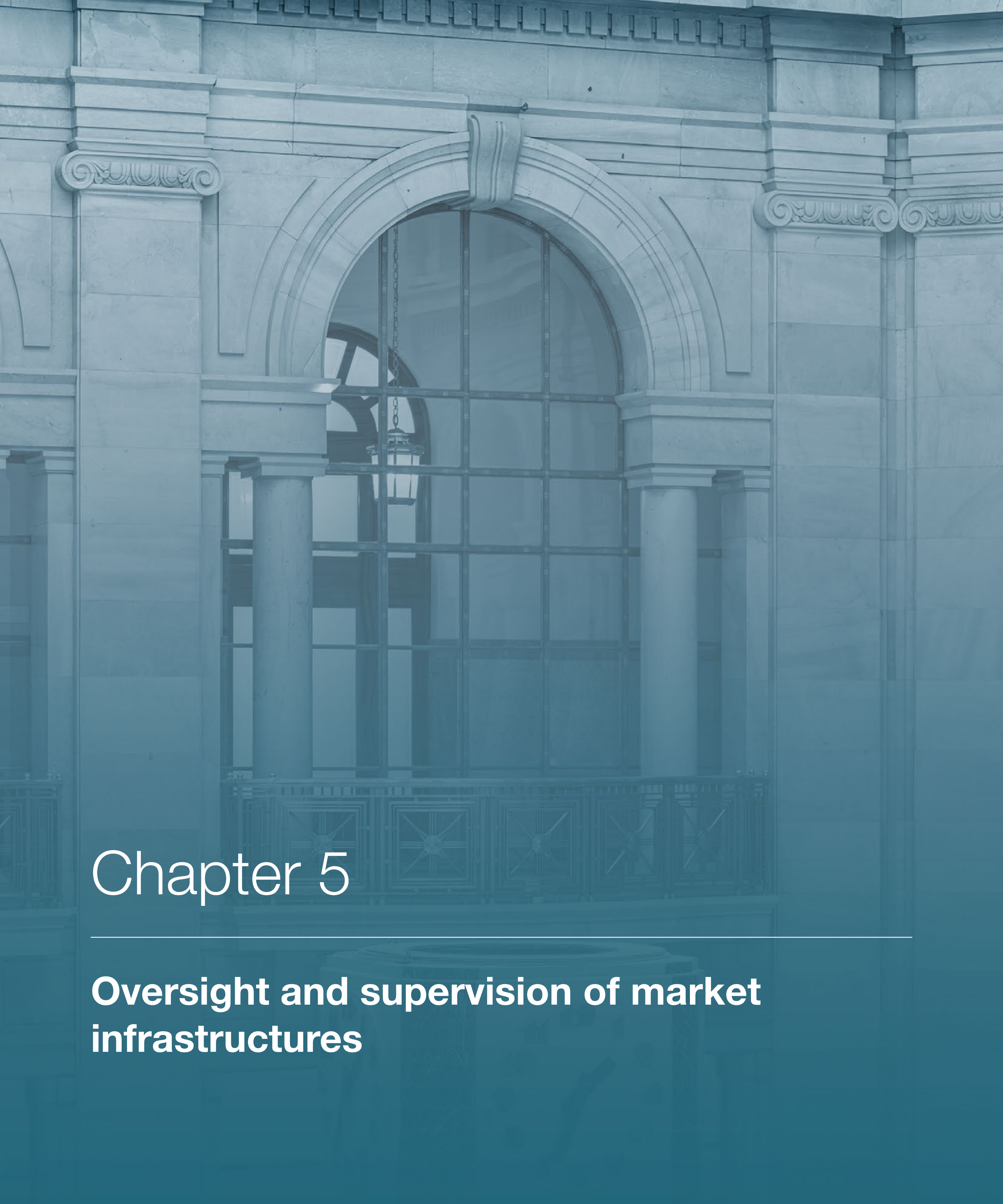
All the above has led to the reimbursement to customers of fees amounting to €5 million.

To amplify the impact of these inspections, a document outlining the most common errors identified and best market practices is planned to be sent to the sector in the second quarter of 2025, in line with the preventive approach to conduct supervision.

Figure 1
Regulatory response to the rise in interest rates

	Law 5/2019 regulating Real Estate Credit Agreements	Royal Decree-Law 19/2022	Royal Decree-Law 8/2023
REGULATIONS WHICH HAVE BEEN VERIFIED	Special treatment for the conversion of variable interest rates to fixed rates in novations or creditor subrogations, regardless of the date of conclusion of the original contract: — In the first 3 years, the early repayment fee may not exceed the financial loss or 0.15% of the capital repaid. — After 3 years, no fee can be charged for cancellation through subrogation. — No fee can be charged for the conversion of variable interest rates to fixed rates.	Until 31 December 2023, the charging of early repayment or early redemption fees on variable rate loans was temporarily suspended. From that date, the limit on the fee for cancellation through subrogation with conversion of variable interest rates to fixed rates is reduced from 0.15% to 0.05%.	It extends the scope of this special treatment to conversions to hybrid interest rates, with an initial fixed tranche of at least 3 years. It extends the suspension of early repayment fees on variable rate loans until 31 December 2024.

SOURCE: Banco de España.



Chapter 5

Oversight and supervision of market infrastructures

Chapter 5

Takeaways

- In Spain, the market infrastructure as a whole operates in accordance with the security and efficiency standards of the Eurosystem's oversight frameworks and the regulations governing them.

- In 2024, the Banco de España issued a mandatory report in connection with the review of Iberclear's internal rules. In relation to BME Clearing, it issued two mandatory reports due to changes in its internal rules. Also, it reviewed the recovery plan within the framework of the supervisory college's activities and began the review process of the resolution plan within the framework of the resolution college's activities.

- In 2024, the Banco de España authorised the amendment of Iberpay's articles of association and the National Electronic Clearing System's regulations, and it did not oppose the amendment of 13 of its operating instructions. These amendments allow, among other changes, the settlement of interbank obligations relating to domestic card transactions and the euro leg of international instant credit transfers.

- The Banco de España's supervisory and sanctioning powers were extended, and they now include information and communication technology risk management by payment system operators and other players in the payment chain.

1 Introduction

Financial market infrastructures[1] clear and settle a country's financial transactions. Their proper functioning is key to preserving financial stability, which is why they are overseen by central banks, which ensure they function properly, promote their efficiency and security and encourage market initiatives that share these same objectives. The oversight task is carried out by monitoring the systems, evaluating them in relation to the defined objectives and, if necessary, bringing about changes.

The oversight function complements other independent powers that can be carried out by the central bank or by other institutions, such as the supervision of institutions or supervision carried out by internal or external audits. The scope of the oversight function includes the aforementioned financial market infrastructures as well as retail payment instruments, schemes and arrangements. In certain cases, this oversight role is exercised in cooperation with other domestic and European authorities.

The Banco de España was assigned this function in accordance with the Law of Autonomy[2], which establishes that "the Banco de España shall oversee the functioning of clearing and payment systems". As oversight is also one of the core functions assigned to the Eurosystem, the Banco de España's membership of the Eurosystem strengthens the Bank's role in this area and enables it to carry out the oversight of payment systems in a coordinated manner, applying uniform criteria based on the frameworks defined by the Eurosystem.

At the European level, the Banco de España, together with other Eurosystem central banks and under the leadership of the European Central Bank (ECB), participates in the cooperative oversight of TARGET services and the other pan-European systemically important payment systems. At the national level, the Banco de España is responsible for the oversight of two retail payment systems: the National Electronic Clearing System (SNCE) and the Sistema de Tarjetas y Medios de Pago (STMP). These oversight tasks are explained in section 2.

In the area of securities infrastructures, the Banco de España, together with the National Securities Market Commission (CNMV), is responsible for ensuring that the functioning of the Spanish securities clearing, settlement and registration systems preserves the stability of the financial system as a whole[3]. Section 3 provides greater detail about this oversight of securities infrastructures.

In addition to its oversight functions, the Banco de España is entrusted with the supervision of Sociedad Española de Sistemas de Pago, S.A., known as Iberpay, the management company

1 These infrastructures include payment systems, securities settlement systems, central securities depositories, central counterparties and central trade repositories.

2 Article 16.2 of Law 13/1994 of 1 June 1994 of Autonomy of the Banco de España.

3 Article 250 of Law 6/2023 on Securities Markets and Investment Services (LMVSI).

of the SNCE, in accordance with the Finality Settlement Law.[4] It has also been designated as the competent authority for supervising compliance with obligations regarding information and communication technology risk management by payment system operators, payment scheme operators, electronic payment arrangement operators, payment processors and other technological or technical service providers.[5] Section 4 elaborates on these supervisory tasks.

4 Article 17 of Law 41/1999 on securities payment and settlement systems.

5 Article 4 of Royal Decree-Law 8/2023.

2 Oversight of payment systems and instruments

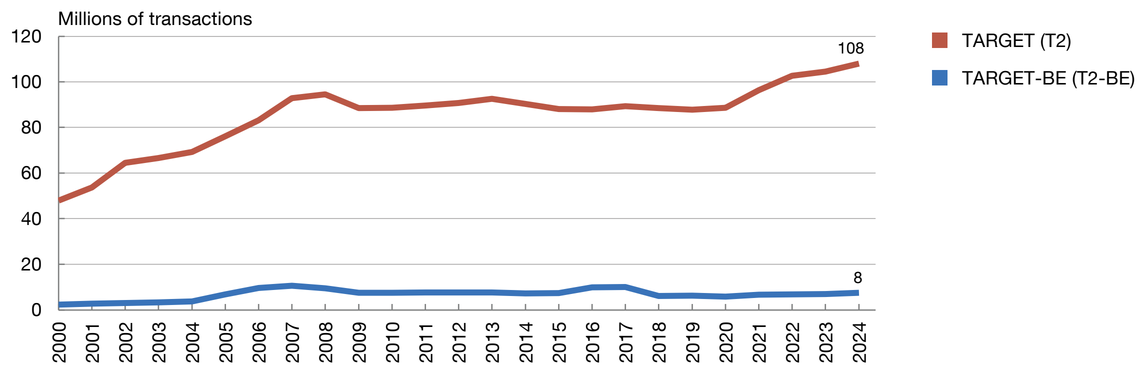
2.1 Pan-European payment systems

In 2024, under the leadership of the ECB, the Banco de España participated in the Eurosystem's cooperative oversight of the TARGET services.

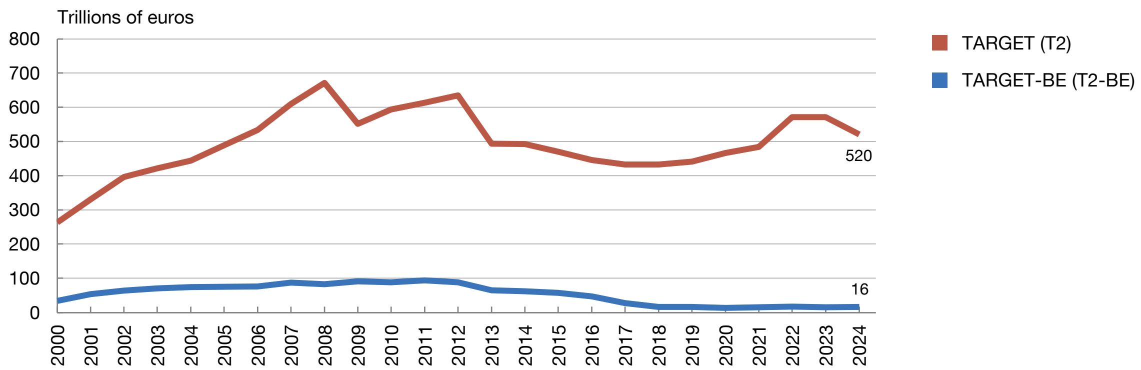
— In the framework of this oversight work, the Banco de España continued to collaborate in the comprehensive assessment (started in October 2023) of the TARGET services, in accordance with the principles of the Committee on Payments and Market Infrastructures and of the International Organization of Securities Commissions (CPMI-IOSCO) and the regulation on systemically important payment systems.

Chart 5.1
In 2024 the Spanish component, TARGET-BE, represented around 7% of the number of transactions processed in T2 and 3% of the total value of the transactions

5.1.a Number of transactions per year



5.1.b Value of transactions per year



SOURCE: Banco de España.

— One of the TARGET services is T2, dedicated to real-time gross settlement of payments and centralised liquidity management. In 2024, the number of transactions processed in the Spanish component of T2 increased by 9% compared to 2023, while there was a slight increase in the amount of transactions (+3%). The evolution of the T2 service, both for TARGET as a whole and for the Spanish component (TARGET-BE), is presented in Chart 5.1.

In 2024, the Banco de España also participated in the Eurosystem's cooperative oversight of other pan-European systemically important payment systems, managed by EBA Clearing and Mastercard Europe.

— The oversight activities on these payment systems included most notably the quarterly monitoring of the measures implemented by Mastercard Europe to meet the recommendations made by the Eurosystem. These recommendations were the result of the assessment completed in 2023 in relation to the regulation on systemically important payment systems.[6]

2.2 Retail payment systems in Spain

Instant credit transfers processed on the SNCE continued to grow in 2024, driven by Bizum transactions, and they currently represent 53% of all transfers performed on the SNCE (see Chart 5.2).

— SNCE transactions maintained a similar dynamic as in recent years in terms of growth in the number of transactions, with an annual increase of 7.1%. The increase was mainly due to instant credit transfers, which continued to grow in 2024 (by 18.9% compared to 2023) and currently represent close to 53% of all transfers processed on the SNCE. The increase in instant credit transfers is due to the growth of Bizum transactions, due in part to the substitution of cash transactions, but also to the migration from ordinary credit transfers to instant credit transfers. Thus, ordinary credit transfers continue to grow, but at a lower rate (4.5% in terms of the number of transactions in 2024, versus 7.2% in 2023). In contrast, the decline in cheque transactions continued, falling by 12%, while the number of direct debits grew by 2.5% in 2024.

— In terms of value, the various SNCE subsystems did not show significant deviations from the trends described above, as shown in Chart 5.2.

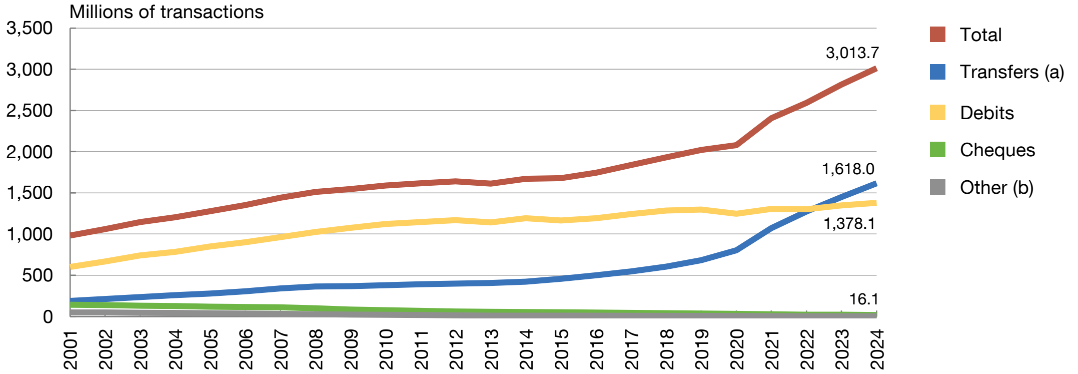
Noteworthy in 2024 with regard to oversight activities on the SNCE is the start of the comprehensive assessment of the SNCE, in which the Eurosystem oversight framework for retail payment systems is applied, the completion of which is expected in 2025.

6 Regulation of the European Central Bank (EU) No 795/2014 of 3 July 2014 on oversight requirements for systemically important payment systems.

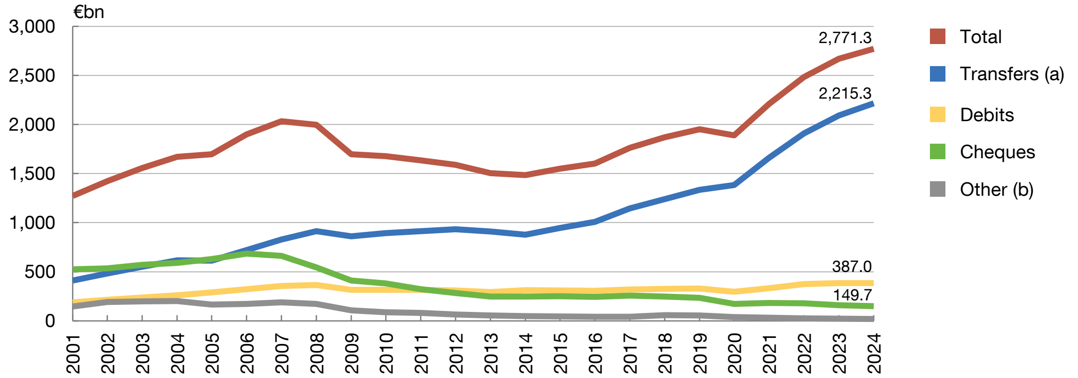
Chart 5.2

SNCE operations maintained the dynamic that was seen in recent years, with an increase of 7.1% in the total number of transactions and 3.9% in terms of value in 2024, led by the growth in transfers

5.2.a Number of transactions per year



5.2.b Value of transactions per year



SOURCE: Banco de España, based on Iberpay data.

a Including instant credit transfers as from 2018.
b Including bills of exchange and other.

— Following the changes in the SNCE in recent years, a comprehensive assessment of its degree of compliance with the standards set out in the Eurosystem's oversight framework for "other retail payment systems" (ORPS)[7] commenced in 2024. A sub-set of the total standards included in the oversight framework is applied to this type of system.

Domestic transactions[8] processed by STMP maintained strong growth, in line with the trend observed after the COVID-19 pandemic.

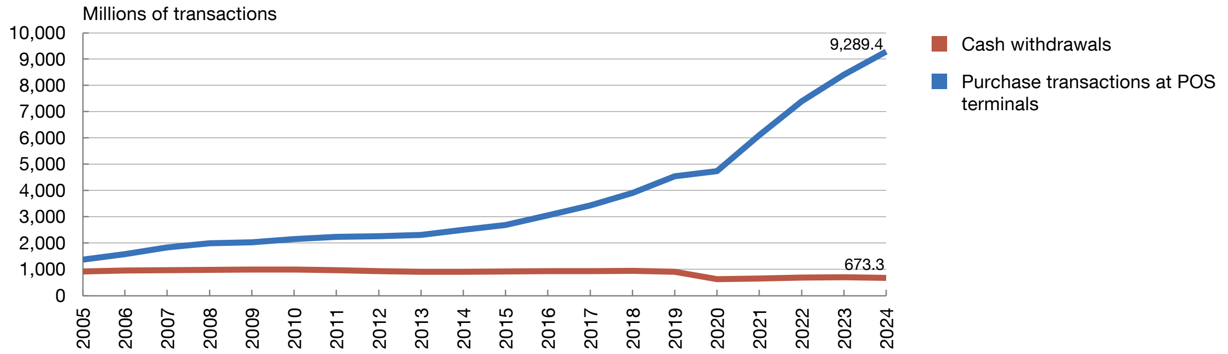
7 For retail payment systems that are not systemically important, the fundamental classification criterion is the relative weight of the transactions processed by the system against the country's total number of transactions. If this weight is 25% or above, the payment system is considered prominently important (PIRPS); only if it is below this percentage is it considered ORPS.

8 STMP-cleared card transactions include purchases (and also the payment of bills and taxes), purchase returns, cash withdrawals, other ATM services (mobile phone top-ups, latest transactions, PIN changes), transaction disputes and interbank adjustments (collections/payments).

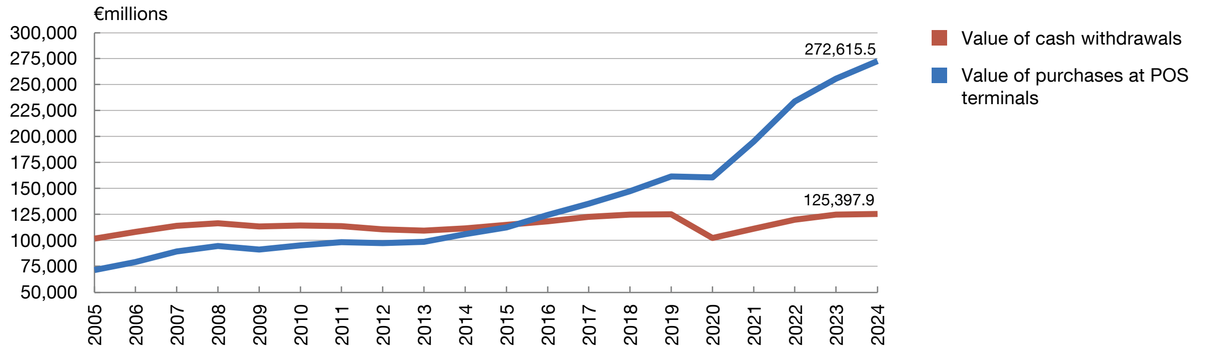
Chart 5.3

In relation to domestic card transactions cleared by STMP, the strong growth in card purchases continued in 2024, both in terms of the number of transactions and in value terms, further widening the gap with respect to cash withdrawals that had already been observed in previous years

5.3.a ATM cash withdrawals and transactions at POS terminals



5.3.b Value of ATM cash withdrawals and of transactions at POS terminals



SOURCE: Banco de España, based on STMP data.
NOTE: The 2024 levels were estimated on the basis of the first three quarters of the year.

— Chart 5.3 shows the evolution in 2024 of domestic transactions with Visa, Mastercard, Subsidised Diesel and VIA-T cards that are processed under the responsibility of STMP, with the technical support of Redsys and Cecabank for their authorisation, clearing and deferred net multilateral settlement. STMP-cleared transactions grew in terms of the number of purchases, with a year-on-year increase of 10.5% (6.7% in value terms). In contrast, the number of cash withdrawals continues to decline, falling by 2.9% in 2024 (with a slight increase of 0.4% in value terms).

In 2024, the Banco de España initiated the comprehensive assessment of STMP under the Eurosystem oversight framework for retail payment systems, as regards its card transaction clearing activity and interbank settlements.

— The STMP oversight activities were focused on the first assessment with respect to the expectations of the Eurosystem oversight framework for PIRPS.[9]

9 List of payment instruments subject to oversight: https://www.ecb.europa.eu/paym/pol/systems/html/index.en.html.

— The STMP oversight also included the analysis of a significant change at the operational-technical-regulatory level. This change occurred in the context of the implementation of a new unified clearing model for Spanish card transactions, with interbank settlement on the SNCE and prior provision of funds via central bank money in T2.

2.3 Payment instruments

Together with the Eurosystem, the Banco de España continued to carry out assessments of payment schemes and arrangements in 2024 in order to verify that they comply with the security and efficiency standards established within the Eurosystem framework for the oversight of payment instruments, schemes and arrangements (the PISA framework).[10] In addition, the Banco de España monitors Bizum as a domestic payment arrangement and, together with the ECB, it monitors American Express as a three-party scheme.

— Payments with instruments other than cash cover the entire transaction cycle, from the moment the payer (for example, the cardholder) initiates the payment (authenticating himself and authorising the payment) until the money is credited to the account of the payee (for example, the merchant selling a product). Payment can be made through various payment instruments (cards, transfers, direct debits, etc.). The set of rules that govern how a payment instrument is used makes up a payment scheme. In addition, there are payment solutions or arrangements on the various payment instruments, which offer added-value functionalities, such as “making a Bizum” or paying in a shop with a mobile phone (rather than with a physical card).

— The Eurosystem has implemented a series of oversight standards, expectations and requirements to ensure that these payment instruments, schemes and arrangements are efficient and secure. These standards are detailed in the PISA framework. In 2024, the Eurosystem continued to work on the assessments of these payment instruments, schemes and arrangements subject to oversight.[11]

— In particular, through the joint oversight teams established in the Eurosystem, the Banco de España participated in the assessments of the SEPA[12] payment schemes operated by the European Payments Council (EPC): the credit transfer (SCT), instant credit transfer (SCT Inst) and direct debit (SDD Core and SDD B2B) schemes. It also participated in the comprehensive assessment of the four-party scheme operated by Visa Europe, which concluded in 2024 with its corresponding recommendations and an implementation plan that is currently in progress.

10 PISA stands for payment instruments, schemes and arrangements.

11 List of payment schemes and arrangements subject to oversight: https://www.ecb.europa.eu/paym/pdf/List_of_payment_schemes_ and_arrangements_overseen_under_PISA_framework.pdf.

12 SEPA stands for Single Euro Payments Area.

— In addition, the Banco de España monitors the evolution of American Express as a three-party scheme in Europe, in collaboration with the ECB, and of Bizum, as a domestic payment agreement.

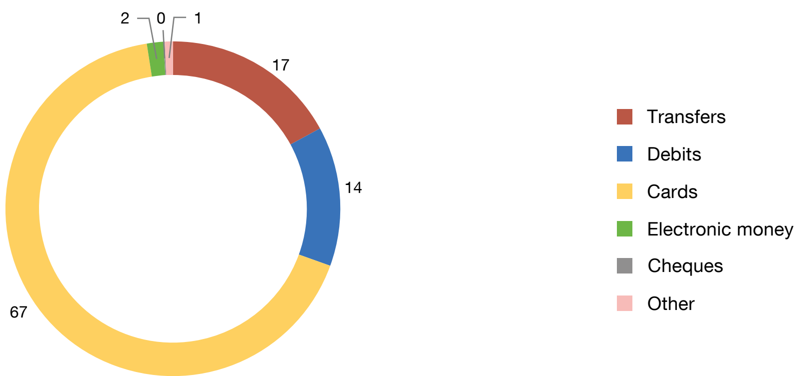
In the first half of 2024, the most widely used non-cash payment instruments in Spain, in terms of the number of transactions, were cards, followed by credit transfers, while in value terms, it was credit transfers, followed by direct debits.

— The Banco de España compiles data provided by payment service providers in accordance with ECB Regulation (EU) No 1409/2013 on payment statistics. Chart 5.4 shows the weight of each type of payment instrument in Spain in 2024, in terms of both the number of transactions and value.

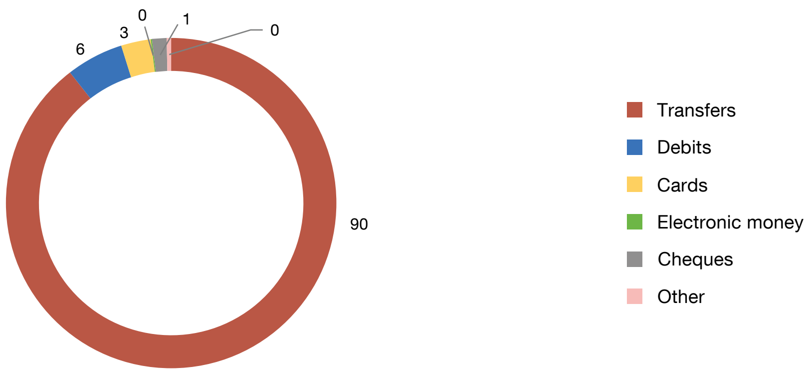
— To complete the above picture, and with the aim of understanding consumer habits in euro payments, including cash payments, in 2023 and 2024 the Eurosystem carried out a study called SPACE (Study on the payment attitudes of consumers in the euro area)[13] on the basis of a survey conducted in the euro-area countries. In particular, in the case of Spain, the SPACE results indicate that, at the point of sale, the two most used payment methods in

Chart 5.4
As regards the use of the various payment instruments other than cash in Spain in the first half of 2024, cards were the most widely used, by number of transactions, while transfers were the most widely used in value terms

5.4.a Number of transactions
%



5.4.b Value of transactions
%



SOURCE: Data provided by the payment service providers in accordance with Regulation (EU) 1409/2013 on payment statistics.
NOTE: Data for the first half of 2024.

13 https://www.ecb.europa.eu/stats/ecb_surveys/space/html/index.es.html

terms of the number of transactions are cash payments (57% of the total), followed by card payments (32%).

The European Banking Authority (EBA) and the ECB published, for the first time, a joint report on payment fraud,[14] drawn up on the basis of statistical fraud data that these authorities had been collecting since 2022.

— On the basis of the information compiled by the national central banks and competent authorities on the matter of payment services, in 2024 the ECB and the EBA published a joint report on payment fraud. This is a more comprehensive report than the report that the ECB had been publishing to date, in terms of both the number of payment services considered (in addition to fraud in card payments, it also considered credit transfers, direct debits and electronic money) and the greater breakdown of the data. For more statistical information on payment fraud, see section 5 of Chapter 2, on the supervision of the provision of payment services.

14 https://www.ecb.europa.eu/press/intro/publications/pdf/ecb.ebaecb202408.en.pdf

3 Oversight of securities infrastructures

Under the Securities Markets and Investment Services Law (LMVSI), the CNMV is tasked exclusively with the supervision of securities infrastructures in Spain. Also, the LMVSI entrusts the CNMV and the Banco de España, jointly, with ensuring the smooth operation of Spanish securities clearing, settlement and registration systems. The objective of this oversight task is to preserve the stability of the whole financial system.

Accordingly, the Banco de España carries out oversight activities on the central counterparty, BME Clearing, and the central securities depository, Iberclear, which operates the ARCO securities settlement system.

As a member of the Eurosystem and under the leadership of the ECB, the Banco de España participates in the cooperative oversight of the T2S platform.

3.1 Evolution of activity and indicators

In 2024, the two main segments of activity of BME Clearing showed different trends (see Chart 5.5). BME Clearing maintained its financial resources above the required level, and these resources were mainly cash deposited with the Banco de España.

— The clearing activity of the fixed income segment continues with the downward trend observed in the previous year.

— As regards the activity in the financial derivatives segment, there was a significant upturn in the notional value of options and futures contracts cleared via BME Clearing. With regard to the number of contracts cleared, there was stagnation in futures contracts and a continued decline in cleared options contracts.

— BME Clearing's financial resources stem mainly from margins and contributions from its clearing members to the guarantee fund and, as in previous years, in 2024 they remained above the minimum required levels. The liquidity of BME Clearing's financial resources remained very high, as they are mainly composed of cash deposited with the Banco de España.

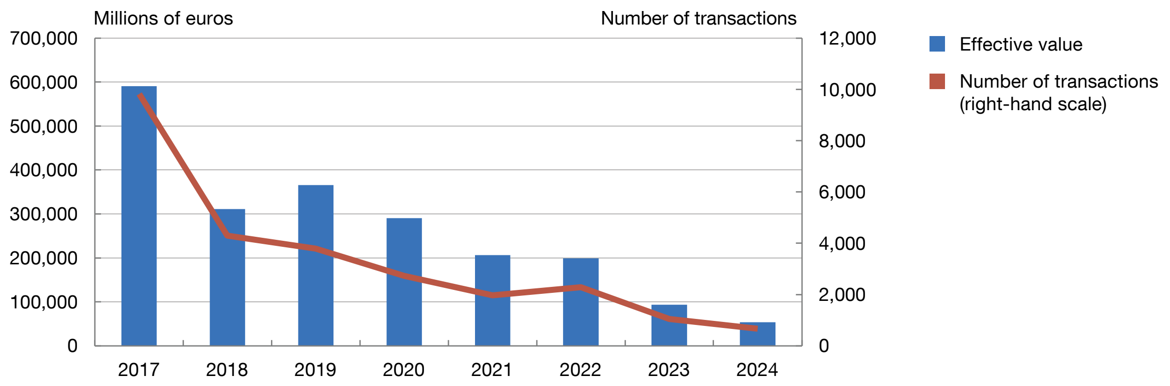
The trend in Iberclear's settlement activity in 2024 generally remained the same as in recent years, although there was a significant increase in the value settled in the case of long-term fixed income securities (see Chart 5.6).

— There was a significant increase in the settlement of long-term fixed income securities in value terms, as a result of investor appetite for longer-term government debt in a context of falling interest rates. In terms of transactions settled, the increase was more moderate. In

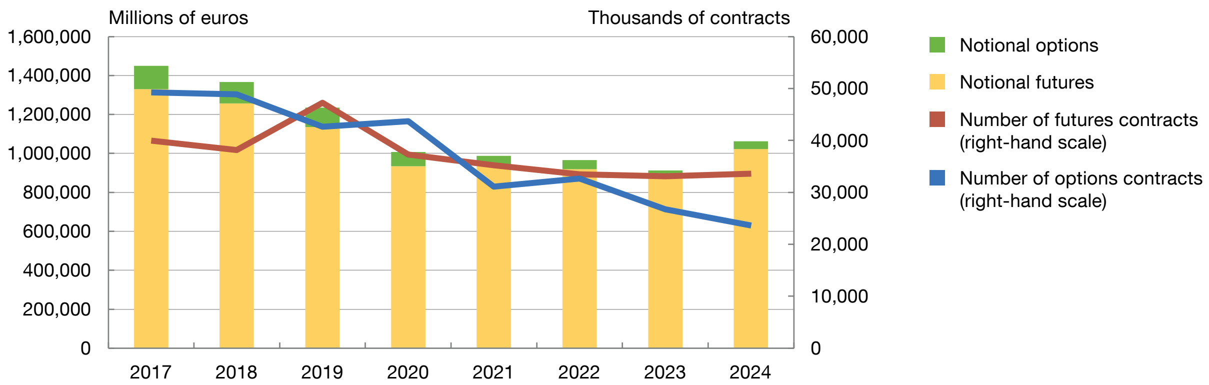
Chart 5.5

With regard to BME Clearing's operations, the downward trend in activity in the fixed-income segment continued in 2024. However, in the financial derivatives segment, there was a significant upturn in notional amounts, accompanied by stagnation in the number of futures contracts and a decline in the number of options contracts

5.5.a Clearing of government bonds



5.5.b Clearing of financial derivatives traded in MEFF



SOURCE: BME Clearing.

the case of short-term securities, there was an increase in value and a decrease in the volume of transactions.

— Settlement activity in equities followed the trend of recent years, with an increase in value terms and a decrease in the number of transactions.

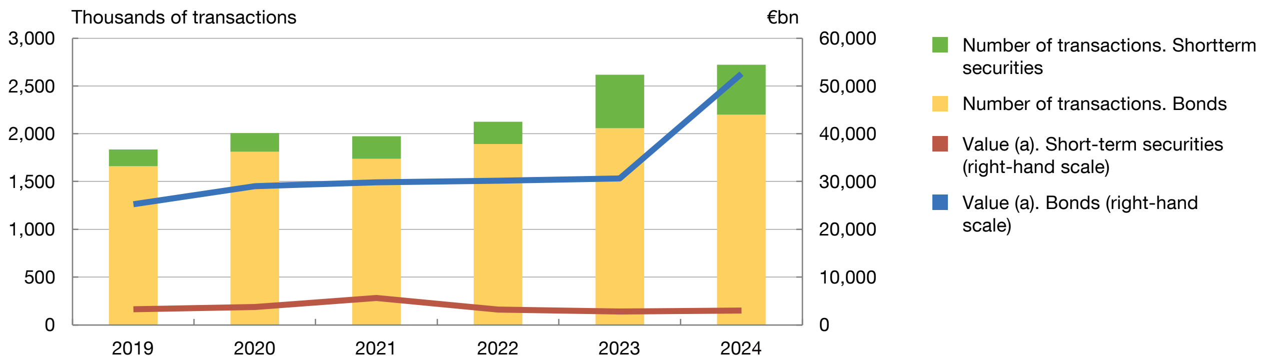
3.2 Actions resulting from national legislation

In relation to BME Clearing, and in accordance with Article 86.4 of the LMVSI, in 2024 the Banco de España issued two favourable reports on several amendments to its internal rules.

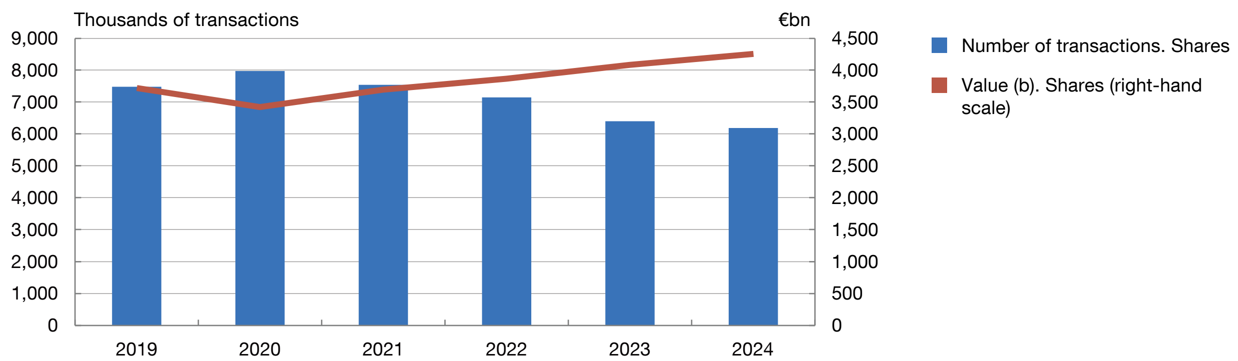
Chart 5.6

In 2024, the Iberclear settlement activity generally maintained the trend of recent years, although there was notable growth in the value of long-term fixed-income securities settled

5.6.a Fixed-income securities



5.6.b Equities securities



SOURCE: Iberclear.

a Nominal balances.
b Cash settled.

— In accordance with Article 86.4 of the LMVSI, the Banco de España issues reports in the event that central counterparties or central securities depositories amend their internal rules and when central counterparties establish new agreements with trading venues (Article 94 of the LMVSI).

— In 2024, the Banco de España issued two reports referring to: i) the amendment of the general conditions of the financial derivatives segment to incorporate new types of option contracts on the same underlying with a variation in the rate and time of settlement; and ii) the amendments of the general conditions of the energy segment to incorporate new products indexed to the TTF price benchmarks on natural gas underlying and liquefied natural gas underlying with physical delivery in Spain.

In accordance with Article 86.4 of the LMVSI, in 2024 the Banco de España issued a favourable report on the review of Iberclear's internal rules.

— In 2024, the Banco de España issued a positive report on the amendments to Iberclear's internal rules, for their adaptation to the regulatory changes that took place in 2023: the new LMVSI and the royal decree that implements it;[15] the amendments to the Settlement Finality Law; the review of the Central Securities Depositories Regulation (CSDR);[16] and the new regulation on markets in crypto-assets (MiCA).[17] The most relevant amendments to the Iberclear rules are the elimination of the obligation for central securities depositories to have a reporting system for the supervision of securities trading, clearing, settlement and registration; the removal of the function of monitoring and control over the maintenance of the detailed register; the elimination of the special procedure and the financial intermediary accounts; the change in the provision of issuers' ownership information; and other amendments, including most notably those related to allowing the use of distributed ledger technology.

— The above-mentioned elimination of the obligation to have in place a reporting system for the supervision of securities trading, clearing, settlement and registration is of particular importance, as it contributes to the harmonisation of national and European regulations. This system is considered unnecessary because European regulations already guarantee the traceability of transactions. This elimination seeks to favour competitiveness and bring monitoring and control obligations into line with the rest of the European Union countries, focusing on the efficiency of settlement and the integrity of issues.

3.3 Actions resulting from European legislation

The Banco de España participates in the college of supervisors and the resolution college of BME Clearing, inter alia because of its role as overseer and as the Eurosystem's representative in its capacity as the central bank of issue for the euro.

— In the college of supervisors of BME Clearing, the Banco de España analyses the impact that changes in the central counterparty's operations and risk management framework may have on its risk profile. In 2024, BME Clearing submitted its recovery plan, which was reviewed in accordance with the requirements established in Regulation (EU) 2021/23 on the recovery and resolution of central counterparties. The Eurosystem's opinion was positive.

— In 2024, in the BME Clearing's resolution college, the Banco de España commenced the review process of the first draft of the resolution plan prepared by the Spanish resolution authority (CNMV).

15 Royal Decree 814/2023 on financial instruments, admission to trading, registration of transferable securities and market infrastructures.

16 Regulation (EU) 2023/2845 of the European Parliament and of the Council of 13 December 2023 amending Regulation (EU) No 909/2014 as regards settlement discipline, cross-border provision of services, supervisory cooperation, provision of banking-type ancillary services and requirements for third-country central securities depositories.

17 Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets.

Also, the Banco de España participated in the annual review and evaluation process of Iberclear's compliance with the CSDR Regulation.

— The Banco de España is a relevant authority within the framework of the CSDR Regulation, due to its role as overseer and as the Eurosystem representative, in its capacity as the central bank of issue of the euro and as the central bank in which the cash leg of transactions is cleared and settled. As the relevant authority, the Banco de España participated in the annual evaluation process on Iberclear's compliance with the CSDR Regulation. The evaluation, based on information provided by Iberclear for 2023, was focused on the operational risks to which Iberclear is exposed and on the activity through the links it maintains with other foreign central securities depositories. In relation to the latter, activity has increased when Iberclear acts as the issuer central securities depository and has decreased when it is the investor.

In 2024, the Banco de España continued to monitor the implementation of the recommendations for the T2S platform arising from the assessment of the penalty mechanism for delays in the matching and settlement of instructions. In addition, this service's compliance with the international principles applicable to financial market infrastructures continued to be assessed as part of the comprehensive assessment of TARGET services with respect to these principles.

— The Banco de España participates in the Eurosystem's cooperative oversight of the T2S platform, which provides settlement services to 24 central securities depositories in the European Union. In 2024, the Banco de España continued to monitor the implementation of the recommendations arising from the assessment of the penalty mechanism for delays in the matching and settlement of instructions required by the CSDR Regulation. Most of the recommendations have already been implemented.

— In addition, at the end of 2023, a comprehensive review process was initiated of the compliance of TARGET services, including T2S, with the CPMI-IOSCO principles. The Banco de España is participating in this review, which will end in 2025.

4 Supervision of payment systems and operators

4.1 Supervision of Iberpay

In 2024, the Banco de España authorised the amendment of Iberpay's articles of association and the SNCE regulations.

— As the body responsible for the supervision of Iberpay (the company tasked with operating the SNCE), the Banco de España is entrusted with giving the prior approval to the company's articles of association and the basic operating rules of the systems and services that Iberpay manages. In the exercise of these supervisory functions, the Banco de España approved an amendment to the company's articles of association and a new SNCE regulation, which came into force in February 2024.

— This new regulation provides regulatory coverage for the new subsystem established in the SNCE, which is dedicated exclusively to the settlement of interbank obligations arising from card transactions. These payment obligations have traditionally been settled through several procedures outside the SNCE and, from March 2024, they began to be progressively replaced by a new single, efficient and integrated model, which allows for the interbank settlement of these transactions via the SNCE.

In 2024, the Banco de España assessed 13 operating instructions of the SNCE and the basic operating rules of 2 services offered by Iberpay, which the Banco de España did not oppose. Among other changes, the SNCE implemented the settlement of interbank obligations derived from domestic card operations, as well as the processing of the euro leg of international instant credit transfers, under the EPC's OCT Inst[18] scheme.

— Following their adoption, Iberpay has the legal obligation to notify the Banco de España of the technical or operational instructions regulating the transactions of the systems and services that Iberpay manages and the basic operating rules of the complementary services it provides. In these cases, the non-opposition of the Banco de España is sufficient for their entry into force.

— In the fulfilment of these functions, in 2024 the Banco de España assessed 13 operating instructions of the SNCE, which the Bank did not oppose. The main changes they introduced were as follows: i) the regulation of the functioning and the technical and operational characteristics of the new SNCE subsystem dedicated to the interbank settlement of card transactions; ii) the adaptation of the instant credit transfer subsystem to include a functionality that enables institutions to settle the euro leg of international instant credit transfers (instant credit transfers with origin and/or destination beyond the SEPA zone or in

18 One-Leg Out Instant Credit Transfer scheme. More information can be found on the EPC's website: https://www.europeanpaymentscouncil.eu/what-we-do/epc-payment-schemes/one-leg-out-instant-credit-transfer

foreign currencies) using the EPC's OCT Inst scheme; iii) the modification of the identification codes used by SNCE participants that do not have a registration number with the Banco de España; and iv) the adaptation of the SEPA online payment request subsystem to the new version of the rules of the EPC SRTP[19] scheme and to the sectoral agreements reached for the utilisation of various use cases.

— Also, assessments were performed of the amendment of the basic operating rules of the information exchange service for the fight against fraud and the account ownership confirmation service, both offered by Iberpay. The first amendment homogenised and standardised institutions' practices, and the second streamlined the handling of responses, with the incorporation, in turn, of a new service level agreement. The Banco de España did not oppose these rules.

4.2 Operational resilience supervision

The Banco de España saw its supervisory powers extended by Royal Decree-Law 8/2023, which seeks to reinforce the resilience of payment system operators and other players involved in the payment chain by including them in the scope of application of Chapter II of EU Regulation 2022/2254 (known as DORA). The institutions subject to these new requirements must comply with them from 17 January 2025. In 2024, the Banco de España worked on the supervisory action plan, which will begin in 2025, and it informed the institutions identified that they would be subject to the aforementioned regulation.

— The purpose of DORA is to strengthen financial institutions' operational resilience. With Royal Decree-Law 8/2023, applicable from 17 January 2025, certain obligations contained in DORA were extended to other institutions: payment system operators, payment scheme operators, electronic payment arrangement operators, payment processors and other technological or technical service providers that provide services in Spain.

— As indicated in Article 4 of DORA, institutions subject to the aforementioned Royal Decree-Law must comply with certain of the DORA requirements; specifically, the requirements related to information and communication technology risk management, which are detailed in Chapter II of DORA. Therefore, the objective of the Royal Decree-Law has important synergies with the objectives pursued by the oversight function detailed in previous sections, namely the reinforcement of the security and efficiency of financial market infrastructures and of retail payment schemes and arrangements. In particular, the requirements of the Royal Decree-Law bear similarities to the current Eurosystem cyber resilience oversight expectations (CROE),[20] which form part of the Eurosystem's oversight strategy on cyber resilience[21] of financial market infrastructures.

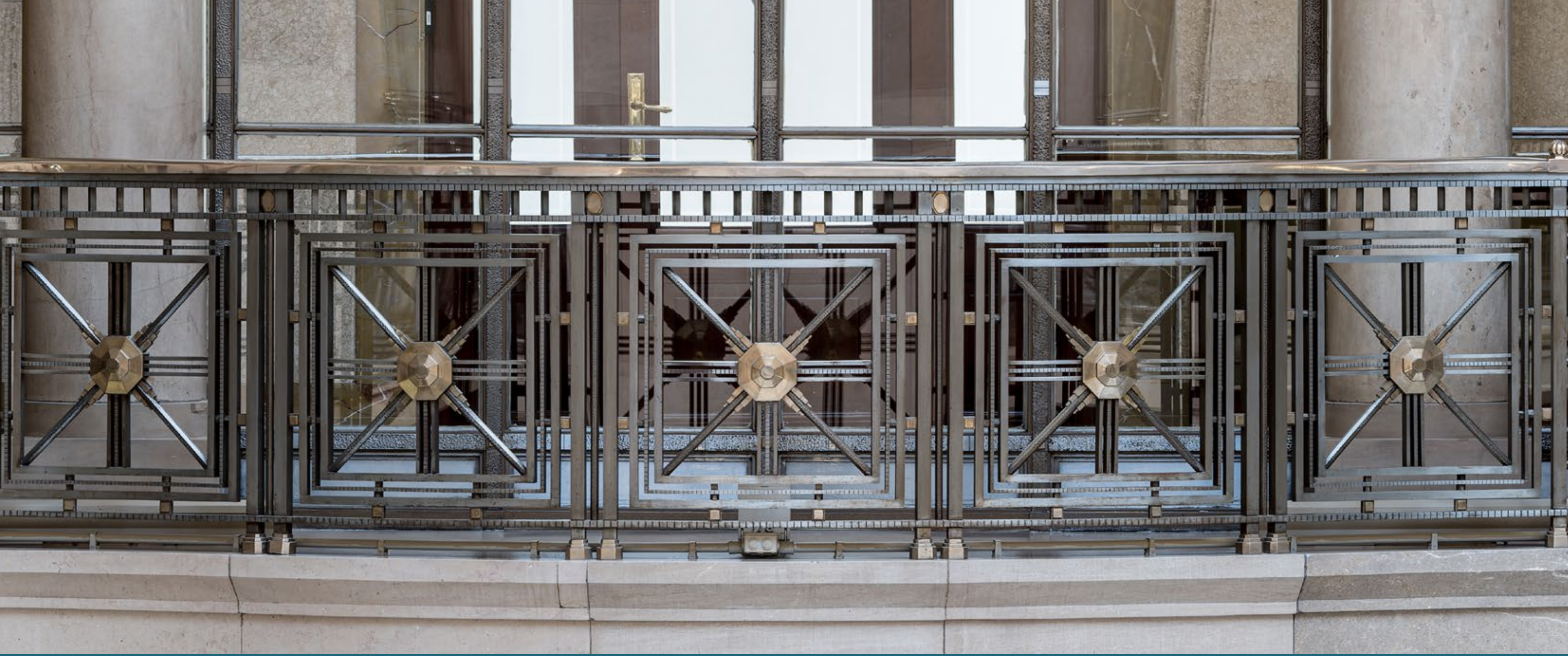
19 SEPA Request-to-Pay. Further details can be found on the EPC website: : https://www. europeanpaymentscouncil.eu/what-we-do/other-schemes/sepa-request-pay.

20 https://www.ecb.europa.eu/paym/pdf/cons/cyberresilience/Cyber_resilience_oversight_expectations_for_financial_market_infrastructures.pdf

21 https://www.ecb.europa.eu/paym/pol/shared/pdf/eurosystem_cyber_resilience_strategy_short.pdf

Chapter 6

Exercise of sanctioning powers



Chapter 6

Takeaways

- Among the main powers attributed to the Banco de España are sanctioning powers, which are intended to discipline the institutions supervised by the Banco de España. They are a necessary supplement to supervisory powers.
- In 2024, the Banco de España focused on institutions' internal control, management of conflicts of interest, compliance with remuneration regulations, the fight against intrusion and compliance with transparency and bank customer protection regulations.
- In 2024, the Banco de España imposed fines totalling more than €2.5 million, in addition to other types of penalties, such as disqualification.
- The penalties are published in the Official State Gazette and on the Banco de España's website (www.bde.es).

1 Exercise of sanctioning powers

Sanctioning powers are closely linked to supervisory powers and, therefore, the Banco de España exercises them as a necessary supplement to supervisory powers.

- Sanctioning powers are exercised both in the prudential area and in the transparency and customer protection area.
- In 2024, the Banco de España imposed fines totalling more than €2.5 million, in addition to other types of penalties, such as disqualification.
- The overview of this activity in 2024 is reflected in Table 6.1.

In the prudential area, the focus was on institutions' internal control, risk management and governance —paying particular attention to the management of conflicts of interest and compliance with remuneration regulations— and on the fight against intrusion.

- In this respect, in 2024 one proceeding against a credit cooperative and its directors and executives was resolved. Also, at the end of the year, another proceeding against a significant credit institution and its directors was being processed, the initiation of which, in 2024, had been requested by the European Central Bank, in accordance with the distribution of supervisory powers of the Single Supervisory Mechanism.
- Also in 2024, one proceeding was initiated against a payment institution and its sole director, and against holders of qualifying holdings. The reason is the possible non-compliance with their reporting and prior notification obligations, which allow the Banco de España to assess the suitability of the shareholders of this type of institution.
- Moreover, the fight against intrusion in its various forms was intensified. On the one hand, with regard to the unauthorised performance of restricted activities, two proceedings were resolved in 2024: one due to the collection of refundable funds from the public —initiated in 2024— and the other due to currency exchange. On the other hand, as regards the use of names reserved for credit institutions and cases of lack of cooperation with the inspection, one proceeding was resolved in 2024. Also, three other proceedings were initiated in 2024 that were still being processed at the end of the year.
- Appraisal companies and their respective directors continued to be a supervisory priority; of particular note are the issues of internal control, such as independence, compliance of incompatibilities and the correct application of valuation methods. In 2024, two proceedings were initiated in this area, one of which was resolved and the other was being processed at the end of the year.

Table 6.1
The Banco de España's sanctioning proceedings in 2024

	Proceedings initiated in 2024	Proceedings resolved in 2024
Number of proceedings	9	5 (a)
Number of institutions concerned in the sanctioning procedings	18	5
Number of senior officers or individuals concerned in the sanctioning proceedings	37	26

SOURCE: Banco de España.

a Two of the proceedings resolved in 2024 were initiated this year. The rest of the proceedings resolved were initiated in 2023.

Lastly, it should be noted that transparency and bank customer protection is a priority issue for the Banco de España.

— At the end of the year, a proceeding initiated in 2024 was being processed, which included the investigation into the alleged violation of the prohibition on tie-in sales of mortgage loans and insurance.

For more information on the penalties imposed, please click on this link (publication within 15 days from the date on which the penalty becomes final in administrative proceedings).

Chapter 7

The Banco de España's participation in international banking regulation and supervision bodies

Chapter 7
Takeaways

- The Banco de España participated actively in the main international banking regulation and supervision fora, where it seeks to exert significant influence as one of its priorities.
- In 2024, the Financial Stability Board published reports, consultative documents and recommendations on non-bank financial intermediation, financial innovation, cross-border payments, climate change, cyberresilience and resolution of central counterparties.
- The Basel Committee on Banking Supervision promoted the full implementation of Basel III, continued to investigate the turbulence of March 2023 and made progress in the risk analysis of the digitalisation of finance and the climate. It also finalised the Core Principles for Effective Banking Supervision, adjusted the interest rate risk framework and issued guidelines on counterparty risk management.
- The European Banking Authority focused on developments necessary for the implementation of Basel III, monitoring financial stability, addressing environmental, social and governance risks, improving its data infrastructure, protecting consumers and integrating innovation into the sector. In addition, it prepared to supervise critical technology service providers and significant crypto-asset issuers.
- The European Systemic Risk Board issued recommendations on reciprocity for macroprudential measures of Portugal and Italy and it worked on issues related to macroprudential policy stance, cyber risks and the incorporation of risks stemming from climate change into financial information disclosure.

1 Introduction

In 2024 the Banco de España actively contributed to the work of the main international banking regulation and supervision bodies, which addressed issues of great importance to the Bank, such as the various implications of non-bank financial intermediation, the digitalisation of finance, the financial risks stemming from climate change and the turbulence suffered by certain international banks in March 2023. Also, the Banco de España considered it essential to implement the agreed regulatory reforms, in particular Basel III, in relation to which it collaborated very actively in the relevant fora.

The Financial Stability Board (FSB) is responsible for promoting international financial stability and coordinates the financial authorities of the jurisdictions that comprise it and international standard-setting bodies.[1] As well as supporting the implementation of the reforms agreed by the G-20 following the global financial crisis[2] and assessing their effectiveness, the FSB monitors the vulnerabilities identified in the financial system and agrees improvements in its regulation and supervision.[3]

The Basel Committee on Banking Supervision (BCBS) is the international body responsible for setting global standards for the prudential regulation of internationally active banks, while acting as a forum for cooperation on banking supervision matters.

The European Banking Authority (EBA) is an independent European Union (EU) authority whose main objectives are maintaining financial stability in the EU and ensuring the integrity, efficiency and proper functioning of the banking sector.

The European Systemic Risk Board (ESRB) is entrusted with the macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risk. Also, it promotes the coordination of macroprudential measures among EU Member States.

1 The list of FSB members can be found here.

2 The priority areas of the reforms implemented following the crisis and the details of the monitoring work can be found here.

3 FSB. (2024). 2024 FSB Annual Report. https://www.fsb.org/uploads/P181124-2.pdf.

2 Global fora

2.1 Financial Stability Board

In 2024, the FSB continued to make progress on the roadmap established in 2020 to strengthen the non-bank financial intermediation sector.[4]

— It developed new metrics and regulatory tools to identify and mitigate excess leverage in this sector, especially in family offices, hedge funds and other investment funds.[5]

— It made recommendations to improve the liquidity management of non-bank intermediaries, with the aim of avoiding situations in which they are unable to meet increases in margin and collateral requirements.[6]

The FSB maintained its function of coordinating work on the financial risks stemming from climate change to give visibility to the various initiatives of international regulatory bodies and facilitate their monitoring by the G-20.

— It continued to coordinate international work through the implementation of its roadmap, published in 2021, to address these risks.

— In addition to the disclosures progress report,[7] it assessed the relevance of financial and non-financial firms' transition plans[8] for financial stability. And it concluded that, for these plans to be useful, they must include transparent information on the transition pathways to achieve low-emission targets, as well as homogeneous, verifiable and credible metrics, methodologies and assumptions.

— It also drew up a stocktake of regulatory and supervisory initiatives associated with financial risks stemming from nature and biodiversity loss.[9]

4 FSB. (2020). *Holistic Review of the March Market Turmoil.* https://www.fsb.org/2020/11/holistic-review-of-the-march-market-turmoil/

5 FSB. (2024). *Leverage in Non-Bank Financial Intermediation: Consultation report.* https://www.fsb.org/2024/12/leverage-in-non-bank-financial-intermediation-consultation-report/

6 FSB. (2024). *Liquidity Preparedness for Margin and Collateral Calls: Final report.* https://www.fsb.org/2024/12/liquidity-preparedness-for-margin-and-collateral-calls-final-report/

7 FSB. (2024). *Achieving Consistent and Comparable Climate-related Disclosures: 2024 Progress report.* https://www.fsb.org/2024/11/achieving-consistent-and-comparable-climate-related-disclosures-2024-progress-report/

8 FSB. (2025). *The Relevance of Transition Plans for Financial Stability.* https://www.fsb.org/2025/01/the-relevance-of-transition-plans-for-financial-stability/

9 FSB. (2024). *Stocktake on Nature-related Risks: Supervisory and regulatory approaches and perspectives on financial risk.* https://www.fsb.org/2024/07/stocktake-on-nature-related-risks-supervisory-and-regulatory-approaches-and-perspectives-on-financial-risk/

The FSB continued working to address the challenges posed by cyber risks and financial innovation and to improve cross-border payments.

— It published for consultation a common format for reporting cyber incidents,[10] which will enable the sharing of standardised information on such incidents in the financial sector, facilitating a faster and more coordinated response.

— With regard to crypto-assets, after finalising the regulatory framework for crypto-asset and stablecoin activities,[11] it analysed the specific risks of global stablecoins for developing economies,[12] including regulatory arbitrage, capital outflows and implications for monetary sovereignty. This analysis identified additional challenges for the implementation of the framework and underlined the need to strengthen cross-border cooperation.

— Also, it published reports on vulnerabilities related to asset tokenisation[13] and the financial stability implications of artificial intelligence.[14]

— Furthermore, it continued to work on enhancing cross-border payment infrastructure, in order to make payments faster, cheaper, more transparent and more inclusive. In 2024 it published the consultation on recommendations to address the inconsistent treatment of bank payment service providers, and non-bank payment service providers.[15]

The FSB continued to play a crucial role in the effective resolution of financial institutions, in order to ensure that their failure does not compromise financial stability, and to promote international cooperation.

— In 2024, it finalised a new global standard to ensure that resolution authorities have financial resources and tools at their disposal that facilitate the resolution of central counterparties.[16]

10 FSB. (2024). *Format for Incident Reporting Exchange (FIRE): Consultation report.* https://www.fsb.org/2024/10/format-for-incident-reporting-exchange-fire-consultation-report/

11 FSB. (2024). *Cross-border Regulatory and Supervisory Issues of Global Stablecoin Arrangements in EMDEs.* https://www.fsb.org/2024/07/cross-border-regulatory-and-supervisory-issues-of-global-stablecoin-arrangements-in-emdes/

12 FSB. (2024). *Cross-border Regulatory and Supervisory Issues of Global Stablecoin Arrangements in EMDEs.* https://www.fsb.org/2024/07/cross-border-regulatory-and-supervisory-issues-of-global-stablecoin-arrangements-in-emdes/

13 FSB. (2024). *The Financial Stability Implications of Tokenisation.* https://www.fsb.org/2024/10/the-financial-stability-implications-of-tokenisation/

14 FSB. (2024). *The Financial Stability Implications of Artificial Intelligence.* https://www.fsb.org/2024/11/the-financial-stability-implications-of-artificial-intelligence/

15 FSB. (2024). *Recommendations for Regulating and Supervising Bank and Non-bank Payment Service Providers Offering Cross-border Payment Services: Consultation report.* https://www.fsb.org/2024/07/recommendations-for-regulating-and-supervising-bank-and-non-bank-payment-service-providers-offering-cross-border-payment-services-consultation-report/

16 FSB. (2024). *Financial Resources and Tools for Central Counterparty Resolution.* https://www.fsb.org/2024/04/financial-resources-and-tools-for-central-counterparty-resolution/

2.2 Basel Committee on Banking Supervision

In 2024, the BCBS continued to examine the causes of, and lessons learned from, the banking turmoil of March 2023.

— It presented the G-20 with an update of its analytical work on the banking crises of 2023.[17] The report summarises the empirical analysis of the liquidity risk dynamics observed during these episodes.

The BCBS carried out important work to ensure that banks and supervisors effectively manage the risks associated with digitalisation.

— It published a report on the digitalisation of finance, highlighting its benefits and risks. This report analyses the use of innovative technologies, such as application programming interfaces, artificial intelligence, machine learning, distributed ledger technology (DLT) and cloud computing. It also examines the role of Big Techs, FinTechs and third-party service providers in banking.[18]

— Also, it published a report on the risks, mitigants and uncertainties associated with permissionless DLTs, highlighting operational, legal, security, governance and compliance risks and proposing new risk management strategies to address them.[19]

— With regard to banks' crypto-asset exposures, it finalised the disclosure framework (Pillar 3).[20] It also revised the framework for the prudential treatment of these exposures,[21] specifically with regard to the criteria on the composition of the reserve assets backing stablecoins. Also, it published a set of answers to frequently asked questions to promote a consistent understanding of this framework. Lastly, with regard to banks' increasing reliance on third-party technology service providers and the resulting concentration risks, it published for consultation updated principles for the supervision of outsourcing practices, which aim to establish a common baseline for the management of these risks.[22]

The BCBS continued to analyse climate-related financial risks, addressing both their regulation and their supervision and disclosure.

— It published a working paper on how climate scenario analysis can be used to strengthen the management and supervision of climate-related financial risks.[23] This paper is framed

17 BCBS. (2024). *The 2023 banking turmoil and liquidity risk: a progress report.* https://www.bis.org/bcbs/publ/d582.htm

18 BCBS. (2024). *Digitalisation of finance.* https://www.bis.org/bcbs/publ/d575.htm

19 BCBS. (2024). *Novel risks, mitigants and uncertainties with permissionless distributed ledger technologies.* https://www.bis.org/bcbs/publ/wp44.htm

20 BCBS. (2024). *Disclosure of cryptoasset exposures.* https://www.bis.org/bcbs/publ/d580.htm

21 BCBS. (2024). *Cryptoasset standard amendments.* https://www.bis.org/bcbs/publ/d579.htm

22 BCBS. (2024). *Principles for the sound management of third-party risk.* https://www.bis.org/bcbs/publ/d577.htm

23 BCBS. (2024). The role of climate scenario analysis in strengthening the management and supervision of climate-related financial risks. https://www.bis.org/bcbs/publ/d572.htm

within the context of the supervisory principles on the management of this type of risk issued in June 2022.[24] The BCBS encourages banks to use this type of tool to assess the strength of their business models and strategies and to determine the impact of climate-related risk factors on their overall risk profile.

— It also continued to review the responses received to its proposal for a disclosure framework (Pillar 3) for climate-related financial risks.[25]

In line with the guidance of the Group of Governors and Heads of Supervision (GHoS),[26] the BCBS limited its monitoring and review of standards and guidelines to a set of specific initiatives.

— In April 2024, it published the final revision of the *Core Principles for effective banking supervision ("Core Principles").*[27] These principles are the universally applicable minimum standards for the sound prudential regulation and supervision of banks and banking systems. The *Core Principles* are a standard that evolves over time and, given that more than a decade had passed since the last update, this review has sought to incorporate the effect of recent structural changes affecting the banking sector, regulatory and supervisory developments over the past ten years, lessons learned in the implementation of the last update of the Core Principles and experiences gained from the Financial Sector Assessment Programs (FSAPs) of the International Monetary Fund (IMF) and World Bank since 2012. Prudential authorities use these principles as a benchmark to assess the adequacy of their regulatory and supervisory frameworks and to identify the measures needed to achieve optimal quality levels in supervisory practices. The IMF and the World Bank also use them to assess the effectiveness of countries' banking supervision systems as part of the FSAPs.[28]

— In addition, it finalised a series of targeted adjustments to its standard on interest rate risk in the banking book.[29] These adjustments address certain problems in the current methodology that become particularly apparent in periods when interest rates are close to zero.

24 BCBS. (2022). *Principles for the effective management and supervision of climate-related financial risks.* https://www.bis.org/bcbs/publ/d532.htm

25 BCBS. (2023). *Disclosure of climate-related financial risks.* https://www.bis.org/bcbs/publ/d560.htm

26 BCBS. (2020). *Governors and Heads of Supervision commit to ongoing coordinated approach to mitigate Covid-19 risks to the global banking system and endorse future direction of Basel Committee work.* https://www.bis.org/press/p201130.htm

27 BCBS. (2024). *Core Principles for effective banking supervision.* https://www.bis.org/bcbs/publ/d573.htm

28 For more information, see Asunción Alonso, Danae Durán, Belén García-Olmedo and María Antonia Quesada. (2024). "*Basel Core Principles for effective banking supervision: an update after a decade of experience".* Financial Stability Review - Banco de España, 46, p. 5-23. https://repositorio.bde.es/handle/123456789/37653

29 BCBS. (2024). *Recalibration of shocks for interest rate risk in the banking book*. https://www.bis.org/bcbs/publ/d578.htm

— The final guidelines for counterparty credit risk management were also issued.[30] Their objective is to reflect the lessons learned from episodes such as Archegos,[31] incorporating relevant practices that contribute to mitigating the aforementioned risk.

The implementation of the Basel III reforms continued to be a priority for the BCBS.

— The GHoS reiterated its expectation of implementing all aspects of the Basel framework in full, consistently and as soon as possible.[32]

— The BCBS continued to monitor the state of progress in all its member jurisdictions through the Regulatory Consistency Assessment Programme.

30 BCBS. (2024). *Guidelines for counterparty credit risk management.* https://www.bis.org/bcbs/publ/d574.htm

31 For more information on these cases, see Alonso Olmedo, Anguren Martín, Gamoneda Roca and Pérez Rodríguez. (2021). "Archegos and Greensill: collapse, reactions and common features". *Financial Stability Review - Banco de España,* 41, p. 45-62. https://repositorio.bde.es/handle/123456789/21153

32 GHoS. (2024). *Governors and Heads of Supervision reiterate commitment to Basel III implementation and provide update on cryptoasset standard.* https://www.bis.org/press/p240513a.htm

3 European Fora

3.1 European Banking Authority

The EBA continued its work to improve the Single Rulebook.

— The so-called “Banking Package”, comprising amendments to Regulation (EU) No 575/2013 (CRR III) and Directive 2013/36 (CRD VI), confers approximately 140 mandates to the EBA, with technical developments of various kinds that will have to be completed by the end of 2028. Box 7.1 summarises the main work in this area.

Another important area of the EBA’s work was the monitoring of developments in the financial sector for the early identification of vulnerabilities, specifically those associated with climate change and transition risk.

— In this context, it approved the methodology for the 2025 EU-wide stress tests, which remains largely unchanged with respect to 2023 and will maintain the bottom-up approach with certain top-down elements. As occurred last year with the first-time application of a supervisory model for estimating fees, another step has been taken in the incorporation of top-down elements; this time, with the centralisation of the calculations derived from the methodological prescriptions for the projection of net interest income. This exercise is scheduled to begin in January 2025 and its results are due to be published in August (this timetable has been adjusted to take into account the entry into force of CRR III and CRD VI).[33]

— Together with the other two European Supervisory Authorities[34] (the European Central Bank and the ESRB), it published the results of the Fit-for-55 exercise at the end of 2024.[35] This exercise highlighted the low probability that transition risks alone pose a threat to financial stability; however, they could lead to disruptions if combined with other macroeconomic shocks. Therefore, policy coordination is needed to finance the green transition, as well as the integration of climate risks into the risk management of financial institutions.

— In addition, it made progress towards the realisation of its roadmap on sustainable finance. The work completed in 2024 includes most notably the guidelines on the management of

33 EBA. (2025). *The EBA publishes methodology, draft templates, and key milestones for its 2025 EU-wide stress test: press release.* https://www.eba.europa.eu/publications-and-media/press-releases/eba-publishes-methodology-draft-templates-and-key-milestones-its-2025-eu-wide-stress-test

34 In addition to the EBA, the European Supervisory Authorities are the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority.

35 EBA. (2024). *Transition risk losses alone unlikely to threaten EU financial stability, “Fit-For-55” climate scenario analysis: press release.* https://www.eba.europa.eu/publications-and-media/press-releases/transition-risk-losses-alone-unlikely-threaten-eu-financial-stability-fit-55-climate-stress-test

environmental, social and governance risks[36] and the final report on greenwashing,[37] which recommends prioritising the finalisation and implementation of ongoing and existing initiatives before introducing new legislation.

The EBA maintained its objective of enhancing its capacity to compile regulatory and supervisory information, distributing it among interested users and enhancing its analytical capacity.

— It continued to work on the European Centralised Infrastructure for Supervisory Data (EUCLID) technology platform.

— It continued to develop the so-called Pillar 3 data hub, where it will publish in a centralised manner the prudential information that credit institutions are obliged to disclose to the market.

The EBA continued to develop and strengthen its supervisory and control capacity in the areas of digital operational resilience and crypto-assets.

— The regulation on digital operational resilience for the financial sector (DORA) assigns the development of numerous technical aspects (12 mandates) to the European Supervisory Authorities. In addition, it entrusts them with the supervision of technology service providers designated as critical. In July 2024, the European Supervisory Authorities published the second package of regulatory and implementing technical standards,[38] while making progress in developing the policies and methodologies needed to assume the supervision of these providers.

— In addition, the EBA made notable efforts to ensure the effective implementation of the Markets in Crypto-Assets Regulation (known as MiCAR), finalising most of the mandates assigned to it by the regulation. Also, it prepared to assume the supervisory powers related to issuers of asset-referenced tokens and of electronic money tokens classified as significant, developing the necessary policies and procedures to do so.

Lastly, the EBA continued to work on matters related to financial innovation, consumer protection and anti-money laundering.

— In the area of financial innovation, it is worth highlighting the monitoring of the use of artificial intelligence and machine learning in the banking sector to identify areas that may require greater regulation or supervision.

36 EBA. (2025). *Guidelines on the management of ESG risks.* https://www.eba.europa.eu/sites/default/files/2025-01/fb22982a-d69d-42cc-9d62-1023497ad58a/Final%20Guidelines%20on%20the%20management%20of%20ESG%20risks.pdf

37 EBA. (2024). *Greenwashing monitoring and supervision.* https://www.eba.europa.eu/sites/default/files/2024-05/a12e5087-8fd2-451f-8005-6d45dc838ffd/Report%20on%20greenwashing%20monitoring%20and%20supervision.pdf

38 EBA. (2024). *ESAs published second batch of policy products under DORA: press release.* https://www.eba.europa.eu/publications-and-media/press-releases/esas-published-second-batch-policy-products-under-dora

— In the area of conduct and the protection of financial services users, it is worth noting the data collection exercise on the procedures for assessing the solvency of non-bank lenders. This exercise was carried out to examine the extent to which the practices of these operators may contribute to the problem of consumer overindebtedness. In addition, the EBA designed a new report to monitor the evolution of fees associated with instant credit transfers. Lastly, together with the other two European Supervisory Authorities, it published a report in June on financial psychology applied to regulatory and supervisory work.

— Lastly, the EBA collaborated with the European Commission and other authorities to transfer its powers and competences in the prevention of money laundering and the financing of terrorism to the new Authority for Anti-Money Laundering.

3.2 European Systemic Risk Board

The ESRB issued several recommendations, some of which are relevant to the Spanish banking sector.

— It adopted recommendations ESRB/2023/13 and ESRB/2024/2 on reciprocity for macroprudential measures of Portugal and Italy, respectively.[39] In both cases, the relevant authorities of other Member States are invited to apply reciprocal measures to the systemic risk buffers adopted by the Banco de Portugal and the Banca d'Italia. Given the materiality of the exposures of certain Spanish credit institutions to these countries, the Banco de España decided, for the first time, to adopt reciprocal macroprudential measures.

As part of the ongoing monitoring of risks to financial stability in the EU, in 2024 the ESRB's work was focused on issues related to macroprudential policy stance, cyber risks and available financial information on climate-related risks.[40]

— It published a report with proposals for improvements to the macroprudential stance framework and its operationalisation.[41] The ESRB intends to use this framework actively in its analyses of member countries.

— It analysed[42] the reflection in public financial information (prepared in accordance with International Financial Reporting Standards) of the risks stemming from climate change and the channels through which this financial information can affect financial stability: transparency, reactions of economic agents and regulation.

39 Both recommendations were published in the *Official Journal of the European Union in 2024*, see https://eur-lex.europa.eu/eli/C/2024/3114/oj and https://eur-lex.europa.eu/eli/C/2024/4775/oj.

40 The ESRB also published —in early 2024—a follow-up report on vulnerabilities in the residential real estate sectors of European countries (mentioned in section 7.2.2 of the *2023 Supervision Report).*

41 ESRB. (2024). *Improvements to the ESRB macroprudential stance framework.* https://www.esrb.europa.eu/pub/pdf/reports/esrb.macroprudentialstanceframework~bcfa385e4d.en.pdf?c98576f7da4549c465516e05e6b052e2.

42 ESRB. (2024). *Climate-related risks and accounting.* https://www.esrb.europa.eu/pub/pdf/reports/esrb.report202404_climaterelatedrisks~2311dfaee2.en.pdf?0aab709cd36109c9d446b152084291ef.

— The operational tools existing in the EU and their potential use in the event of a systemic cyber incident were studied. In a report,[43] the ESRB classifies these tools into three categories: 1) information gathering, sharing and management; 2) coordination among authorities and with institutions; and 3) emergency and backup systems.

43 ESRB. (2024). *Advancing macroprudential tools for cyber resilience – Operational policy tools.* https://www.esrb.europa.eu/pub/pdf/reports/esrb.report202404_advancingmacroprudentialtools~ca44cf0c8a.en.pdf?0facb17cee3323a29d78a66b06e47fac.

4 Other fora

In 2024, the International Financial Consumer Protection Organisation (FinCoNet) carried out important activities in the conduct and consumer protection area.

— It published a report on the risks for consumers of "Buy Now Pay Later" consumer credit products, which also includes the regulatory and supervisory approach to these products.[44]

— It held several seminars on various topics, such as the efficacy of the different conduct supervision models, conduct supervision in challenging times and the supervision of crypto-assets.

In 2024, the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements addressed matters related to financial market infrastructure risk management, cross-border payments and digital innovation, and clearing and settlement.

— In relation to infrastructure risk management, it continued work on the resilience and recovery of central counterparties, including the analysis of losses not deriving from a default on the part of a clearing member and the review of margin requirements. In addition, the CPMI and the International Organization of Securities Commissions (IOSCO) reviewed the cyber and operational resilience of financial market infrastructures and continued to work on risk management analysis.

— The CPMI continued to work on the implementation of the G-20 roadmap to enhance the speed, transparency and access of cross-border payments, while maintaining their security and reducing costs. In collaboration with the FSB, it worked on the alignment of legal, regulatory and supervisory frameworks between countries, cross-border data exchange and messaging standards and interoperability between different payment systems. In addition, the CPMI worked on issues such as (direct) access to payment systems, the extension and alignment of the operating hours of the main payment systems and possibilities for improvement relating to interconnection and greater harmonisation, with a greater involvement of the industry.

— Furthermore, in 2024, the CPMI and IOSCO examined issues related to the digitalisation of payments and the clearing and settlement of transactions. They focused on analysing certain aspects of tokenisation, reflecting on the future of payments in a tokenised ecosystem, and on central bank digital currencies, where possible lines of cross-border collaboration between central banks were explored.

44 FinCoNet. (2024). Buy Now Pay Later. Risks for consumers and regulatory and supervisory approaches. https://www.finconet.org/resources/FINAL%20FOR%20PUBLICATION%20-%20FinCoNet%20SC2%20-%20BNPL%20Briefing%20Note.pdf

The Network for Greening the Financial System[45] continued to promote the work of central banks and supervisors in the area of climate and environmental risk.

— It published three reports on the following issues: the assessment of the credibility of financial institutions' transition plans from a microprudential perspective;[46] the connections between the transition plans of financial and non-financial firms;[47] and the tailoring of transition plans to emerging market and developing economies.[48]

— It also published a second guide on climate-related disclosure standards for central banks[49] and a technical report on decarbonisation strategies for central bank portfolios.[50]

— Lastly, it published an update of scenarios with new economic and climate data and policy commitments, including a new damage function to enhance physical risk modelling.

45 This is a network of supervisors and central banks from all over the world. At November 2024 it had 144 members and 21 observers. The Banco de España has been a member since April 2018.

46 NGFS. (2024). Credible transition plans: The micro-prudential perspective. https://www.ngfs.net/system/files/import/ngfs/media/2024/04/17/ngfs_credible_transition_plans.pdf

47 NGFS. (2024). Connecting Transition Plans: Financial and non-financial firms. https://www.ngfs.net/system/files/import/ngfs/media/2024/04/17/ngfs_connecting_transition_plans.pdf

48 NGFS. (2024). Tailoring Transition Plans: Considerations for EMDEs. https://www.ngfs.net/system/files/import/ngfs/media/2024/04/17/ngfs_tailoring_transition_plans.pdf.pdf

49 NGFS. (2024). Guide on climate-related disclosure for central banks. https://www.ngfs.net/system/files/import/ngfs/medias/documents/ngfs_guide_on_climate-related_disclosure_for_central_banks_-_second_edition.pdf.

50 NGFS. (2024). Decarbonisation strategies for corporate portfolios of central banks. https://www.ngfs.net/system/files/import/ngfs/media/2024/05/16/ngfs_technical_document_on_decarbonisation_strategies_for_corporate_portfolios_of_central_banks_0.pdf

Box 7.1

THE EUROPEAN BANKING AUTHORITY'S ROADMAP TO DELIVER THE MANDATES OF THE NEW EUROPEAN CAPITAL REQUIREMENTS REGULATION

The Basel III agreement is the global and coordinated response of banking supervisors and regulators to the significant vulnerabilities revealed by the 2007–2009 global financial crisis. The second part of the agreement[1] was concluded in December 2017 with the approval of significant adjustments to the calculation of risk-weighted assets included in the capital ratio's denominator.[2] Its consistent and harmonised implementation is essential to ensure global financial stability and a level playing field across jurisdictions.

In June 2024, the European Union (EU) finalised the transposition of the 2017 Basel agreement with the final publication of the so-called "banking package". This consists of two separate documents: the amendment to Regulation (EU) No 575/2013 (CRR III), which constitutes the core of the reform and includes the changes arising from the implementation of the 2017 Basel agreement; and the amendment to Directive 2013/36 (CRD VI), which, while incorporating certain Basel-related changes, primarily aims to strengthen and harmonise supervisors' capacities in several areas.[3] The adoption of Basel III in the EU is, in general, complete and faithful to the international framework, although it introduces some European particularities that are not included in the Basel framework.[4] The date of the entry into force of CRR III was established as 1 January 2025. However, as a result of delays in the adoption of the new market risk framework (FRTB) in other jurisdictions, the European Commission adopted a delegated act in July 2024 delaying the entry into force of the FRTB until January 2026.

The European Banking Authority (EBA) —as the European regulator— is responsible for developing various aspects of CRR III and CRD VI and has been tasked with delivering on around 140 mandates on a range of different issues, many of which are highly technical. These developments will be implemented through various regulatory products, such as regulatory and implementing technical standards, guidelines, reports and maintaining information lists and registers. The EBA and the European co-legislators worked closely together on planning in order to organise the work and facilitate effective implementation by credit institutions.

In December 2023, the EBA published a roadmap[5] clarifying how it will develop the aforementioned mandates and the deadlines for their finalisation. As detailed in the following figure, it proposed a sequential approach, in line with the deadlines set out in the banking package. The execution of the roadmap will span a four-year period, until the end of 2028. The mandates related to the 2017 Basel agreement were deemed a priority and are expected to be completed within the first two years.

The main work areas are described briefly below:

- Credit, market and operational risk. A total of 81 mandates address issues related to the amendments introduced by the 2017 Basel agreement to the capital ratio's denominator. The credit risk area covers the largest number of tasks —43 in total— arising from changes to the calculation of capital requirements for credit risk under the standardised approach and tighter restrictions on the use of internal models. In addition, 27 mandates will complete the implementation of the FRTB. Lastly, the operational risk area comprises a total of 11 mandates, which develop various aspects of the new standardised approach that replaces the internal models permitted until now.

- Supervisory reporting and market disclosure obligations. This area consists of 14 mandates, mainly aimed at adapting the supervisory reporting and disclosure frameworks to the amendments introduced to capital requirements, making both

1 In 2010, the first phase of the reform was completed, covering the following aspects: improving the quality of regulatory capital, increasing the level of own requirements, recalibrating certain areas of the framework (market risk, counterparties and securitisations), introducing macroprudential elements and establishing a leverage ratio. A few years later, new liquidity requirements were introduced in the form of two new ratios, the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

2 BCBS. (2024). *Basel III: Finalising post-crisis reforms.* https://www.bis.org/bcbs/publ/d424.htm

3 The directive reinforces the treatment of certain risks —environmental, social and governance (ESG)— of institutions and aims for greater harmonisation of national regulations in several areas — third-country branch framework, senior officer suitability assessment, certain supervisory powers and independence of supervisory authorities.

4 For more information in this connection, see Banco de España. (2024). "Box 8.2. Final phase of Basel III implementation in the European Union". In Banco de España, 2023 Supervision Report, p. 178-179. https://www.bde.es/f/webbe/Secciones/Publicaciones/PublicacionesAnuales/MemoriaSupervisionBancaria/23/SupervisionReport2023_Chap8_Box8.2.pdf

5 EBA. (2023). *EBA Roadmap strengthening the prudential framework.* https://www.eba.europa.eu/sites/default/files/2023-12/9dc534e8-8a3d-438f-88e3-bc86e623d99e/EBA%20Roadmap%20on%20strengthening%20the%20prudential%20framework_1.pdf

Box 7.1

THE EUROPEAN BANKING AUTHORITY'S ROADMAP TO DELIVER THE MANDATES OF THE NEW EUROPEAN CAPITAL REQUIREMENTS REGULATION (cont'd)

Figure 1
CRR and CRD mandates to the EBA

PHASE 1 (31 mandates) Deadline: Dec. 25	**PHASE 2 (44 mandates)** Deadline: Dec. 26	**PHASE 3 (21 mandates)** Deadline: Dec. 27	**PHASE 4 (37 mandates)** Deadline: Dec. 28
Main areas: — **CRR:** credit and market risks; ESG risks; supervisory reporting, and market disclosure. — **CRD:** market access.	Main areas: — **CRR:** credit, market and operational risks. — **CRD:** market access, internal governance and ESG risks.	Main areas: — **CRR:** credit, market and operational risks; supervisory reporting, and market disclosure. — **CRD:** market access.	Main areas: — **CRR:** credit, market and operational risks. — **CRD:** market access and internal governance.

Ongoing (7 mandates)
(no deadline)

Main areas: — **CRR:** credit risk. — **CRD:** internal governance and benchmarking exercise on own funds.

SOURCE: Banco de España.

frameworks more efficient and proportionate. Also, a significant number of mandates respond to the EBA's new obligation to publish and centralise on its website the prudential information that institutions are required to disclose to the market.

- Market access, internal governance and ESG risks. The European regulation incorporates very significant changes in the area of market access, such as a minimum harmonisation regime for branches of third-country institutions and new supervisory tools for the prudential assessment of material changes in institutions, such as the acquisition of qualifying holdings or mergers. There are 18 technical developments in these areas. Changes to internal governance focus on the management of institutions at the highest executive level, reinforcing fit-and-proper requirements. A total of 7 mandates will develop the details of these new requirements. In the area of ESG risks, the aim is to accelerate their integration into the three pillars of the banking prudential framework, particularly Pillar 2 (supervisory review). Moreover, new concepts are introduced —such as «fossil fuel entity» —along with new supervisory powers. The EBA roadmap on sustainable finance, published on 13 December 2022, already anticipated 5 of the mandates in this area, and their development commenced in 2023.

- Lastly, another 16 mandates correspond to a diverse set of areas: ongoing supervision, conflicts of interest, equivalence, fines, proportionality, accounting, authorisations, stress tests, large exposures, securitisations, macroprudential matters, and benchmarking exercises.

The execution of this roadmap is one of the EBA's strategic priorities. With a view to facilitating, insofar as possible, the considerable efforts that institutions will have to make to adapt to the new regulation, the EBA publishes the progress status of each mandate on its website.[6]

6 https://ebprstaewspublic01.blob.core.windows.net/public/tools-prod/assets/roadmap/roadmap_progress_list.html

Chapter 8

New regulatory developments in supervisory matters

Chapter 8

Takeaways

- The Banco de España prepares circulars implementing higher-ranking regulations, as well as technical guidelines with criteria and procedures for compliance with supervisory regulations. Also, in matters within its remit, it can adopt as its own the guidelines issued by the European Banking Authority (EBA).

- In 2024 it published a circular relating to information on the capital structure of credit institutions and other supervised institutions and guidelines on the internal capital and liquidity adequacy assessment processes of credit institutions. In addition, it adopted as its own eight EBA guidelines implementing various aspects of supervisory regulations.

- Two draft circulars are also under way: one on institutions' conduct and another on the calculation method for contributions to the Deposit Guarantee Scheme.

- In addition to the regulations published by the Banco de España, other notable developments in the supervisory field are the European regulation on instant credit transfers in euros and the draft law on credit servicers and credit purchasers.

1 Banco de España Circulars and Guidelines and adopted EBA guidelines

The Banco de España published Circular 1/2024 of 26 January 2024 to banks, credit cooperatives and other supervised institutions in relation to information on the capital structure and amending Circular 1/2009.

— The amendments in recent years to legislation on the capital structure of banks, credit cooperatives, specialised lending institutions (SLIs), payment institutions and electronic money institutions made it advisable to update and harmonise the information that these institutions were reporting to the Banco de España. This new circular comprehensively and fully regulates confidential information on capital structure and repeals the rules on this matter contained in Circular 1/2009.

— The new circular also repeals the requirements of Circular 1/2009 on registration in the Senior Officer Register and on the submission to the Banco de España of information relating to other positions in other companies, since these requirements have been superseded by subsequent legislation of equal or higher rank. However, institutions still fall under the obligations to report to the Banco de España on this matter that derive from other legislation applicable to them.

In February 2024, the Banco de España published the Amendments to the Guidelines on the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP) at credit institutions. The amendments affect the treatment of interest rate and credit spread risks of non-trading book activities.

— In April 2023, the Banco de España adopted the guidelines of the European Banking Authority (EBA) on interest rate risk management and the assessment and monitoring of credit spread risk of non-trading book activities (EBA/GL/2022/14). These guidelines specify the criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and for the assessment and monitoring of credit spread risk of institutions' non-trading book activities.

— Following the adoption of these guidelines, it became advisable to amend the 2017 Banco de España guidelines on ICAAP and ILAAP to ensure their consistency with these guidelines and with Directive 2013/36/EU, fundamentally in relation to credit spread risk and supervisory outlier tests.

— In addition, consistent with the sphere for which the Banco de España adopted these guidelines, SLIs were included in the subjective scope of application of the guidelines, albeit only the SLIs that prepare the annual internal capital adequacy assessment report.

In addition to publishing its own circulars and guidelines, the Banco de España can adopt as its own the guidelines of international regulatory and supervisory bodies that contain criteria, practices, methodologies or procedures that it deems appropriate. In 2024, the Banco de España adopted eight EBA guidelines as its own.

The guidelines adopted by the Banco de España as its own each year can be found at this link

2 Draft circulars in progress

A circular is being drafted on requirements and obligations in the area of conduct, transparency of information and proper treatment of customers, the prior public consultation of which was published in March 2024.

— The draft is intended to adapt the circular to the current legal framework. Also, it aims to promote a preventive conduct supervision approach, which is based on an early assessment of the institution's internal control framework and is conducive to the establishment of business models and commercial organisation structures that ensure adequate market practices.

— The new circular is also intended to make progress on the rationalisation and systematisation of the obligations in the area of conduct, information transparency and proper treatment of customers. To this end, the new circular incorporates and updates in a single text the provisions currently set out in three circulars: Circular 5/2012, on the transparency of banking services and responsible lending; Circular 2/2019, on the requisites of the Fee Information Document and Statement of Fees and on comparison websites for payment accounts, and Circular 4/2020, on advertising of banking products and services.

In addition, the Banco de España commenced the review of Circular 5/2016 of 27 May 2016 on the calculation method to be used to ensure that the contributions of institutions belonging to the Deposit Guarantee Scheme for Credit Institutions are proportionate to their risk profile. The mandatory prior public consultation was published in December 2024.

— The Banco de España is the competent authority responsible for the methods of calculating contributions to the Deposit Guarantee Scheme and, as such, it adopted the EBA guidelines on methods for calculating contributions to deposit guarantee schemes (EBA/GL/2023/02). Work began in 2024 to adapt the circular on this matter to these guidelines.

— The guidelines aim to clarify and improve the method for calculating institutions' contributions to deposit guarantee schemes, in order to better adapt contributions to the risk profile.

3 Other new regulatory developments

Among the regulations approved in 2024 at the European level, it is worth mentioning Regulation (EU) 2024/886 amending Regulations (EU) No 260/2012 and (EU) 2021/1230 and Directives 98/26/EC and (EU) 2015/2366 as regards instant credit transfers in euro.

- The main objective of this regulation is to encourage the use of instant credit transfers in euros, amending, among other regulations, Regulation (EU) No. 260/2012, which establishes technical and business requirements for credit transfers and direct debits in euros.

- The new regulation addresses the main obstacles encountered in the expansion of instant credit transfers: the dissuasive charges as compared to alternative means of payment; the concern for the security of payments given the immediacy in the reception of funds; the lack of incentives for payment service providers (PSPs) to offer instant credit transfers in euros; and the high rate of mistakenly rejected transactions related to persons on the European Union (EU) sanctions lists.

- The main measures included are as follows: the obligation for PSPs that receive and accept credit transfers in euros to also receive and accept instant credit transfers; the possibility of direct participation of payment institutions and electronic money institutions in designated payment systems, as detailed in Box 8.1; the establishment of a maximum execution time of ten seconds for instant credit transfers; the obligation that charges not exceed those of ordinary credit transfers in euros; and the obligation that PSPs offering instant credit transfers allow the customer to verify that the ownership of the account receiving the funds corresponds to the name of the beneficiary.

- It also amends Regulation (EU) 2021/1230 on cross-border payments in the Union, to incorporate the aforementioned restrictions on charges in this cross-border area. In addition, it amends Directive 2015/2366 so as to include certain requirements for payment institutions and electronic money institutions applying to participate in designated payment systems.

As regards draft Spanish regulations in progress, it is worth mentioning the Draft Law on Credit Servicers and Credit Purchasers amending Law 16/2011 of 24 June 2011 on Credit Agreements for Consumers and Law 5/2019 of 15 March 2019 Regulating Real Estate Credit Agreements.

- The draft law, published in May 2024 for public hearing and information, is intended to transpose Directive 2021/2167 on credit servicers and credit purchasers into Spanish law.

- The draft law establishes a common framework for credit servicers and credit purchasers. This framework impacts on the purchases of non-performing loans (NPLs) made by a credit institution established in the EU or by an SLI and on the credit servicers that manage these NPLs on behalf of the credit purchasers.

— The main new features of the draft law include most notably the following: credit servicers are subject to prior administrative authorisation and to registration by the Banco de España; it regulates the possibility for the credit servicer to receive and hold funds from borrowers in order to transfer them to credit purchasers and for the credit servicer to provide services in another Member State, and the credit purchaser is not subject to authorisation or any requirements other than those provided for in the draft law or in private law for purchasing NPLs. Also, the draft law establishes reporting obligations to the Banco de España: credit institutions and SLIs must report every six months on their NPL sales to credit purchasers; credit purchasers must report every six months on sales of purchased NPLs; and the credit servicer must report certain aggregate information.

— In addition, the draft law introduces amendments to Law 16/2011 on credit agreements for consumers and to Law 5/2019 regulating real estate credit agreements in order to transpose other amendments introduced by the directive to reinforce borrower protection.

Also worthy of note is the prior public consultation, carried out in September 2024, of the draft law that will transpose Directive (EU) 2023/2225 on credit agreements for consumers and repealing Directive 2008/48/EC.

— This draft law is intended to create an appropriate environment in which to strengthen consumer protection, guaranteeing a high level of protection for the consumer, and to facilitate the cross-border consumer credit market. Additionally, it extends the scope of application and establishes rights not included in Directive 2008/48/EC.

Lastly, it is worth mentioning that in September 2024 the public hearing and information process for the Draft Order amending Ministerial Order ECO/805/2003 on rules for the valuation of real estate and certain rights for specific financial purposes was concluded.

— The amendments refer fundamentally to the inclusion of sustainability factors in the valuations and to the consideration of new urban planning figures that have emerged to expedite the commencement of building works, which allow construction to begin while the definitive licence is being processed.

Box 8.1

ACCESS OF PAYMENT INSTITUTIONS AND ELECTRONIC MONEY INSTITUTIONS TO DESIGNATED PAYMENT SYSTEMS

Regulation (EU) 2024/886 on instant credit transfers in euro includes amendments to:

a) Directive 98/26/EC on settlement finality (Settlement Finality Directive), to enable payment institutions and electronic money institutions —collectively referred to as non-bank payment service providers (PSPs)— to be eligible to participate in payment systems designated by Member States under this Directive; and

b) Directive 2015/2366 on payment services (PSD2). Accordingly:

- To ensure the stability and integrity of payment systems, certain requirements are imposed on non-bank PSPs participating in designated systems under the Settlement Finality Directive. In particular: a description of the safeguarding measures; a description of the governance arrangements and internal control mechanisms in relation to the payment or electronic money services to be provided; and a settlement plan in the event of non-payment.
- In addition, it includes the option for non-bank PSPs to safeguard customer funds in an account held with a central bank, where that central bank, at its own discretion, offers this possibility.

The transposition of the amendments to both Directives into Spanish law must be completed by 9 April 2025 at the latest.

Traditionally, non-bank PSPs have not been able to participate directly in the payment systems designated by each Member State under the Settlement Finality Directive and they have accessed them through credit institutions. These amendments are intended to enable non-bank PSPs to offer a full range of payment services without relying on credit institutions for the settlement of transactions.

In view of the above, in July 2024 the Eurosystem approved a harmonised policy on access by non-bank PSPs to payment systems operated by central banks in the euro area. The main points of this harmonisation are:

a) The decision to grant direct access to central bank-operated payment systems and to offer accounts for the purposes of safeguarding is at the Eurosystem's discretion.

b) Access to euro area central bank-operated payment systems may be granted to non-bank PSPs provided that they meet all necessary risk-mitigation requirements, as stipulated in the TARGET Guidance or in the terms and conditions of the national retail payment systems operated by national central banks. The Eurosystem will rely on the procedures established by Member States to ensure that non-bank PSPs comply with the risk management requirements set out in PSD2.

c) Eurosystem central banks will not offer safeguarding accounts to non-bank PSPs or crypto-asset service providers, as this could have a negative impact on the safety and soundness of the financial system.

d) Non-bank PSPs will not be able to become counterparties in Eurosystem monetary policy operations or have access to intraday credit.

e) The harmonised policy will be implemented in TARGET services with the update of the TARGET Guidance, which will enter into force on 9 April 2025 or shortly after (depending on the national transposition of the corresponding European legislation).

Lastly, it should be noted that, regarding other national central bank-operated payment systems, the terms and conditions of such payment systems must not contradict the harmonised policy of the Eurosystem or the terms and conditions of TARGET once the guidance has been amended.

Chapter 9

Internal Audit Report
Report provided for in Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions

1. Introduction

Article 55 bis of Law 10/2014 of 26 June 2014 on the regulation, supervision and solvency of credit institutions (LOSS)[1] establishes that "the Banco de España shall prepare an annual report on its supervisory function, describing the supervisory actions undertaken and procedures followed, permitting information to be gained on the effectiveness and efficiency of these procedures and actions". It also provides that such annual report shall include a report by the internal control body on the conformity of the decisions taken by the governing bodies of the Banco de España with the procedural regulations applicable in each case. This annual report shall be approved by the Governing Council of the Banco de España and sent to the Spanish Parliament and Government.

The Banco de España's 2025 Annual Internal Audit Plan includes the drafting of the report provided for in the above-mentioned LOSS, so that it may be included in the Banco de España's Annual Report on its supervisory function, referred to above.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in Article 55 bis 2 of the LOSS, which, as indicated above, defines the scope of the report, by reference to three basic elements:

1) The supervisory function of the Banco de España.
2) The decisions taken by the governing bodies in exercise of the supervisory function.
3) The conformity of the foregoing decisions with the procedural regulations applicable.

As regards the reporting period, the report refers to the decisions taken by the Executive Commission in 2024, or submitted to the Governing Council for approval, and the decisions adopted by delegation and notified to the Executive Commission in 2024.

The subject matter of the report relates to the decisions taken, in the exercise of the supervisory function, by the Banco de España's governing bodies within the spheres of competence of the Directorate General Banking Supervision; the Directorate General Financial Stability, Regulation and Resolution; the Directorate General Operations, Markets and Payment Systems; the Directorate General Financial Conduct and Banknotes; the Directorate General Strategy, People and Data; and the General Secretariat.

Regarding applicable regulations, the supervisory powers and procedures set out in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and in the Internal Rules of the Banco de España were taken into account, together with those established by the Single Supervisory Mechanism regulations, primarily Council Regulation (EU) No 1024/2013 of 15 October 2013 and Regulation (EU) No 468/2014 of the European Central Bank of 16 April 2014.

[1] With regard to the supervisory report on its actions and procedures, the obligation is provided for in the LOSS due to the double amendment introduced by Law 6/2023 of 17 March 2023 on Securities Markets and Investment Services.

On 2 November 2012, procedural rules were laid down on the reporting of matters to the Executive Commission applicable to all the Banco de España's Directorates General. These rules are complemented by other specific rules of certain Directorates General which were also approved by the Executive Commission of the Banco de España.

Likewise, by means of a Resolution of 10 December 2019, the Executive Commission approved the regime governing the delegation of powers, published in the Official State Gazette No. 311 of 27 December 2019,[2] and which provides for the delegation of signature and callback of delegated powers.

To review the decisions adopted by the Executive Commission and the decisions adopted by delegation, random sampling was performed by Directorate General.[3]

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

3. Opinion

In our opinion, the decisions adopted by the governing bodies of the Banco de España in 2024, in the exercise of its supervisory function, were taken by bodies with sufficient own or delegated powers in accordance with the Internal Rules of the Banco de España and with the provisions laid down by its Executive Commission, and conformed, in all material respects, with the applicable procedural rules existing in each case.

Madrid, 5 March 2025
Director of the Internal Audit Department

Signed by [F] LUIS ENRIQUE PARDO MERINO on 05/03/2025 with a certificate issued by BANCO DE ESPAÑA-AC CORPORATIVA V2

Luis E. Pardo Merino

GOVERNOR OF THE BANCO DE ESPAÑA
DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

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[2] In force since 28 December 2019. The Resolution of 10 December 2019 was subsequently amended by the agreements of 8 September 2020 (Official State Gazette No. 243 of 11 September 2020), 27 July 2021 (Official State Gazette No. 180 of 29 July 2021), 3 May 2022 (Official State Gazette No. 107 of 5 May 2022), 8 November 2023 (Official State Gazette No. 275 of 17 November 2023), 15 March 2024 (Official State Gazette No. 73 of 23 March 2024) and 30 September 2024 (Official State Gazette No. 240 of 4 October 2024) of the Executive Commission of the Banco de España.

[3] The random sampling was performed by establishing two groups for each Directorate General: one for resolutions adopted directly by the Executive Commission and another for decisions adopted by delegation of powers.

2/2 REPORT PROVIDED FOR IN THE LOSS. SUPERVISION REPORT 2024. INTERNAL AUDIT DEPARTMENT

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ACRONYMS AND ABBREVIATIONS

AI	Artificial intelligence
ALM	Asset and liability management
AMCESFI	Spanish Macroprudential Authority
AML/CFT	Anti-money laundering and countering the financing of terrorism
AMLA	Anti-Money-Laundering and Countering the Financing of Terrorism Authority
APP	Asset Purchase Programme
APR	Annual percentage rate
ART	Asset-referenced token
AT1	Additional Tier 1 Capital
BCBS	Basel Committee on Banking Supervision
BigTech	Major globally active firms with a relative advantage in digital technology
BIS	Bank for International Settlements
BME	Bolsas y Mercados Españoles
BRRD	Bank Recovery and Resolution Directive
CC	Central counterparty
CCyB	Countercyclical capital buffer
CET1	Common Equity Tier 1 Capital
CGP	Code of Good Practice
CIR	Central Credit Register
CNMV	Spanish National Securities Market Commission
CPMI	Committee on Payments and Market Infrastructures
CPMLMO	Commission for the Prevention of Money Laundering and Monetary Offences
CRD	Capital Requirements Directive
CRD VI	Capital Requirements Directive VI
CROE	Cyber resilience oversight expectations
CRR	Capital Requirements Regulation
CRR III	Capital Requirements Regulation III
CSD	Central securities depository
CSD	Customer service department
CSDR	Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories
DG	Directorate General
DG.SUP	Directorate General Supervision
DGSFP	Directorate General of Insurance and Pension Funds (*Dirección General de Seguros y Fondos de Pensiones*)
DLT	Distributed ledger technology
DORA	Digital Operational Resilience Act
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
ELMI	Electronic money institution
EMIR	Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on over-the-counter derivatives, central counterparties and trade repositories
EMT	Electronic money token
EPC	European Payments Council
ESA	European Supervisory Authority
ESCB	European System of Central Banks
ESG	Environmental, social and governance
ESRB	European Systemic Risk Board
EU	European Union
FinCoNet	International Financial Consumer Protection Organisation
FINREP	Financial Reporting
Fintech	Financial technology
FLESB	Forward Looking Exercise on Spanish Banks
FRTB	Fundamental Review of the Trading Book
FSB	Financial Stability Board
FSC	Financial Stability Committee
G-SII	Global systemically important institution
GDP	Gross Domestic Product
GHoS	Group of Heads of Supervision

Iberpay	Sociedad Española de Sistemas de Pago, SA
ICAAP	Internal capital adequacy assessment process
ICO	Official Credit Institute (*Instituto de Crédito Oficial*)
IFRS	International Financial Reporting Standard
IFRS 9	International Financial Reporting Standard 9 on Financial Instruments
ILAAP	Internal liquidity adequacy assessment process
IMF	International Monetary Fund
INE	National Institute of Statistics
IOSCO	International Organization of Securities Commissions
IRPH	Mortgage loan reference index
IRRBB	Interest rate risk in the banking book
IT	Information technology
JST	Joint supervisory team
LCR	Liquidity coverage ratio
LGD	Loss given default
LMVSI	Securities Markets and Investment Services Law
LSI	Less significant institution
LTI	Loan-to-income
LTV	Loan-to-value
MGS	Mutual guarantee society
MiCA	Markets in Crypto-Assets
ML	Machine learning
ML/FT	Money laundering and the financing of terrorism
NCA	National competent authority
NGFS	Network for Greening the Financial System
NGO	Non-governmental organisation
NII	Net interest income
NPL	Non-performing loan
O-SII	Other systemically important institution
OCU	Consumers and Users Organisation
P2G	Pillar 2 capital guidance
P2R	Pillar 2 requirement
PD	Probability of default
PEPP	Pandemic Emergency Purchase Programme
PI	Payment institution
PISA	Payment instruments, schemes and arrangements
PSD2	Payment Services Directive 2
PSD3	Payment Services Directive 3
PSP	Payment service providers
PSR	Payment Services Regulation
RDAR	Risk data aggregation and reporting
RoE	Return on equity
ROF	Gains/losses on financial assets and liabilities
RWA	Risk-weighted assets
Sareb	Asset management company for assets arising from bank restructuring (*Sociedad de Gestión de Activos procedentes de la Reestructuración Bancaria*)
SCA	Strong customer authentication
SEPA	Single Euro Payments Area
Sepblac	Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences
SI	Significant institution
SLI	Specialised lending institution
SNCE	National Electronic Clearing System (*Sistema Nacional de Compensación Electrónica*)
SPI	Small payment institution
SREP	Supervisory review and examination process
SRTP	SEPA Request-to-Pay
SSM	Single Supervisory Mechanism
STMP	Sistema de Tarjetas y Medios de Pago
STS	Simple, transparent and standardised
SupTech	Supervisory technology
T2	Tier 2 Capital

TARGET2	Trans-European Automated Real-time Gross Settlement Express Transfer System
TLTRO III	Targeted Longer-Term Refinancing Operations III
UTP	Unlikely-to-pay
bn	Billion
€bn	Billions of euros
bp	Basis point
pp	Percentage point

BANCO DE ESPAÑA PUBLICATIONS

The Banco de España publishes various types of documents providing information on its activity (economic reports, statistics, research papers, etc.), which can be found in the Institutional Repository, at https://repositorio.bde.es/?locale=en.

Most of these documents are available in PDF format and can be downloaded free of charge from the Banco de España website at https://www.bde.es/wbe/en/publicaciones/.

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