

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)

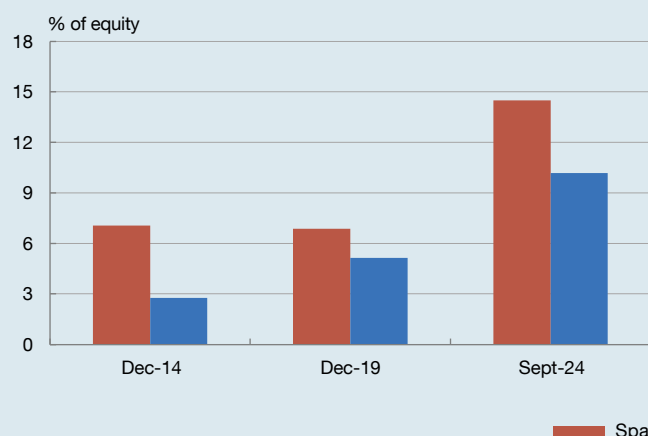
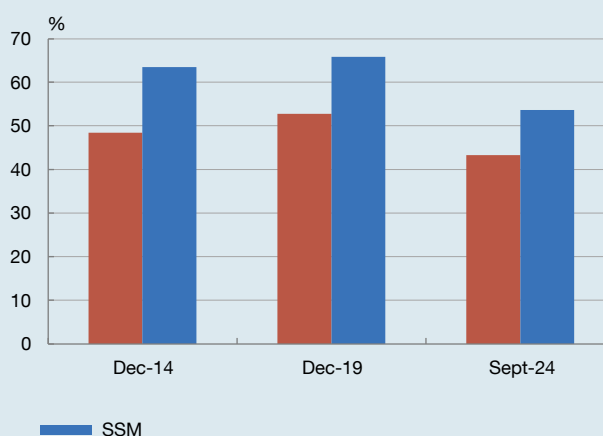


Chart 2
Efficiency ratio (SIs)



SOURCE: Produced by the Banco de España.

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

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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.