

SUPERVISION REPORT:

DIGEST

2024

BANCO DE **ESPAÑA**
Eurosistema



Supervision Report: Digest

Chapter 1

Supervision and oversight at the Banco de España

- The Banco de España has various supervisory powers over credit institutions and over other financial institutions or institutions 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 supervisory 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 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.

Chapter 2

Microprudential supervision

- 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.

Chapter 3

Macroprudential policy

- 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 a further three O-SIIs (Banco Bilbao Vizcaya Argentaria, CaixaBank and Banco de Sabadell) were identified. 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.

Chapter 4

Supervision of institutions' conduct

- 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.

Chapter 5

Oversight and supervision of market infrastructures

- 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 it began the review process on 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.

Chapter 6

Exercise of sanctioning powers

- 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).

Chapter 7

The Banco de España's participation in international banking regulatory and supervision bodies

- 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, cyber resilience 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 the developments required for the implementation of Basel III and on monitoring financial stability, addressing environmental, social and governance risks, improving its data infrastructure, protecting consumers and integrating innovation in the sector. In addition, it prepared for supervising critical technology service providers and significant crypto-asset issuers.
- The European Systemic Risk Board issued recommendations on reciprocity for macroprudential measures in Portugal and Italy and worked on issues related to macroprudential policy stance, cyber risks and the incorporation of risks stemming from climate change into financial disclosure.

Chapter 8

New regulatory developments in supervisory matters

- The Banco de España prepares circulars implementing higher-ranking regulations, and 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.