Chapter 3

Micropudential supervision of credit institutions

Banco de España
Supervision Report 2025

1 Supervision of significant credit institutions

1.1 Introduction

Significant institutions (SIs) are the largest and most impactful institutions in the European, and Spanish, financial system. They are directly supervised by the European Central Bank (ECB), with key support from the Banco de España, as the national supervisor.

The supervisory process begins with the definition of the supervisory priorities, which are determined based on the risks identified and are the basis of the focus of supervisory activities.

— This approach steers efforts towards the areas of greatest potential risk, enhancing supervisory effectiveness and efficiency by concentrating on material issues and making optimal use of the available resources.

— The priorities for SIs are established for a three-year time horizon based on analysis of the economic and financial environment, regulatory developments and the key risks and vulnerabilities in the banking sector.

— The supervisory priorities for 2025-27 aim to enhance the financial system's resilience to macro-financial threats and geopolitical shocks, address shortcomings in banks' management of climate-related risks and risk data aggregation, and strengthen digitalisation.

Based on these priorities, the annual plan[1] is drawn up and implemented through two types of supervisory actions: ongoing (off-site) supervision, most notably the Supervisory Review and Evaluation Process (SREP), and on-site supervision.

— The Banco de España participates in the ongoing supervision of the ten groups of Spanish SIs, primarily as part of the joint supervisory teams (JSTs) that bear this responsibility. It is also involved in five other JSTs that supervise SIs from other Single Supervisory Mechanism (SSM) countries operating in Spain through subsidiaries or branches.

— The Banco de España also takes part in on-site inspections and investigations of internal capital models. These are mainly carried out by Banco de España teams, but in some cases are performed by mixed teams involving the ECB and other SSM national authorities, helping to foster a common supervisory culture.

— This collaboration is deepened through Spanish supervisors' engagement in working groups and expert networks, which foster the sharing of views and best practices between national supervisory authorities and the ECB.

1 For further details on the supervisory priorities in 2025, see Section 2.2 of Chapter 2 of the Supervision Report 2024.

1.2 Supervisory focal points in 2025

Figure 3.1 presents the focal points for each supervisory priority in 2025, together with the main findings from the actions taken. Detailed descriptions of all of the supervisory actions undertaken in 2025 can be found in Sections 1.3, 1.4 and 1.5.

Figure 3.1
Supervisory priorities for SIs in 2026-28

SUPERVISORY PRIORITIES 2025 27	SUPERVISORY FOCAL POINTS IN 2025	KEY FINDINGS
1 Strengthening resilience to macro-financial and geopolitical shocks		
Credit and counterparty risk: Strengthening credit risk management	Analysis focused on: • Automotive sector: horizontal reviews • Consumer credit and lending to SMEs: on-site inspections	• Automotive sector: weaknesses in the early identification of risks • Consumer credit: internal models and shortcomings in the application of IFRS 9
	Work continued on internal models (approvals) and on the follow up on findings from previous reviews (lending to NFCs and internal provisioning models)	
	Work begins on the identification of good lending practices	
Operational resilience: Remediation of shortcomings in ICT risk and compliance with DORA	Follow-up on the 2024 cyber resilience stress test (all Spanish SIs)	Challenge: continuous adaptation to **increasingly complex environments**
	Compliance with DORA	Compliance in progress. Key risk: **significant reliance on certain third-party service providers**
	ICT risk on-site inspections	Broadly speaking, the inspections result in more robust security and cyber risk frameworks
Geopolitical risk: Incorporating these risks across management areas	Horizontal review of risk cultures and risk appetite frameworks, and their **incorporation of the geopolitical component**	Good practices detected in identification, metrics, stress, RAF alignment and reporting
	Regular supervision, focused on banks with the largest international presence	Efforts to strengthen the management and integration of emerging risks must continue
	Incorporation of geopolitical risk in the EBA's 2025 stress test scenarios	

SOURCE: Banco de España.

Figure 3.1
Supervisory priorities for SIs (cont'd)

SUPERVISORY PRIORITIES 2025 27	SUPERVISORY FOCAL POINTS IN 2025	KEY FINDINGS
2 Remediation of shortcomings in climate-related risks and data aggregation		
Business strategies and managing climate-related and environmental risks	Remediation of shortcomings in climate-related risks and data aggregation	• Progress towards sound and advanced practices, although some shortcomings • Further integration of non-climate environmental risks is required
	Beginning of supervisory dialogue with SIs on transition plans (progress, challenges and areas for improvement)	**Challenge: Develop plans with clear timelines and milestones**
	Review of compliance with Pillar 3 disclosure requirements	In horizontal assessment stage
	Organisation of "Green Friday" and "Transition Friday" events with the industry, focusing on decarbonisation	An effective awareness-raising channel
RDARR (risk data aggregation and risk reporting)	Verification of compliance with supervisory expectations (ECB) and remediation of shortcomings	Insufficient progress and the **remediation process remains complex**
3 Digital transition and use of new technologies		
Digital transition: Strengthening the business model and the efficient management of risks arising from the use of innovative technologies	Monitoring the development of digitalisation strategies and implementation of technological platforms and solutions. Impact on business and internal governance	• There has been progress and no material incidents, but ongoing monitoring is required • Enhanced strategies: initiatives aligned with the business and integrated into the bank's overall vision **Challenges identified:** • Managing change in a climate of cost discipline • Aligning developments with the business and coordinating them at group level • Indicators to gauge the strategy's success
	Analysis of the main risks in key technologies: cloud and AI	**Risks identified:** • Concentration and geopolitical risks due to reliance on a handful of ICT service providers • Capacity to develop contingency plans • Rational use of AI • Need for skilled professionals

SOURCE: Banco de España.

1.3 Ongoing (off-site) supervision

Ongoing supervision aims to build an in-depth understanding of each bank's situation and risks, and to assess the adequacy of its management. The SREP plays a central role, providing a comprehensive analysis of banks' solvency, liquidity and governance.

- The ECB applies a common methodology aligned with the European Banking Authority (EBA) guidelines (EBA/GL/2022/03), which helps ensure comparability across institutions and supports the analysis of common trends at the European level.
- The SREP model is based on a risk tolerance framework (RTF) and a multi-year assessment (MYA):
  - The RTF determines the degree of supervisory focus on the different risk areas, ensuring alignment with the bank's risk profile.
  - The MYA gives JSTs greater flexibility to distribute supervision of the different areas across a multi-year cycle, prioritising actions according to each bank's characteristics and vulnerabilities.
- The SREP findings bring together the information obtained from all the supervisory tasks. This information is used to update each institution's risk profile and build a clear picture of its situation, governance, the quality of its risk management and the adequacy of its capital and liquidity.
- The process concludes with the supervisory assessment summarised in a "rationale", which is shared with each bank together with the requirements and areas for improvement.
- This encompasses the capital and liquidity decisions, including both requirements (Pillar 2 Requirements, or P2R) and guidance (Pillar 2 Guidance, or P2G) for additional own funds. Although guidance is not binding, it plays an important role in prudent capital planning, representing the additional capital that the ECB expects banks to maintain to absorb losses under adverse scenarios.
- Where potential areas for improvement in the banks' risk management are identified, qualitative requirements and recommendations may also be issued under the SREP.

As a result of the 2025 SREP, the ECB set the capital levels for Spanish SIs for 2026 as follows:

- The weighted average capital requirement (P2R) stood at 1.74%, 2 basis points (bp) lower than that set for 2025. This additional capital requirement – intended to cover risks – was unchanged for four banks, lowered for five and raised for one, with no material changes.
- The capital guidance (P2G) averaged 0.73%, down by 10 bp. Specifically, the P2G was lowered for eight banks and unchanged for two, owing to improved results in the 2025 stress test.

— The average capital add-ons for Spanish banks were lower than for those under the SSM framework as a whole (P2R of 2.1% and P2G of 1.1%), reflecting the supervisors' view that Spanish SIs have a lower risk profile.

Chart 3.1 shows the quantitative and qualitative requirements and recommendations sent to Spanish SIs as a result of the 2025 SREP. Beyond the capital-related items, they were mainly linked to governance, credit risk and, to a lesser extent, operational risk.

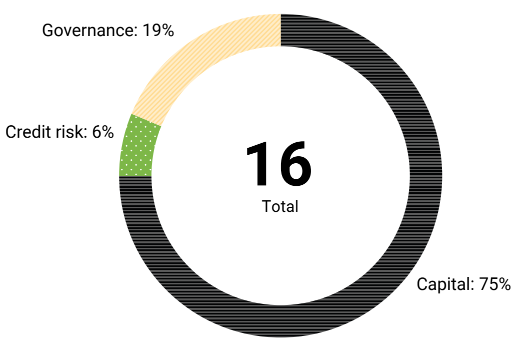
— Overall, the 16 requirements and 32 recommendations (48 in total) represented a 31% reduction compared with the 70 issued in the previous year, reflecting continued improvement fostered by supervisory action.

— Emphasis was placed on strengthening the risk control function and ensuring its active involvement in all material management decisions. Accordingly, supervisors highlighted the need for banks to assess exceptional transactions ex ante, to properly identify and quantify risks, to exercise effective oversight of the first line of defence (the areas that take on and manage risk on a day-to-day basis) and to enhance reporting to the governing bodies.

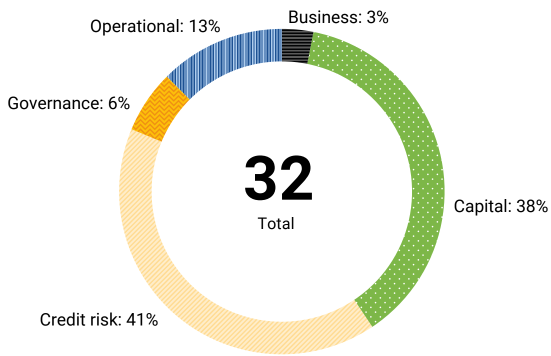
— As regards credit risk, supervisors emphasised the need for institutions to establish adequate provisions for non-performing exposures in accordance with the criteria laid down in the supervisory expectations.[2] Further recommendations were geared towards improving risk management and control frameworks and the estimation of loan loss provisions.

Chart 3.1
Breakdown of the 48 requirements and recommendations for Spanish SIs resulting from the 2025 SREP

3.1.a Requirements (total of 16)



3.1.b Recommendations (total of 32)



SOURCE: Banco de España.
NOTE: No requirements were issued concerning business model or operational risk, nor recommendations related to interest rate risk in the banking book (IRRBB).

2 Established in the "Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposure", published in March 2018, and the "Communication on supervisory coverage expectations for NPEs", of 22 August 2019.

— With regard to operational risk, the recommendations focused on measures to mitigate the risks arising from service interruptions, which affect both the bank's reputation and customer confidence.

Emphasis was placed on the need to strengthen business continuity plans – whether related to information and communications technologies (ICT) or not – enhance the control framework to ensure the accuracy and reliability of regulatory reporting, and improve internal controls to enable the proactive management of operational risk losses.

1.3.1 Other ongoing (off-site) supervisory actions

In 2025 ongoing supervision also included other relevant actions, most notably those related to the supervisory priorities as follows.

The first supervisory priority for 2025 was to strengthen banks' resilience to macro-financial and geopolitical shocks. While SIs' balance sheets and risk profiles were robust, persistent international tensions and uncertainty surrounding the economic outlook called for continued prudence.

— With regard to credit and counterparty risk, the supervisory work sought to improve the early identification of deteriorating asset quality and ensure prudent levels of provisioning. Banks were also expected to strengthen their efforts to address the shortcomings identified in previous supervisory exercises.

  - Horizontal reviews of lending to the automotive sector were conducted, with deficiencies observed regarding the early identification of risks.

  - A broad-based review was launched to identify good practices and areas for improvement in credit standards.

  - Work continued on granting permission to use internal models to determine regulatory capital, as well as on the follow-up to previous reviews, in particular those concerning non-financial corporate portfolios and adjustments to internal provisioning models (IFRS 9).

    This review included an assessment of institutions' treatment of emerging risks, most notably climate-related and geopolitical risks. On end-2024 data, these adjustments were found to be material for expected loss coverage, with climate-related and geopolitical risks accounting for around one-third of all model adjustments (overlays).

— As regards operational resilience, the aim was to strengthen efforts to address the weaknesses identified in ICT risk, particularly in the management of third-party providers and cybersecurity – the preservation of confidentiality, integrity and availability of information and/or information systems through the cyber medium – and to drive compliance with the legal requirements stemming from the Digital Operational Resilience Act (DORA).

- Supervisors followed up on the recommendations stemming from the 2024 thematic cyber resilience stress test, which involved all Spanish SIs. One of the key challenges is that banks must continuously adapt to increasingly complex cybersecurity frameworks.

- Compliance with DORA was assessed. While banks have taken measures to adapt procedures following the regulation's entry into force in January 2025, some aspects remain pending. One key element is the management and mitigation of risks stemming from significant reliance on certain third-party service providers.

- Other relevant DORA-related work included the development of the new framework for reporting major ICT-related incidents and cyber threats, the annual publication of the list of critical third-party ICT providers (see Box 3.1) and the design and implementation of the advanced cybersecurity testing framework, while the banks subject to these requirements were also identified.

— As regards geopolitical risk, given the cross-cutting nature of geopolitical shocks (armed conflicts, shifts in tariff policies, etc.), supervisory action focused on ensuring that banks incorporate this risk across their management areas.

- The first phase, launched in 2024, of the overall review of banks' risk culture and risk appetite frameworks (RAFs) was completed, focused on identifying good and bad practices both in relation to RAFs in general and in terms of reflecting the geopolitical component.

- In this phase, which involved three Spanish SIs, a number of good practices related to the management of geopolitical risk were identified.

  These included, in particular, procedures for identifying geopolitical risks that could affect the bank, assessing their potential impact on other types of risk, establishing metrics to facilitate their monitoring and reporting to management – as well as their inclusion in stress testing – and monitoring geopolitical developments that may have an impact on the institution.

- Regular monitoring of this risk is undertaken at banks with a larger international footprint.

- In addition, in 2025 geopolitical risk was explicitly incorporated into the EBA's stress test scenarios, while a thematic stress test is planned for 2026.

The second priority focused on strengthening climate-related and environmental risks and improving institutions' risk data aggregation and risk reporting capabilities. Both are essential to ensuring proper prudential assessment and more robust decision-making.

— Climate and environmental risk:

- Supervisors continued to follow up on the weaknesses formally communicated to banks in previous supervisory exercises. The adoption of sound and advanced practices has increased overall, although shortcomings remain in terms of incorporating environmental, social and governance (ESG) criteria into:

  - The formal definition of risks assumed by banks (RAF).

  - Variable remuneration.

  - The valuation of collateral (i.e. of collateral used to back loans).

  - The internal capital adequacy assessment process (ICAAP) via stress scenarios.

- Improvements are also needed in the identification and management of non-climate environmental risks.

- Informal bilateral supervisory dialogue with SIs was initiated – and will continue into 2026 – to assess banks' capacity to develop transition plans. The definition of such plans, including clear timelines and milestones, remains a challenge. A thematic review is planned for 2027.

- The assessment of SIs' quantitative and qualitative ESG risk disclosures continued, pursuant to regulations on market disclosures under Pillar 3 (market discipline) of the Basel III framework, transposed into the applicable legislation.

- Workshops were held with industry stakeholders, such as "Green Fridays" and "Transition Fridays", to raise awareness of the decarbonisation process.

— Risk data aggregation and risk reporting:

- The remediation of the shortcomings identified in the 2024 thematic review on risk data aggregation and risk reporting (ECB Guide) was reviewed, adopting a proportionate approach based on the specific situation of each SI.

- For institutions with material shortcomings, supervisors assessed progress in the implementation of action plans and the achievement of key milestones for alignment with the ECB Guide.

- Overall, progress remains insufficient, with a slow pace of improvement owing to factors such as governance weaknesses, fragmented IT infrastructure, extensive use of manual processes and high remediation costs.

The third supervisory priority focused on strengthening institutions' digitalisation. Banks were expected to reinforce their strategies and implementation plans to mitigate and manage risks, including those arising from the use of new technologies, while capitalising on their potential to enhance business models.

— Supervisors monitored the definition of digitalisation strategies, as well as their alignment with the banks' business strategies and internal governance frameworks. The implementation of the associated technological platforms and solutions was also monitored. Progress was observed at some banks in the roll-out of new digital platforms, with no significant adverse incidents.

— This process will require continued monitoring in the coming years. The main challenges are:

  1 Appropriately managing the change amid widespread cost discipline and considerable technological developments.

  2 Ensuring proper alignment with the business strategy.

  3 Extending the strategy across the banking group in a coordinated manner.

  4 Developing adequate indicators to better measure and monitor the strategy's success.

— In relation to new technologies, supervisory actions primarily focused on analysing risks arising from cloud migration (to both public and private clouds) and the use of artificial intelligence (AI). The main objectives are:

  1 To address reliance on a handful of cloud service providers based outside the European Union (EU) (concentration and geopolitical risks).

  2 To strengthen banks' ability to develop contingency plans to ensure the continuity of critical services in the event of potential cloud service interruptions.

  3 To define what constitutes rational use of AI.

  4 The allocation of adequately skilled human resources for the deployment of new technologies, risk control and senior management positions.

— Supervisors themselves face the challenge of maintaining appropriately skilled specialists in a rapidly evolving technological environment.

1.4 On-site inspections

The Banco de España participated in 38 on-site inspections and internal model investigations launched in 2025 at Spanish SIs (30 in total) and at SIs in other SSM countries (8 in total). The Banco de España led 22 of these, including 18 at Spanish SIs and 4 at institutions in other jurisdictions (Italy, Finland and the Netherlands) (Table 3.1).

Table 3.1
On-site supervision at significant institutions. Number of inspections launched in 2025 involving the Banco de España

	2025		
	On-site inspections	Model investigations	Total
At Spanish credit institutions	17	13	30
Led by the Banco de España	11	7	18
Led by the ECB	2	1	3
Led by other national competent authorities	4 (a)	5 (b)	9
At credit institutions of other SSM countries	6	2	8
Led by the Banco de España (c)	3	1	4
TOTAL	**23**	**15**	**38**

SOURCE: Banco de España.

a Banco de Portugal, Autorité de Contrôle Prudentiel et de Résolution (ACPR) and Commission de Surveillance du Secteur Financier (CSSF).
b Bundesbank, Banco de Portugal and ACPR.
c The Banco de España led three inspections and one model investigation in Italy, Finland and the Netherlands and participated in inspection teams at Italian, German and Irish institutions.

These supervisory actions reflected the supervisory priorities for the year, in particular the priority aimed at strengthening banks' readiness for changes in the financial and geopolitical environment.

— The inspection plan placed significant emphasis on the management and quality of credit granted to small and medium-sized enterprises and consumer lending to households (three inspections), as well as on interest rate, liquidity and market risks (four inspections) and risk control governance and data processing (three inspections).

— In addition, three ICT risk inspections were undertaken at Spanish SIs, focusing on infrastructure, ICT project and change management, security and business continuity plans. Two further inspections addressed non-ICT operational risk.

— The inspection planning also reflected other areas of interest identified by the JSTs, including the calculation of regulatory and economic capital (two inspections).

— In 2025 climate-related risks were included in the scope of inspections addressing other risks.

— The most relevant weaknesses identified during inspections in 2025 can be summarised as follows:

- **Credit risk:** weaknesses related to internal model parameters for loan loss provisions and their validation, together with the need to reinforce the monitoring and control of loans and their classification based on credit risk.

- **Interest rate, liquidity and market risks:** shortcomings in models used to estimate customer behaviour, particularly in relation to sight deposits, and the need to reinforce risk controls.

- **IT risk:** weaknesses related to the protection of IT assets, vulnerability and incident management and security testing of critical applications.

— Most internal model investigations (Table 3.1) focused on credit risk models and aimed to review model changes arising from new regulatory requirements, along with the remediation of findings from previous missions.

1.5 Stress tests

The EBA coordinates the European stress tests, which are conducted every two years. 51 SIs subject to the ECB's direct supervision took part in the 2025 edition, accounting for around 75% of euro area bank assets. Among them were six Spanish groups: Bankinter, BBVA, CaixaBank, Sabadell, Santander and Unicaja.

The ECB complemented this exercise with a similar test on 45 SIs under its supervision that were not included in the EBA tests, which accounted for around 7% of banking sector assets. These included the Spanish institutions Abanca, Banco de Crédito Social Cooperativo, Ibercaja and Kutxabank. In total, 96 SIs within the European banking supervision framework were examined.

— The adverse scenario envisaged a severe economic downturn fuelled by geopolitical tensions, trade fragmentation, protectionist policies and persistent supply shocks, resulting in strong increases in energy and commodity prices, temporary inflationary pressures, tighter financial conditions and market corrections. However, the envisaged prices increases were more moderate and short-lived compared with the 2023 test (which estimated high and persistent inflation), partly owing to weak demand.

— Under the adverse scenario, the fully loaded CET1 capital ratio (i.e. calculated assuming that the relevant regulation is fully implemented) of the SIs supervised by the ECB (which include the Spanish SIs) fell by 329 bp, while for Spanish SIs the decline was smaller (179 bp). As a result, the capital gap between all ECB-supervised and Spanish SIs narrowed from 190 bp at the start of the exercise to 41 bp by the 2027 horizon (Chart 3.2.b).

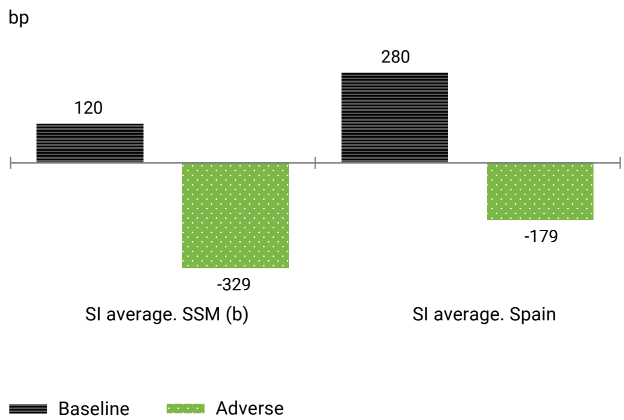
— Spanish SIs withstood the adverse scenario better than European ones on average, thanks to higher net interest income (particularly from business abroad) and better performance of overhead costs. These factors offset their higher credit impairment losses.

— As in previous exercises, no minimum capital thresholds were set, and the outcome of the adverse scenario was taken as a benchmark for determining the P2G level. Moreover, the qualitative aspects observed during the test are taken into account in the SREP and may affect the setting of capital requirements, particularly in the area of governance.

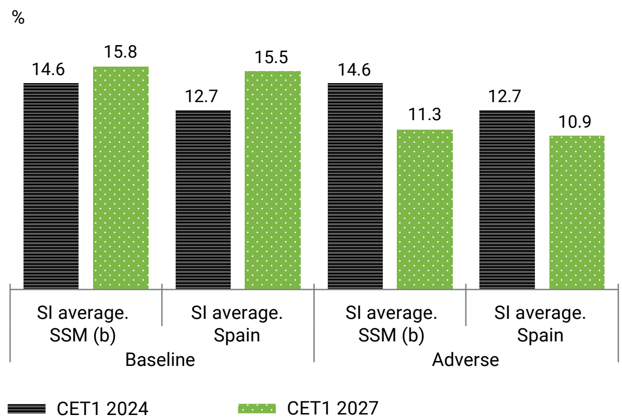
Geopolitical risk was incorporated into the 2025 test through the inclusion of supply chain disruptions and trade tensions. In the years when there is no EU-wide EBA stress test, the ECB/

Chart 3.2
European stress test 2025

3.2.a Change in CET1 ratio (a)



3.2.a CET1 ratio under the baseline and adverse scenarios (a)



SOURCE: Banco de España, drawing on ECB data.

a Fully loaded CET1, i.e. calculated assuming that the relevant regulation is fully implemented.
b European significant credit institutions supervised by the ECB.

SSM conducts thematic stress tests, with the 2026 thematic stress test set to focus on geopolitical risk.

— The main aim will be to assess credit institutions' ability to conduct stress tests incorporating geopolitical risk, through a reverse test included in the ICAAP. Institutions will define a scenario that leads to a pre-specified CET1 capital depletion of at least 300 bp.

1.6 The Single Supervisory Mechanism's supervisory priorities for 2026-28

Within the SSM, **two strategic priorities** have been established for SIs for the period 2026-28 (Figure 3.2).

The first priority is to strengthen banks' financial resilience in the face of heightened global trade tensions, geopolitical risks and overall uncertainty.

— Institutions should adopt and maintain sound credit standards to prevent the accumulation of new non-performing loans and pricing or cost-management issues.

— Supervisors will pay particular attention to how banks implement the new standardised approach for calculating their capital requirements, to ensure closer alignment with banks' actual risks. These methods are more risk-sensitive and were developed in response to the global financial crisis (Basel III final framework).

Figure 3.2
Supervisory priorities for SIs in 2026-28

1 Strengthening SIs' resilience to geopolitical risks and macro-financial uncertainties

Ensure prudent risk-taking and sound credit standards	Ensure adequate capitalisation and consistent implementation of CRR III (a)	Ensure prudent management of climate and nature-related risks

2 Strengthening SIs' operational resilience and fostering robust ICT capabilities

Implement robust and resilient operational risk management frameworks	Remedy deficiencies in risk reporting capabilities and related information systems	Medium to long-term priority strategy focusing on SIs' digital and, in particular, AI-related strategies, governance and management

SOURCE: SSM supervisory priorities for 2026-28.

a The third major reform of the Capital Requirements Regulation.

— The thematic stress test scheduled for 2026 will assess geopolitical risk scenarios affecting each bank based on their risk profile, which is shaped, among other factors, by their international presence. It will also assess how these scenarios could impact their solvency.

— Institutions should continue to strengthen their management of climate and nature-related risks.

The second priority involves strengthening operational resilience to mitigate emerging risks and prevent disruptions to critical operations and services, as well as fostering robust ICT capabilities at SIs.

— SIs have demonstrated remarkable resilience to cyber attacks and severe disruptions, such as the 2025 power outages. However, protecting critical infrastructure from existing risks requires developing mitigation measures and effective contingency plans.

— Moreover, heavy reliance on a small number of third-party service providers, many of which are based outside the EU, increases the complexity of outsourcing arrangements and makes SIs more vulnerable to geopolitical tensions.

— Therefore, institutions need to continue their efforts to address identified shortcomings and fully comply with the European Digital Operational Resilience Act (DORA).

— In addition, the focus will be on the remediation of remaining shortcomings in risk reporting capabilities and relevant reporting systems.

— Finally, the medium to long-term supervisory strategy for SIs' digitalisation initiatives will take a more targeted approach, particularly centred around the generative AI applications implemented by institutions.

2 Supervision of less significant credit institutions

2.1 Introduction

The Banco de España is responsible for the direct supervision of Spanish less significant institutions (LSIs), while the ECB exercises indirect supervision to ensure that supervisory activities meet common quality standards and deliver consistent results across countries. The Banco de España also supervises branches of non-EU institutions and the Official Credit Institute (ICO).

The supervision of LSIs combines ongoing off-site activities – including the SREP – with on-site inspections. In addition, ongoing activities include, among other actions, regularly assessing institutions' economic and financial situation, reviewing recovery plans – which credit institutions must prepare and keep up to date – and checking compliance with the requirements and recommendations issued as a result of the supervisory activities.

- In 2025 supervisory activity was marked by increased application of the proportionality principle. This resulted in the introduction of a multi-year approach in the SREP methodology.
- For most LSIs, the multi-year approach involves an overall risk assessment each year and an in-depth assessment of every element/risk over a three-year period. For institutions considered to be "high impact" or "high risk",[3] a full SREP for all elements/risks is performed annually.
- The aim of this approach is to increase the efficiency of supervision and, at the same time, reduce the supervisory burden for institutions by adjusting it to their risk profile and/or impact on the financial system.
- 18 on-site inspections were initiated in 2025.
- The Banco de España may also carry out supervisory actions on the branches in Spain of LSIs from other SSM and EU countries for financial stability reasons, although direct prudential supervision is the responsibility of the home supervisor.

2.2 Supervisory focal points in 2025

The supervisory process begins by defining the supervisory priorities for LSIs. This supports a stronger risk-based approach and improves the effectiveness and efficiency of supervision.

3 "High-impact" institutions are institutions that are not classified as SIs but have a material impact on the local financial system, owing to their size, importance for the local economy or cross-border activity, or the complexity and nature of their activity. "High-risk" institutions have a higher risk profile and require greater supervisory intensity.

- Priorities are set following a process similar to that of SIs, but with a one-year time horizon instead of the three years used for SIs.

- These priorities are fleshed out in an annual plan approved by the Executive Commission of the Banco de España. For 2025 priorities were set in the areas of credit risk, operational risk, governance, climate risk, business model, structural interest rate risk and liquidity risk. For more information, see Section 2.2 of Chapter 2 of the *Supervision Report 2024*.

- Figure 3.3 details the main risks and focal points of supervisory attention in 2025 and the general outcome of the actions carried out.

- Box 3.2 at the end of this chapter addresses the importance of credit cooperatives, especially in less populated Spanish regions, and the geographical constraints that limit their investment opportunities.

Two ad hoc activities were carried out owing to two extraordinary events: the flash floods caused by the DANA (Spanish acronym for an upper-level low pressure system that becomes isolated from the jet stream) in October 2024, which severely impacted parts of the Valencia region, and the blackout on 28 April 2025 which affected the entire Iberian Peninsula.

- Targeted monitoring of credit quality was conducted at the institutions potentially most affected by the consequences of the flash floods. To this end, detailed information was requested on the performance of certain credit risk metrics and on the volume of official aid received by the affected population.

    - There were no signs of a significant deterioration in credit quality, probably owing to the direct aid, ICO loans and moratoria granted.

    - In 2025 on-site inspections were launched at the four most affected institutions to review the management of risks affected by the consequences of flash-floods.

- Following the blackout, banks were asked to complete a questionnaire to assess the impact on their activity, and the measures implemented to mitigate its effects were monitored.

    - The information received showed that the impact was limited and that banking activity continued normally in many areas, although some services, such as ATMs or digital channels, were interrupted.

    - Institutions should ensure the continuity of critical business functions even under very adverse scenarios. To this end, they should identify critical processes, assess the associated risks, design continuity and recovery plans and perform regular tests to ensure their effectiveness.

Figure 3.3
Supervision of LSIs in 2025

RISK	SUPERVISORY FOCAL POINTS IN 2025	FINDINGS OF SUPERVISORY ACTIONS
Credit risk	**Institutions operating mainly in retail and commercial banking:** • Lending practices • Control and classification of loans • Calculation of loss provisions	**General findings:** • Credit: controlled growth • NPLs: contained • Coverage: adequate **There is room for improvement in risk control**
Business model	**Non-retail or commercial banking institutions:** • The sustainability of their strategies • Capacity to adapt to changing conditions	• A group of institutions with highly diverse business models • **Overall resilience and profitability, although some institutions were asked to provide an action plan**
	For institutions operating in retail and commercial banking: • Quarterly monitoring of profitability indicators • Review of budget compliance	• The challenge is to maintain adequate profitability levels in a declining interest rate and highly competitive environment • **Many cooperatives face geographical constraints that restrict their activities and limit investment opportunities**
Operational risk	Quarterly monitoring of ICT risk and conduct risk	**Need to strengthen ICT risk management:** • Need to impove banking platforms • Better control of outsourcing
Governance	**Analysis focused on:** • The composition and functioning of governing bodies • The organisational structure, with a focus on internal control functions: risk management, regulatory compliance and internal audit	**Main weaknesses:** • Scope for improvement in the separation and independence of the risk and audit functions • Independent directors play a limited role in oversight • Potential to improve the composition and functioning of board committees
Climate and environmental risk	Follow-up of the 2024 review of **ten banks'** approaches to integrating climate-related and environmental risks into credit risk	**Scope for improvement:** • Customer onboarding: need to improve practices • Loans and pricing: better integration of climate-related risk • Risk classification: insufficiently responsive • Valuation of collateral: reflect physical and transition risks **New regulation:** progress required towards compliance with new regulations (Directive (EU) 2024/1619 and EBA/GL/2025/01)
Liquidity risk	Quarterly monitoring of liquidity indicators	**Ample liquidity with ratios well above regulatory minimums**
Interest rate risk in the banking book (IRRBB)	Quarterly monitoring of the impact of interest rate increases and decreases on institutions' income (profit) and economic value	Adequate risk management at most institutions Enhanced monitoring required when the impacts approach or exceed certain limits

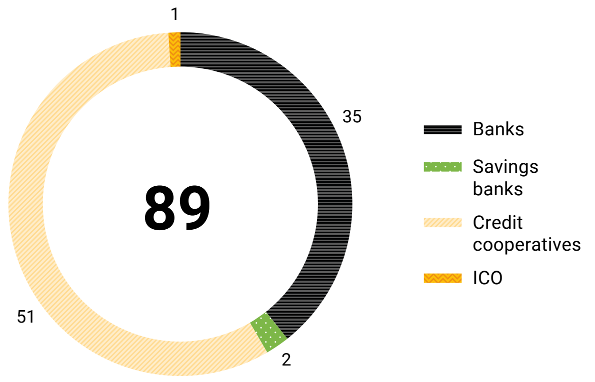
SOURCE: Banco de España.

The supervisory activities carried out in 2025 resulted in 89 letters being sent to LSIs and the ICO (Chart 3.3). The number of letters sent fell by 22.6% compared to 2024, when it reached 115.

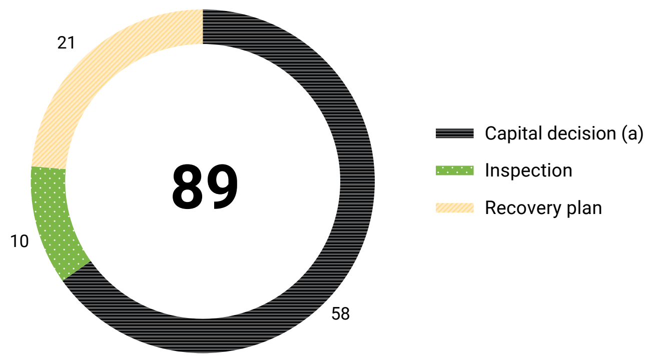
— Capital decisions arising from the SREP account for 67% of letters, while another 24% concern recovery plans and the remainder relate to inspections.

Chart 3.3
Letters addressed to LSIs and the ICO in 2025

3.3.a By type of institution



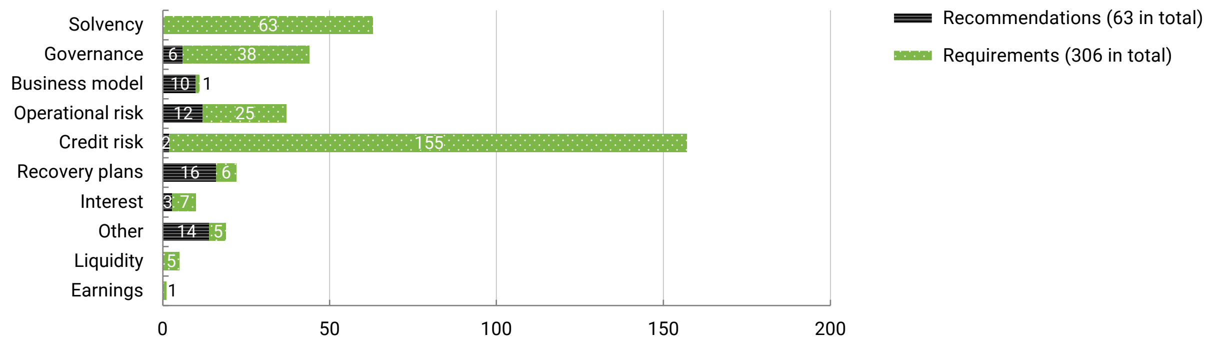
3.3.b By origin



SOURCE: Banco de España.

a The 58 capital decision letters were addressed to the 57 LSI institutions or groups (with one addressed to a subsidiary of one of those groups) and to the ICO.

Chart 3.4
Distribution by subject matter of the requirements and recommendations for LSIs in 2025



SOURCE: Banco de España.
NOTE: "Other" mainly includes climate risk-related requirements or recommendations.

— Chart 3.4 details the distribution by subject matter of the 369 requirements and recommendations (compared with 528 in the previous year) included in the 89 letters addressed to LSIs, the most relevant content of which is set out in Section 2.3.

— Credit risk-related requirements were particularly prominent, followed to a lesser extent by those related to solvency and governance. Among recommendations, those on aligning with the Banco de España's supervisory expectations on climate risks (included in the "Other" section of Chart 3.4) stand out.

— Recommendations (non-binding) and requirements (binding) are supervisory instruments that enable risks to be anticipated and weaknesses to be corrected through continuous and proportionate dialogue with supervised institutions.

2.3 Quantitative and qualitative requirements and recommendations in the capital decision

As mentioned above, off-site ongoing supervision focuses chiefly on tasks related to the SREP and the capital decision resulting from this process.

— The process follows the common SSM methodology and integrates all the information gathered during the various supervisory activities: ongoing monitoring, thematic reviews, inspections, meetings with institutions’ senior management, etc. This provides a complete and consistent view of each institution’s risk profile and serves as the basis for setting the corresponding capital decision.

— As part of the multi-year approach, in 2025 an in-depth review of credit risk was performed, focusing in particular on how such risk is controlled at commercial banks. For institutions with other business models, such as custodian banking or private banking, the analysis focused on business model sustainability. In addition, high impact institutions, whether due to their size or risk profile, were subject to a full SREP covering all risks.

— Following this multi-year approach, in 2026 the analysis of all institutions will focus on governance and operational risk.

The 2025 SREP resulted in slightly lower capital add-ons than in 2024, both in terms of the binding requirement (P2R) and the non-binding guidance (P2G), reflecting positive evolution.

— The weighted average P2R stood at 1.61%. Among LSIs, required capital levels increased for eight institutions, decreased for 12 institutions and held steady for the remaining institutions.

— The average P2G declined to 0.8% following the analysis of the results of the national stress tests (see Section 2.6) and of the stress tests included in institutions’ ICAAP and ILAAP reports. It decreased for 33 LSIs, increased for four and remained stable for the rest.

— There was no need for P2R or P2G add-ons for excessive leverage risk.

Annual letters sent to institutions containing the SREP conclusions include requirements and recommendations to remedy the deficiencies or areas for improvement identified.

— Some weaknesses in credit risk controls were detected although, overall, institutions’ business growth remains prudent, with sound indicators, contained non-performing loans and adequate coverage levels. The main deficiencies found were:

  - Issues in the risk control function (second line of defence), especially as regards its independence, as well as the scope and definition of its tasks; a lack of resources in the different lines of defence.

- Need to improve policies, procedures and reports in relation to credit origination and credit risk monitoring. Also, insufficient diversification of credit portfolios and errors in the application of large exposure limits.

- Incorrect application of accounting criteria for classifying loans; deficiencies in controls to monitor differences between non-performing loans according to prudential and accounting criteria.

- Weaknesses in plans to reduce non-performing loans and foreclosed assets, such as projection errors and the need for clearer descriptions of foreclosed asset developments and reductions.

  The Banco de España requires institutions with a non-performing ratio above 5% or an extended non-performing ratio above 7% to send or update plans to reduce non-performing loans and/or foreclosed assets. It also reminds them that they must closely monitor non-performing exposure developments and whether the plan's projections are materialising.

— In the area of operational risk, requirements focused on strengthening IT risk management. They mainly called for improving banking platforms, strengthening control over risks arising from outsourced services and correcting errors in the preparation of reporting templates. In addition, recommendations were made to improve the estimation of legal risk.

— In the area of governance, weaknesses were identified relating to management succession planning, the quality of regulatory reporting, the resources allocated to the compliance function and the composition and powers of board committees.

— In relation to business model sustainability, the weaknesses concerned the action plans to improve recurring income and efficiency, strategic plan monitoring and reporting of potential significant deviations from the budget.

— With regard to interest rate risk, as in 2024, the recommendations and requirements focused on tighter control and closer monitoring.

  Measures to reduce exposure were also required in cases where the impact of interest rate movements on net interest income and/or economic value exceeds certain regulatory thresholds (an impact above 15% of economic value or 5% of net interest income).

— Lastly, the need to improve the quality or projections included in ICAAP/ILAAP reports, compliance with supervisory expectations on climate change risks – especially in relation to credit risk – and financial autonomy was highlighted.

2.4 On-site inspections

In 2025, 18 on-site inspections were initiated under the 2025 supervisory plan and ten requirement and recommendation letters were sent:

— Of the inspections launched in 2025, eight focused on credit portfolio, governance, internal control and solvency; six on governance and internal control; three concerned governance and implementation of CRR III (the third major reform of the Capital Requirements Regulation, which regulates prudential requirements for credit institutions in Europe); and one looked at IT risk.

— The letters sent to banks following finalised inspections mainly identified weaknesses in three areas: governance and internal control, credit risk management and control, and solvency.

- In relation to governance and internal control, the weaknesses related to the composition and functioning of the management bodies and board committees, the role of independent directors and the independence and scope of the risk control function (second line of defence) and the internal audit function (third line of defence). Weaknesses were also detected in specific aspects of the remuneration policy and in internal audit coverage and the follow-up to its findings.

- With regard to credit risk management and control, deficiencies were detected both in credit origination and risk monitoring, and in accounting classification and provisioning policies.

- With regard to solvency, the weaknesses concerned the quantification of the risk-weighted assets (RWAs) used to calculate solvency ratios.

2.5 Other activities

Of the remaining supervisory activities in 2025, two types merit particular mention: the regular monitoring of institutions' economic and financial situation and the review of the recovery plans they submit.

— The first involves analysing the economic and financial performance of each institution and their risk indicators drawing on regulatory reporting, with the aim of identifying potential problems across the different risk categories at an early stage.

— This also includes the economic and financial monitoring of EU LSIs' branches in Spain (which are not subject to prudential or liquidity requirements) and branches of non-EU institutions. In both cases, their performance is monitored on a regular basis. In addition, branches of non-EU institutions are also assessed for compliance with prudential regulatory requirements from which they have not been exempted.

- Recovery plans are documents in which institutions set out how they would restore their financial viability following a severe crisis. The regulatory framework allows both the frequency with which these plans must be submitted and the minimum content requirements to be adjusted, depending on the institution's potential impact on financial markets, financing conditions and the economy as a whole (principle of proportionality).

- 21 plans were reviewed in 2025, six full scope and 15 simplified.

- Information on each bank's compliance with outstanding requirements and recommendations is updated on a quarterly basis with a view to ensuring the effectiveness of supervisory activity. The main results of this analysis are submitted to the Executive Commission of the Banco de España, when reporting on the status of compliance with the supervisory plan.

- The Banco de España also took part in an EU credit institution's supervisory college, contributing to joint decisions on capital and liquidity requirements, and participated in three further supervisory colleges and two resolution colleges for central counterparties.

2.6 Stress tests

The stress tests conducted by the Banco de España on a large number of LSIs show a high level of solvency, well above regulatory requirements under both the baseline and the adverse scenarios.

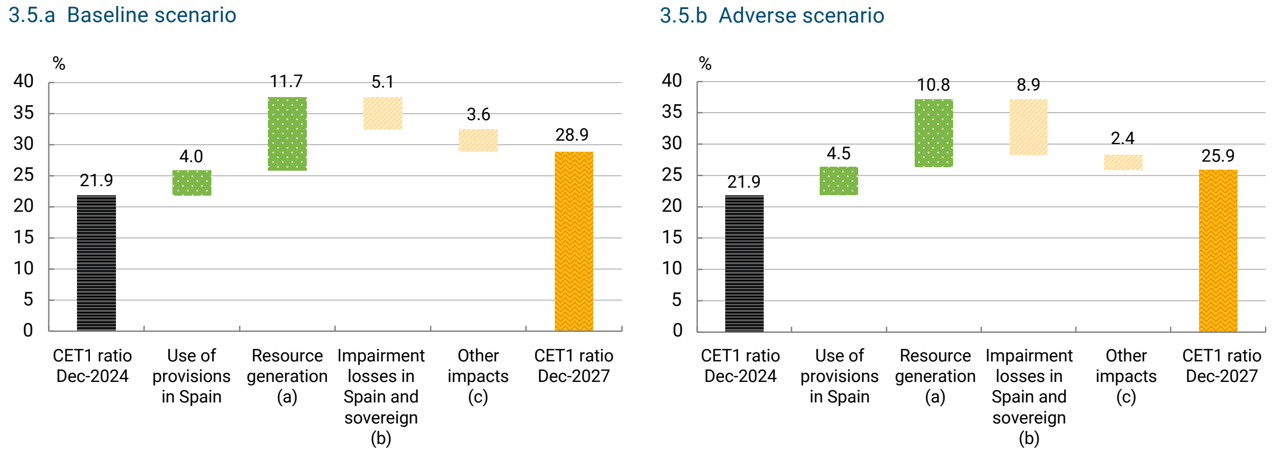
The exercise takes a top-down approach by applying the Banco de España's own Forward-Looking Exercise on Spanish Banks (FLESB) methodological framework. This framework draws on both regulatory and supervisory reporting and on Banco de España estimations of institutions' financial performance using various standardised risk models.

- These stress tests are used to assess the LSI's capacity to withstand the materialisation of different macroeconomic and financial risks. As in previous years, they were carried out in line with the FLESB methodological framework, which combines in-house assumptions and models with highly granular regulatory information. This makes it possible to project institutions' balance sheets and profit and loss accounts and to analyse their solvency under different scenarios.

- The results were used as a reference in the SREP, in particular to determine the P2G.

- The baseline and adverse scenarios analysed in 2025 are those developed for the 2025 EU-wide stress test coordinated by the EBA. The baseline scenario is consistent with that in the Eurosystem's December 2024 macroeconomic projections, while the adverse scenario, described in Section 1.5, assumes a severe crisis with a significant impact on global supply.

Chart 3.5
Banco de España stress tests on LSIs



SOURCE: Banco de España.

a The generation of loss-absorbing resources is determined by net operating income in Spain. As a percentage of 2024 risk-weighted assets (RWAs).
b Impairment losses on loans and foreclosed assets in business in Spain and impact on capital of the potential impairment of the group's sovereign exposures. As a percentage of 2024 RWAs.
c Other consolidated gains and losses, tax and exchange rate effects, distribution of profit and changes in RWAs.

— The aggregated results of the exercise (Chart 3.5) illustrate how the capital ratio at the end of the horizon changes under the baseline and adverse scenarios.[4] In 2025, under the adverse scenario, capital increased by the end of the exercise, supported by net interest income, which proved highly robust in an environment of relatively high interest rates.

— Overall, the LSIs analysed would maintain a solid degree of resilience, even under the adverse scenario. These favourable results are largely underpinned by the high level of solvency reached at the end of 2024 (a fully loaded CET1 ratio of 21.9%, up by 200 bp over the year) and by the strong net interest margins under both scenarios considered.

2.7 Supervisory priorities for 2026

In 2025, the Executive Commission of the Banco de España approved the supervisory priorities and the supervisory plan for 2026. Priorities have been set in the following areas:

— **Operational risk:** in 2026, the focus will be on the sound implementation of the DORA, via a horizontal review which will assess operational resilience, ICT third-party provider risk management and the development of strategies to leverage and adapt to the use of artificial intelligence.

4 The exercise follows the static balance sheet principle, as in the tests conducted by the EBA, and, unlike the macroprudential exercise described in Chapter 6, does not consider the possible additional adverse effects on credit risk of potential latent impairment arising from the economic effects of the COVID-19 health crisis.

— **Governance/remuneration:** further work will be undertaken to address shortcomings previously identified in the internal control function and a horizontal review will be carried out across all LSIs.

— **Credit risk:** emphasis will be placed on reviewing standards for new lending, especially in sectors in which such standards may be loosening. Likewise, the monitoring work will focus on how the shortcomings identified in commercial banks' capital decision letters are addressed.

— **Business model sustainability and digitalisation strategies:** assessments will aim to identify shortcomings in the adaptation to the digital transformation and to monitor the impact of interest rate changes. The remediation of the weaknesses identified in the capital decision letters addressed to institutions with non-commercial banking models will also be monitored.

— **Climate risk**: institutions' adaptation to supervisory expectations regarding the identification, measurement and management of this risk, as well as to new regulations that will come into force, will continue to be reviewed.

— **Interest rate risk in the banking book and liquidity risk**: the adequacy of the policies and procedures for managing these risks will remain at the forefront.

3 Common, fit and proper, and other procedures

Institutions must undergo an administrative procedure to obtain authorisation to carry out credit institution activities.

— The Banco de España makes an initial assessment for all Spanish institutions and formulates a draft decision for each case. On the basis of that proposal and any additional work deemed appropriate, the ECB then makes a final decision. The same procedure applies to withdrawing the authorisation and authorising the acquisition of qualifying holdings.

— These procedures, known as common procedures, are set out in Regulation (EU) 468/2014 of the ECB, establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities.

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.

— In 2025, it participated in 662 procedures relating to credit institutions, 27% more than in 2024, marking a five-year high. Most notably, these procedures include the fit and proper

Table 3.2
Procedures relating to credit institutions involving the Banco de España

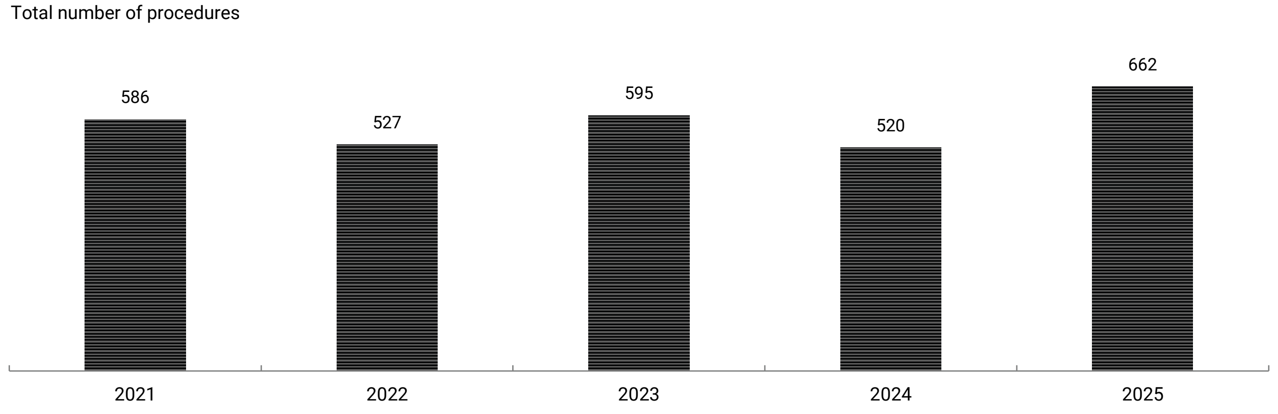
Data at 31 December 2025

	Credit institutions
Qualifying holdings, mergers, spin-offs and other significant acquisitions	34
Cross-border activity of Spanish credit institutions (a)	84
Branches in the EU	15
Branches in third countries	4
Freedom to provide services	63
Representative offices	2
Deregistration	4
Loans to directors and senior officers	57
Suitability of directors & senior officers (b)	169
Procedures relating to capital	167
Amendments to articles of association	25
Communications with other supervisory authorities or institutions	54
Other procedures	68
TOTAL	**662**

SOURCE: Banco de España.

a Each daily notification per recipient country and institution is deemed a procedure. These procedures relate to the opening of branches, the commencement of activities under the freedom to provide services, the appointment of agents and opening of representative offices in other countries (EU and non-EU) by Spanish credit institutions.
b Includes six senior officer suitability assessments at financial holding companies.

Chart 3.6
Procedures affecting credit institutions involving the Banco de España



SOURCE: Banco de España.

assessment of board directors and senior officers and their subsequent registration in the Banco de España's Register of Senior Officers (Table 3.2 and Chart 3.6).

4 Supervision of covered bonds and securitisations

The Banco de España has supervisory powers over covered bonds arising from the transposition of Directive (EU) 2019/2162, which aims to promote the harmonisation of the covered bond market across the EU.

— This supervisory regime is complemented by the designation by each of the issuing institutions of a cover pool monitor, which performs ongoing monitoring to ensure compliance with the required contractual and legal requirements.

— To facilitate the supervision of this compliance, 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 at December 2025, there were 19 Spanish covered bond issuers subject to this supervisory framework, one fewer than in 2024 due to the merger of two institutions within the same group.

— Issuers have made efforts to adapt to the requirements of the covered bond regime.

— In 2025, the Banco de España carried out individual monitoring on each of the issuing institutions and also performed a consolidated horizontal analysis. This analysis shows that the volume of covered bonds has remained broadly stable, that institutions continue to rely primarily on the issuance of covered bonds secured by residential mortgages (cédulas hipotecarias) and that issuances are predominantly retained by the issuer.

— These tasks were complemented by an on-site inspection at one of the issuing institutions in 2025 and by the oversight carried out by the cover pool monitors, which are the keystone of the investor protection framework. These monitors are subject to Banco de España supervision.

— A total of five commercial companies have been designated as cover pool monitors. The cover pool monitor must prepare a semi-annual report on its activities and conclusions, which is submitted to the institution and made available to the Banco de España. Interaction between the two has facilitated the correct and swift implementation of the regulations.

As part of its supervisory functions, the Banco de España must also authorise the covered bond programmes that detail the characteristics of the bonds issued under them. This authorisation is granted for a limited period and a specified issuance volume, and any increases in the authorised amount or renewals of the programme term must likewise be authorised.

— In 2025, the Banco de España issued 29 authorisations: 23 relating to the renewal of programme terms, three relating to increases in programme amounts, two relating to the

Table 3.3
Outstanding covered bonds at 31 December 2025

€m

	Mortgage covered bonds		Public-sector covered bonds		Internationalisation covered bonds		TOTAL	
	No of issuances	Amount	No of issuances	Amount	No of issuances	Amount	No of issuances	Amount
Significant institutions	155	178,429	7	6,790	11	11,810	173	197,029
Less significant institutions	20	6,237	0	—	0	—	20	6,237
TOTAL	**175**	**184,666**	**7**	**6,790**	**11**	**11,810**	**193**	**203,266**

SOURCE: Banco de España.

termination of a programme and the cessation of its cover pool monitor and one relating to the amendment of another programme.

— At end-2025, there were 27 authorised covered bond programmes, 25 of which covered both issues outstanding at that date and any subsequent issues, only until the programme maturity date and up to the maximum authorised amount. The remaining two programmes, belonging to the same institution, cover only the issuances outstanding as at 7 July 2025, as the authorisation period for those programmes was not renewed.

— At that date, there were 193 outstanding issues on the Spanish covered bond market, with a nominal value of around €203 billion, of which 91% corresponded to mortgage covered bonds (Table 3.3). These data are in line with those recorded in 2024.

— The Banco de España discloses and regularly updates on its website the list of authorised issuing institutions, as well as the covered bonds issued under the programmes authorised.

Similarly, the Banco de España supervises compliance with the specific legal framework for simple, transparent and standardised (STS) securitisations and compliance with certain “general requirements” that are applicable to all securitisations.

— In 2023 the Banco de España assumed the supervision of the specific framework for STS securitisations 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.

— It also supervises compliance with certain “general requirements” applicable to all securitisations (whether STS or not), relating to risk retention, transparency requirements, the ban on re-securitisation and credit-granting criteria, where the issuers are LSIs or other institutions subject to Banco de España supervision.

Table 3.4
Individual monitoring of securitisations pursuant to Regulation (EU) 2017/2402

Number of securitisations

	Traditional securitisations		Synthetic securitisations (b)		
	STS	Non-STS	STS	Non-STS	TOTAL
Significant institutions	6	(a)	8	(a)	**14**
Less significant institutions	2	0	0	0	**2**
Specialised lending institutions	1	0	0	0	**1**
TOTAL	**9**	**0**	**8**	**0**	**17**

SOURCE: Banco de España.

a Compliance with the general requirements for non-STS securitisations is subject to ECB supervision.
b So called "on-balance-sheet" synthetic securitisations compliant with Articles 26(b) to 26(e) of Regulation (EU) 2017/2402.

— Lastly, pursuant to Article 44 of Regulation (EU) 2023/2631 of 22 November 2023, the Banco de España is the competent authority for supervising compliance with the aforementioned regulation for traditional securitisations issuing bonds classified as European green bonds (EuGB securitisations). The objective is to validate the use of proceeds from securitisation bonds, the eligibility of the underlying portfolio and the transparency and disclosure requirements.

— In 2025, compliance with the regulatory requirements was reviewed for all securitisations notified to the Banco de España within its remit and carried out during 2024.

— A total of 17 securitisations were notified, all of them STS securitisations (Table 3.4). No notifications were received of traditional securitisations classified as European green bonds.

— All STS securitisations were notified to the European Securities and Markets Authority and made use of an authorised third party certifying that the STS criteria were met.

— The originator institutions of securitisation transactions notified their issuances incorporating the information required by the Banco de España.

Box 3.1

SUPERVISION OF CRITICAL ICT THIRD-PARTY PROVIDERS

The European Digital Operational Resilience Act (DORA) establishes a novel supervisory framework for information and communication technology (ICT) providers that are critical to the European financial sector. To identify such providers, in April and May 2025, registers of information on contractual arrangements with thirdparty ICT providers were collected from European entities subject to DORA.

This was used to identify and designate critical providers, pursuant to the criteria laid down in DORA. On 18 November 2025, after the submissions period had closed, the European Supervisory Authorities (ESAs) published the final list of 19 designated critical ICT third-party providers. The list is to be reviewed and updated annually.

At the same time, progress was made in 2025 towards establishing supervisory methodologies and procedures, as well as governance mechanisms, that will govern collaboration between the European and national authorities involved in the supervision of critical ICT providers. This supervisory framework is notable for its scale and complexity, with more than 50 authorities from 27 countries working together under the leadership of the ESAs, requiring substantial commitment, effort and collaboration.

The lead overseer will always be one of the supervisory authorities, while the joint examination teams will comprise experts from the competent authorities, with the European Central Bank playing a prominent role. The Banco de España has contributed two full-time supervisors specialising in ICT risk.

The supervision of critical ICT providers aims to strengthen the sector's digital resilience, an objective that requires the involvement of all stakeholders. Other economic sectors that use these same providers may also benefit indirectly.

Box 3.2

CREDIT COOPERATIVES AS KEY PLAYERS IN REGIONAL FINANCING AND FOR CERTAIN SECTORS, AND SUPERVISORY CHALLENGES

Although *credit cooperatives* represent a relatively small share of the Spanish banking system (9.6% of drawn credit), they are *very important for certain segments of the country's economy*. This can be viewed from *three perspectives*.

From the *geographic standpoint,* credit cooperatives have a market share of over 10% in a large number of autonomous communities. Their importance is particularly evident in regions such as Navarre, where they lead with a credit market share of 36%, as well as in Castile-La Mancha, Castile and León, Asturias, Rioja, Murcia and the Basque Country, with market shares of over 20%.

Broadly speaking, cooperatives play a particularly significant role in more sparsely populated areas, especially their regions of origin, where they play a key role in financial inclusion. For instance, at the province level this is most evident in Soria and Zamora, where their market shares exceed 50%, and in Teruel, Cuenca and Almería, with shares of around 35%. Almost all of these provinces have low population densities.

From the perspective of *economic agents,* credit cooperatives play a significant role in the financing of SMEs and the self-employed, with a market share of 13.8%, more than 4 percentage points (pp) higher than their average market share. They focus on the smallest productive units, with particular emphasis on the self-employed, a cornerstone of Spain's productive system and where credit cooperatives have an average market share of 28%.

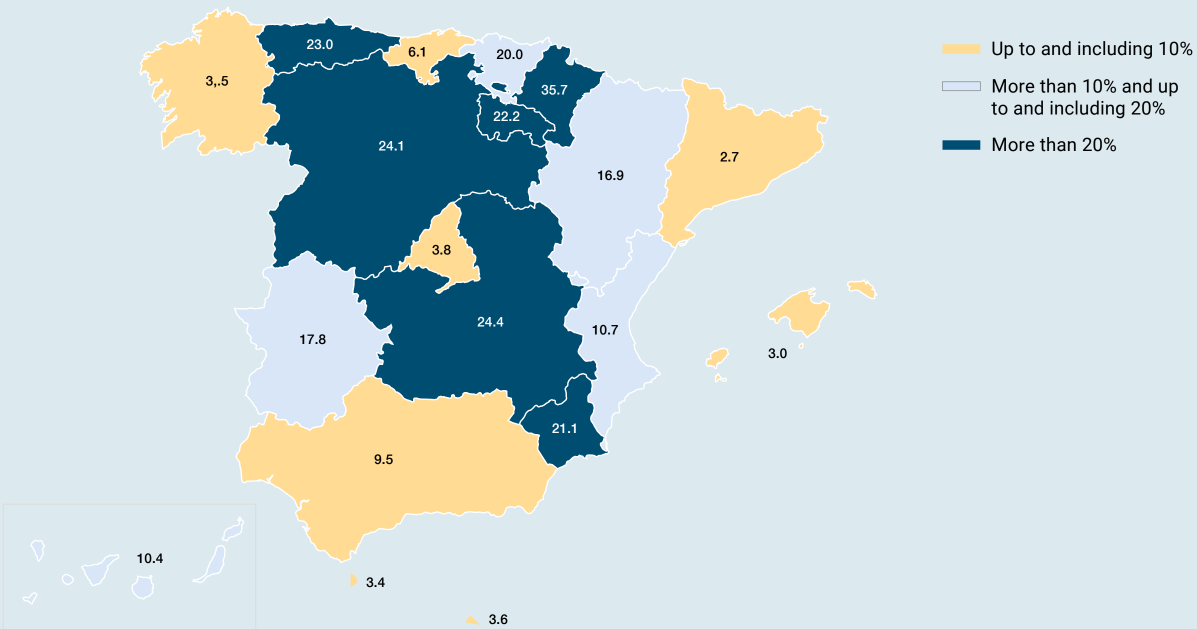
From a *sectoral perspective*, credit cooperatives are crucial for certain sectors of activity, most notably agriculture, where they are market leaders with a 35% share of the credit market, followed by wholesale and retail trade (11.5%) and manufacturing (10.8%).

Cooperatives account for a higher share of the agriculture sector in terms of lending to the self-employed, leading in agriculture, forestry and fishing, with a 47.2% share of total credit.

Overall, cooperatives *weathered both the global financial crisis and the deleveraging* that the Spanish economy has undergone since then relatively well.

The *stock* of credit by cooperatives has grown moderately in recent years (by a cumulative 32% since 2017, an average of 4% each year) for both households and non-financial corporations, while the volume of the rest of the banking sector has remained relatively flat (+1.4%).

Chart 1
Cooperatives' market share of drawn credit in each region

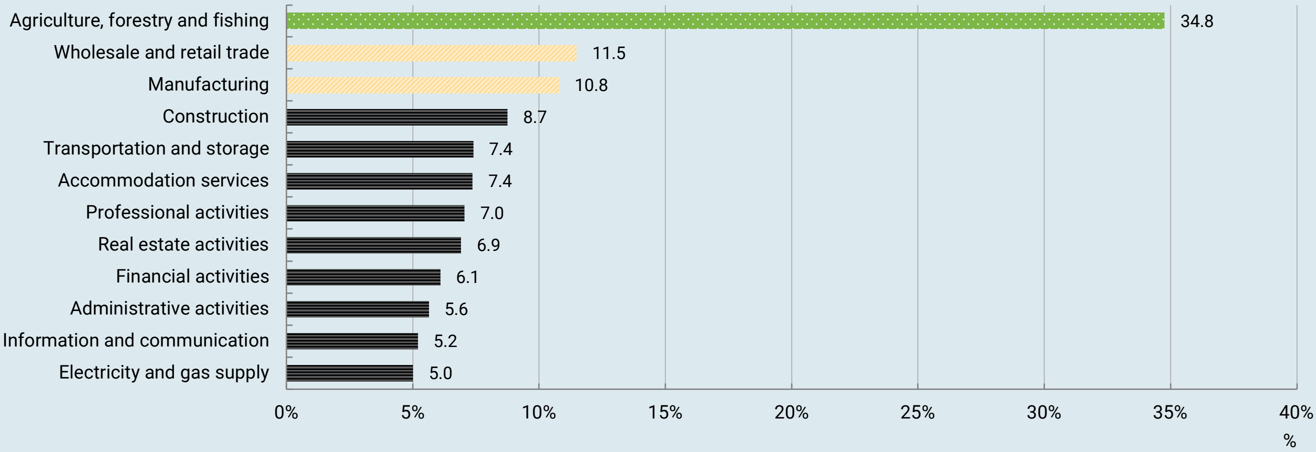


SOURCE:: Banco de España.

Box 3.2

CREDIT COOPERATIVES AS KEY PLAYERS IN REGIONAL FINANCING AND FOR CERTAIN SECTORS, AND SUPERVISORY CHALLENGES (cont'd)

Chart 2
Market share by sector



SOURCE: Banco de España.

Lending to SMEs and self-employed workers remained broadly stable (+1.3%) between December 2017 and June 2025, compared with a contraction of 20.3% in other institutions. This stronger performance has translated into a 2 pp gain in market share since 2017, with particularly marked advances in less populated regions.

In addition, credit cooperatives as a whole have performed *comparatively well in terms of credit quality, profitability, solvency and liquidity*. On an aggregate basis, they post lower non-performing loan ratios than other institutions, while displaying similar levels of provisioning, profitability and efficiency. They clearly outperform the rest of the sector in terms of solvency (6.8 pp higher in terms of common equity tier 1 capital) and liquidity: as at June 2025, cooperatives report a liquidity coverage ratio of 324%, compared with 167% for other institutions.

Significant challenges nevertheless remain, stemming from their geographical concentration and size. First, the demographic challenge and depopulation in certain areas, together with a lack of investment opportunities, constrain the growth of cooperatives with narrowly defined operating territories.

In some cases, these constraints also sometimes generate dependence on the economic activities specific to the regions in which they are concentrated. As a result, they are more vulnerable to economic or climatic shocks affecting specific sectors to which they are heavily exposed, such as the impact of torrential rainfall on the agricultural sector.

Second, the small size of many of them makes it harder to professionalise their governance and to adapt to new regulatory requirements and risk management functions, particularly among those smallest in size. A case in point is the need to strengthen governing boards.

These challenges are compounded by technological progress, which demands substantial investments in digitalisation.

In recent years, organisational arrangements have been put in place that have helped address these challenges, such as institutional protection schemes, which involve the mutualisation of losses, should they materialise, and provide support for overall risk management. In addition, in the regulatory and supervisory domain, progress continues to be made towards greater simplification and proportionality for smaller, less complex institutions, many of which come under the category of credit cooperatives.

Further information on the strategic role of credit cooperatives is available at the following link.

Box 3.2

CREDIT COOPERATIVES AS KEY PLAYERS IN REGIONAL FINANCING AND FOR CERTAIN SECTORS, AND SUPERVISORY CHALLENGES (cont'd)

Table 1
Credit cooperatives' share of the credit market by province

%

Province	Share		
A Coruña	2.3%	Jaén	23.3%
Albacete	32.9%	La Rioja	22.2%
Alicante	6.8%	Las Palmas	7.5%
Almería	35.8%	León	16.7%
Álava	29.5%	Lleida	6.4%
Asturias	23%	Lugo	14.9%
Ávila	17.6%	Madrid	3.8%
Badajoz	19.7%	Málaga	10.1%
Balearic Islands	2.6%	Melilla	3.6%
Barcelona	14.9%	Murcia	21.1%
Bizkaia	22.2%	Navarre	35.7%
Burgos	13.2%	Ourense	5.9%
Cáceres	9.4%	Palencia	18.7%
Cádiz	6.1%	Pontevedra	1.7%
Cantabria	17.9%	Salamanca	16.9%
Castellón	3.4%	Segovia	17.9%
Ceuta	28.6%	Seville	9.6%
Ciudad Real	12.4%	Soria	54.4%
Córdoba	34.3%	Tarragona	2.7%
Cuenca	26.2%	Tenerife	14.3%
Gipuzkoa	1.3%	Teruel	36.2%
Girona	22.5%	Toledo	20%
Granada	9.9%	Valencia	12.7%
Guadalajara	17.3%	Valladolid	26.5%
Huelva	20.1%	Zamora	51.7%
Huesca	3%	Zaragoza	15%

SOURCE: Banco de España.