The Spanish banking sector: A comparison with its European peers

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A recent comparison of Spanish banks with their European peers reveals their improvement in key structural and performance indicators. However, as highlighted by the Troika, challenges and downside risks remain.

The end of 2013 represented the end of the financial assistance program to Spain. The IMF, the European Commission and the ECB have published their last review and concluded that the program has been successful, although some remaining challenges, such as macroeconomic downside risks and regulatory and supervisory issues, must still be addressed. Overall, the situation of Spanish banks has improved. They are now among the best performers in European stock markets over the last year. Additionally, Spanish banks (including nationalized lenders) are enjoying improved access to debt markets, thereby reducing their dependence on ECB funding. Finally, a comparison of Spanish banks with their European peers in 2013 reveals that, in the context of improved market conditions and the structural improvements resulting from the restructuring and recapitalization process, Spanish banks are among the most efficient, have shown the largest increase in profitability, and are rapidly converging to the top in terms of liquidity and solvency.

The end of the financial assistance program

There have been very important developments surrounding the Spanish banking sector at the end of 2013 and the beginning of 2014. These months have represented, inter alia, the end of the external review process of the country as part of the financial assistance received by the EU to Spanish banks, the start of the privatization process for some nationalized banks, and a significant improvement in market conditions and subsequently in Spanish banks´ performance.

A first important event took place on December 16th, 2013, when the International Monetary Fund, the European Commission and the European Central Bank issued their final report on the abovementioned assistance program.

As for the IMF,[3] the report highlighted the achievement of all the goals that had been established in the Memorandum of Understanding (MoU) and stressed the relevance of recent advances in supervision, such as the forward-looking analysis of Spanish banks conducted by the Bank of Spain (Carbó and Rodríguez, 2013).

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[3] http://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/InformacionInteres/ReestructuracionSectorFinanciero/Arc/Fic/fmi161213en.pdf

The IMF considered that such asset quality analyses are crucial ahead of the comprehensive asset quality review and independent stress tests that the ECB is going to undertake in November 2014.

The IMF valued positively the fact that the implementation of the MoU has been critical to take actions to address actual and potential capital shortfalls. It also suggested that a clearer EU framework be put in place to reduce uncertainty about the necessary backstop to cover these potential shortfalls in Spain, as in other countries, and the role that should be given to the European Stability Mechanism in this respect.

The report also suggested that segregating certain types of real estate-related assets of state-supported Spanish banks into a specialized asset management company (SAREB) has been very important to clean-up balance sheets, as well as to adjust prices in the real estate market. According to the IMF, it will still be necessary to adopt plans to restructure or resolve state-supported banks within a few years. The banking union is considered a preferable means to achieve this objective, in line with the proposals for adopting reforms to Spain's framework for bank resolution, regulation, and supervision to "enhance financial stability and better protect the taxpayer."

The IMF estimates the financial reform in Spain has improved financial stability and investor confidence, and the data presented later on in this note supports this view. As in other areas of Spanish economic policy-making, it seems essential to maintain the "reform momentum" as banks and lending are needed to reinforce the economic recovery process. In order to improve the current situation, the IMF suggested to include continued pro-active monitoring and supervision. It also pointed to a combination of strategies to improve the financial conditions of banks and to accelerate their deleveraging such as adequate provisioning and further asset disposals, "helping to free space on banks' balance sheets for new lending."

Another key challenge noted is the need to keep improving bank solvency, in particular taking advantage of "buoyant equity markets to boost share issuance, restraining cash dividends, and supporting profits through further efficiency gains–rather than relying on credit contraction to support capital ratios."

The IMF acknowledged that all these challenges will be difficult to achieve without significant further progress on banking union and continued monetary policy support to help reduce financial fragmentation, ease credit conditions, and assist the recovery.

As for the statement of the ECB and the EC it was jointly released, also on December 16th, 2013. The report clearly recognizes that Spanish financial markets have further stabilized, stock prices have growth substantially and sovereign bond yields have fallen sharply. This situation should allow Spanish banks to enjoy improved access to funding markets. Like the IMF, the ECB and EC also refer to bank solvency, but they suggest that "the solvency position of banks has remained comfortable after the recapitalization of parts of the banking sector, the transfer of assets to SAREB (the Spanish asset management company) and overall positive earnings results over 2013 so far."

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The ECB and the EC –as well as the IMF– also consider that compliance with the horizontal policy requirements in the MoU has been fully achieved. However, they also refer to macroeconomic weakness and uncertainty as one of the main potential downside risks for Spanish banks. Again, deleveraging in the private sector and debt burdens in the public one are mentioned as barriers to further improvement in financial conditions.

In line with the IMF, the ECB and the EC also estimate that the combination of asset deleveraging and higher capital requirements will restrict financial intermediation in Spain over the coming years.

Overall, the latest review reports of the Troika (IMF, ECB, EC) made a positive evaluation of the financial reform in Spain and considered the implementation process finished, although some measures and challenges are, of course, established as long-term. Importantly, the implementation of these reforms and financial assistance measures represent a break from the extremely difficult conditions faced by the Spanish financial sector in mid-2012 and the more favorable situation currently enjoyed by Spanish banks today.

Momentum for Spanish banks?

Two excerpts from articles published in the *Financial Times* before and after the EU financial assistance program for Spanish banks are illustrative of the changes in market perception about the Spanish financial system:

May 29th, 2012: *"Investors sold Spanish banking stocks for a second day amid growing concern that Madrid would not be able to prop up the debt-laden sector on its own. Bankia led falls in Spain, dragging the benchmark Ibex 35 index down to a nine-year low."*[4]

January 9th, 2014: *"Shares in Spanish banks have surged over the past year as international investors regained confidence that the eurozone's fourth-largest economy would not have to request a full-scale international rescue to contain its borrowing costs."*[5]

Indeed, the financial situation of Spanish banks has significantly changed for the better. Exhibit 1 shows stock returns for the main listed banks in major Eurozone countries (Germany, France, Italy, and Spain). Even if the starting points may be ones of deterioration in market value for banks in peripheral countries, the increase in stock returns for Spanish banks (with an average improvement of 25% for the top-5 banks), as well as for those in Italy or France, clearly outperforms German banks over the last year.

Naturally, there are downside risks (as noted in the external reviews of the Troika) but as long as this momentum continues, Spanish banks will be in a better position to get funding in capital markets and to face the comprehensive asset quality assessment by the ECB towards the end of 2014. This assessment has been considered as a milestone in European banking and opinions on the final outcome for Spanish banks are diverse. For example, in its latest review of the financial reform in Spain, the IMF mentions "that the Spanish economy still undergoes a process of private-sector deleveraging and fiscal consolidation that can restrain the pace of recovery, with concomitant challenges for bank profitability (…) Other uncertainties for the sector arise from unknowns regarding the methodology of the forthcoming European bank asset quality review and stress test, as well as the unwinding of the state's ownership interest in intervened banks over the next few years."

Similarly, the report of the ECB and the EC suggests that it is also important for Spanish banks

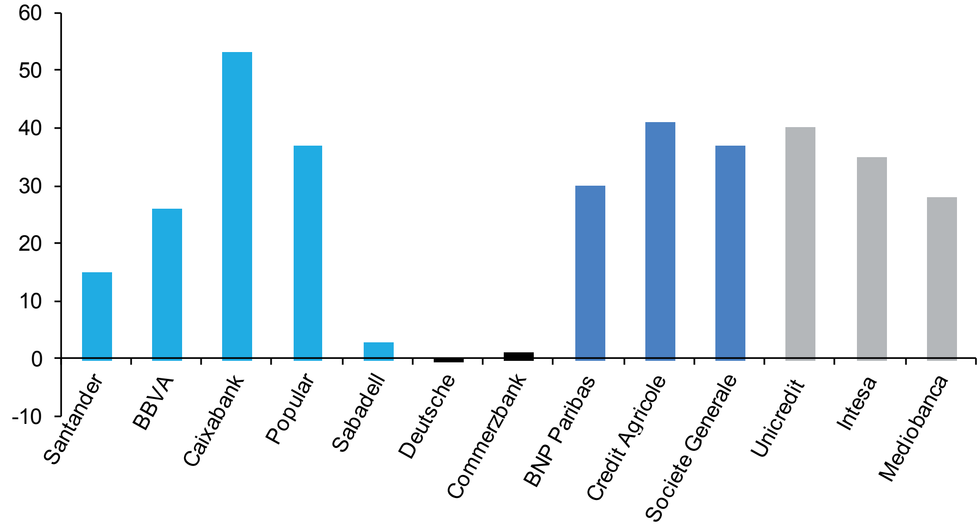
[4] http://www.ft.com/cms/s/0/b4ab767a-a97c-11e1-9972-00144feabdc0.html#ixzz2pzUQ4Jb3

[5] http://www.ft.com/cms/s/0/9587f3c6-7924-11e3-b381-00144feabdc0.html#ixzz2pzUCSWVv

Exhibit 1

One-year return on stock markets of some listed European banks

(Jan 2012-Jan 2013)



Source: Bloomberg and own elaboration.

to ensure a proper preparation of the pending assessment of banks' balance sheets by the ECB and "policy makers and supervisors in particular will need to continue devoting close attention to the banks currently owned by FROB, in order to ensure proper governance and business models for these banks going forward."

The paradox is that given that the Spanish banking sector has gone through the most intensive recapitalization and restructuring process within the EU, it is probably in better shape than some European peers to face the ECB's comprehensive assessment. Moreover, the methodological aspects of the assessment will be determined by the same external consultant (Oliver Wyman) who was in charge of the stress tests conducted on Spanish banks within the MoU. The potential strength of Spanish financial intermediaries lies in the fact that they have already gone through a tough process of scrutiny and have also significantly progressed on restructuring and recapitalization. This is in contrast to most of continental Europe, where partial recapitalization with almost no restructuring has typically been the norm.

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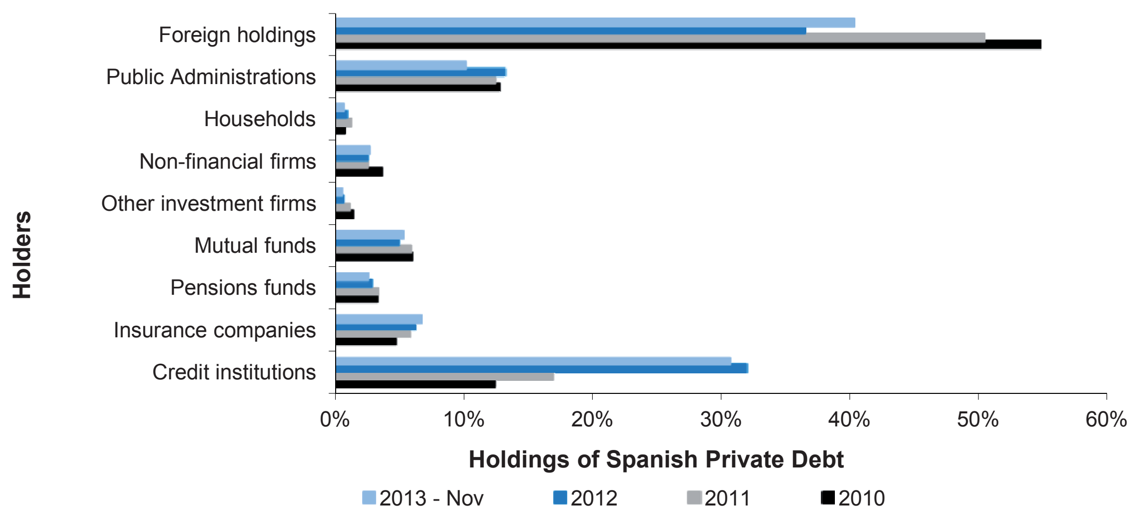
In any case, one of the most common elements of criticism on Spanish banks ahead of the ECB's comprehensive assessment refers to the holdings of public debt. However, these holdings seem to have been declining in 2013 with respect to 2012 from around 34% to 30% of total holdings (Exhibit 2). Importantly, they have declined by

Exhibit 2

Spanish public debt: % of total holdings by owner

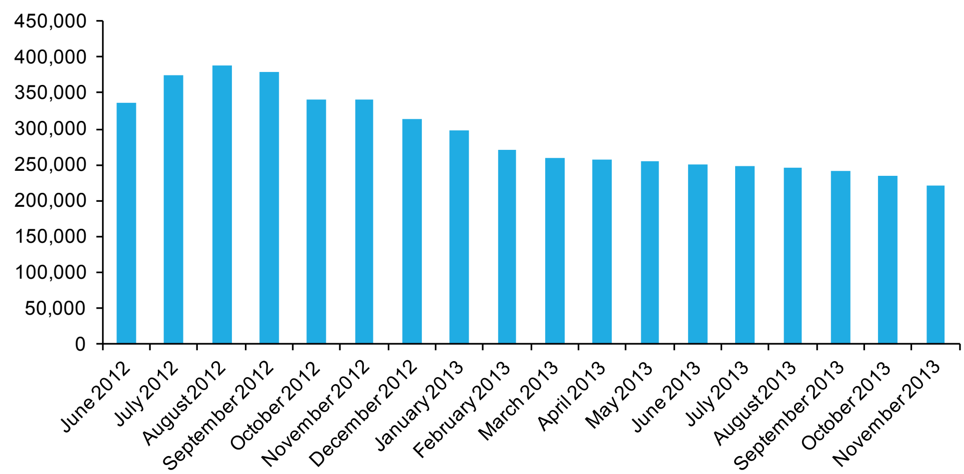


Source: Spanish Treasury and own elaboration.

Exhibit 3

Net borrowing in euro from the Eurosystem

(million of euros)



Source: Bank of Spain and own elaboration.

around 16 billion euros from August to November. Furthermore, the interest in sovereign debt is not exclusive to banks as foreign investors have also augmented their holdings of Spanish public debt from 36% to 41% of total outstanding debt in circulation.

Additionally, the holdings of public debt are closely linked to the refinancing transactions of Spanish and other European banks in the ECB. However, the improved access to external funding by Spanish banks in the recent months has significantly reduced their dependence on ECB financing. As shown in Exhibit 3, from January to November 2013 alone (latest data available) the net borrowing by Spanish banks in the Eurosystem fell by 78 billion euros (from 298.6 to 220.5 billion). From August 2012 to November 2013, the fall has been 168 billion euros.

It should also be noted that it is still unclear how public debt holdings on banks' balance sheets will be treated in the comprehensive assessment conducted by the ECB. However, improved market conditions are helping Spanish banks to diversify their sources of financing with better access to debt markets. One prominent example is the recent issuance of debt by some of the nationalized banks. In particular, Bankia launched in January a senior unsecured bond and allocated 1 billion euros with demand 3.3 times higher than supply. Additionally, BMN also allocated 0.5 billion euros in covered bonds with demand 3 times higher than supply. The case of Bankia is also interesting as improvements in its market valuation are permitting the Spanish Fund for the Orderly Restructuring of Banks (FROB) to significantly reduce the latent losses from the capital injection into Bankia.

Spanish banks *vs.* European peers

In order to better understand how the restructuring and recapitalization process has affected Spanish banks, it is helpful to compare the main structure and performance indicators with their European peers. We make use of the consolidated banking data of the ECB to undertake this analysis. We compare June 2013 (the latest data point available) with June 2012 and compare Spain with 14 other European countries. All banks operating in each country are considered, including the subsidiaries of foreign banks.

Table 1 shows the total number of credit institutions and their total assets. The number of intermediaries has been falling in Spain. In particular, from 200 credit institutions in 2012 to 183 in 2013. There were 68 domestic banking groups in 2012 and 64 in 2013 and foreign-controlled branches and subsidiaries stood at 109 in both years. The number of institutions has been falling in most European countries, although they have generally followed a slower path compared to Spain. Germany has the largest number of credit institutions (1,697 in 2013) given the large number of regional and local banks. In any event, among the countries analyzed, only Austria (along with Germany) has a larger number of credit institutions (692 in 2013) than Spain. Spanish banks represent 15% of the total population of EU-28 banking groups and 19% of the Eurozone groups.

As for size, the Spanish banking sector is the fourth largest of the EU-28 with 3.5 trillion euros in assets in 2013, following the UK (7.2 trillion euros), Germany (7.1 trillion euros), and France (6.5 trillion euros). The assets of Spanish banks represent 10% of total EU-28 banks' assets and 14% of Eurozone banks' assets.

A selection of profitability and efficiency indicators are shown in Table 2. Banks operating in Spain have the largest net interest income in 2013 among the big European banking sectors. In particular, 1.70% of total assets in Spain, 1.40% in Italy, 1.05% in France, 0.90% in the UK and 0.76% in Germany. As for operating expenses, they are in line in Spain with other European counterparts at 1.41% of total assets. The cleaning-up of the Spanish banking sector is expressed by the percentage of impairment losses over total assets. This ratio went from 1.57% in 2012 to 0.98% in 2013. In 2013, impairment losses were also high in Italy (0.84%) and relatively lower in France (0.24%) and Germany (0.15%).

A key competitive feature of banks in Spain is their cost-to-income ratio which is, by far, the lowest among other large sectors in the EU. The ratio was

Table 1

Number of credit institutions and total assets in the European Union

		EU-28	Euro area	BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	FI	SE	UK
Stand alone credit institutions	June 13	4,191	2,969	11	84	1,643	22	23	119	ND	0	36	137	84	648	104	44	166
	June 12	4,249	3,024	11	100	1,663	24	29	132	NC	0	35	136	83	663	102	41	170
Banking groups	June 13	420	330	6	6	54	4	7	64	17	60	3	4	5	44	4	14	11
	June 12	430	351	5	6	56	7	11	68	18	66	4	2	5	45	6	14	11
Credit institutions	June 13	4,611	3,299	17	90	1,697	26	30	183	17	60	39	141	89	692	108	58	177
	June 12	4,679	3,375	16	106	1,719	31	40	200	18	66	39	138	88	708	108	55	181
Domestic credit institutions	June 13	3,593	2,621	11	86	1,622	3	9	74	15	50	5	13	27	629	79	26	89
	June 12	3,651	2,676	10	101	1,640	4	11	91	15	56	6	10	28	641	79	20	91
Foreign-controlled subsidiaries and branches	June 13	1,018	678	6	4	75	23	21	109	2	10	34	128	62	63	29	32	88
	June 12	1,028	699	6	5	79	27	29	109	3	10	33	128	60	67	29	35	90
Total assets of credit institutions in the sample (EUR billions)																		
Domestic credit institutions	June 13	34,426.14	24,654.90	504.94	767.16	7,087.35	281.75	366.38	3,486.54	6,514.41	2,539.73	45.36	88.04	2,345.19	820.72	149.54	1,584.89	7,192.85
	June 12	36,935.67	26,259.18	553.69	814.68	7,806.02	373.43	338.49	3,713.27	6,660.93	2,633.65	83.26	90.68	2,534.12	873.81	147.58	1,640.41	8,007.85
of which:																		
Large	June 13	25,366.18	16,423.53	221.99	634.34	3,723.67	0.00	NA	2,464.90	6,402.09	1,680.36	NA	NA	1,930.52	NA	NA	1,407.46	6,900.86
	June 12	27,292.30	17,437.95	445.63	665.16	4,229.07	0.00	NA	2,514.62	6,370.48	1,784.58	NA	NA	2,093.57	NA	NA	1,479.83	7,709.36
Medium-sized	June 13	7,958.31	7,264.96	279.70	108.92	2,617.00	281.75	364.89	993.88	106.20	847.35	43.71	83.35	411.30	696.61	133.76	161.72	256.42
	June 12	8,515.94	7,820.46	105.64	118.54	2,806.21	373.43	336.10	1,167.70	289.14	834.83	81.00	86.48	437.36	749.33	132.51	149.25	265.12
Small	June 13	1,101.66	966.42	3.26	23.90	746.68	0.00	1.49	27.75	6.13	12.01	1.65	4.70	3.37	124.11	15.79	15.71	35.58
	June 12	1,127.43	1,000.77	2.43	30.98	770.74	0.00	2.38	30.94	1.32	14.23	2.26	4.20	3.19	124.48	15.07	11.33	33.37
Foreign-controlled subsidiaries and branches	June 13	7,499.35	4,017.81	519.96	107.91	295.09	614.78	12.96	268.52	224.88	238.45	31.30	668.79	229.20	304.72	379.85	102.69	2,658.58
	June 12	8,922.48	4,792.39	610.41	117.91	479.33	718.16	70.38	312.95	241.92	259.01	37.08	698.64	302.88	314.71	504.21	100.64	3,345.89

Sources: ECB and national central banks, and own elaboration.

Table 2

Country-level indicators: Profitability and efficiency indicators

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Income (% of total assets)																	
Interest income	June 13	3.94	2.58	2.40	1.54	4.30	3.43	2.38	2.84	5.54	1.69	4.05	3.32	3.57	1.14	2.13	1.84
	June 12	4.58	2.74	2.89	1.76	5.50	3.70	2.66	3.33	5.33	2.25	4.36	3.68	4.52	1.29	2.43	1.86
Net interest income [full sample]	June 13	1.28	1.14	0.76	0.55	1.99	1.70	1.05	1.40	2.33	0.58	1.21	1.66	1.08	0.63	1.01	0.90
	June 12	1.20	1.11	0.71	0.54	2.33	1.78	1.08	1.58	2.31	0.65	1.10	1.64	1.41	0.46	0.96	0.84
Total operating income [full sample]	June 13	2.13	1.68	1.52	1.05	6.07	2.82	2.09	2.84	-0.55	1.49	1.58	3.10	2.17	1.13	1.59	2.10
	June 12	1.50	1.67	1.31	0.71	2.60	2.64	2.12	2.89	2.93	1.32	1.58	3.19	2.70	1.03	1.52	1.77
Expenditure structure (% of total assets)																	
(Total operating expenses)	June 13	-1.21	-1.00	-1.07	-0.67	-1.80	-1.41	-1.41	-1.74	-1.68	-0.71	-1.00	-2.22	-1.46	-0.62	-0.86	-1.33
	June 12	-1.11	-0.99	-0.98	-0.65	-1.80	-1.27	-1.42	-1.74	-1.46	-0.66	-1.00	-2.09	-1.42	-0.51	-0.82	-1.17
Profitability (% of total assets)																	
Operating profits [full sample]	June 13	0.91	0.68	0.44	0.38	4.27	1.41	0.68	1.10	-2.23	0.78	0.58	0.88	0.71	0.51	0.72	0.77
	June 12	0.39	0.69	0.33	0.06	0.80	1.36	0.71	1.15	1.47	0.66	0.58	1.10	1.28	0.51	0.70	0.61
(Provisions) [full sample]	June 13	-0.01	0.00	NC	-0.00	-0.01	-0.14	-0.02	-0.04	-0.02	-0.01	-0.02	-0.02	-0.09	NC	0.01	-0.29
	June 12	0.07	0.00	NC	-0.01	-0.12	-0.15	0.00	-0.03	-0.01	-0.02	-0.01	-0.01	0.06	NC	0.01	-0.32
(Impairment) [full sample]	June 13	-0.17	-0.31	-0.15	-0.69	-2.02	-0.98	-0.24	-0.84	-1.26	-0.09	-0.25	-0.51	-1.30	-0.03	-0.08	NC
	June 12	-0.20	-0.48	-0.12	-0.97	-3.57	-1.57	-0.27	-0.83	-4.23	-0.03	-0.23	-0.38	-1.23	-0.04	-0.09	NC
Profitability and efficiency indicators [full sample]																	
Cost-to-income ratio [%]	June 13	-57.1	-59.3	-70.9	-63.7	-67.3	-50.0	-67.6	-61.0	306.8	-47.9	-63.2	-71.6	-67.2	-54.7	-54.4	-63.4
	June 12	-74.0	-59.0	-74.8	-92.0	-69.3	-48.2	-66.6	-60.3	-49.9	-50.1	-63.3	-65.5	-52.6	-50.1	-53.8	-65.8
Return on equity [%]	June 13	9.4	5.6	5.6	-4.5	ND	8.0	6.8	1.3	-44.2	8.5	5.3	3.3	-7.3	8.5	11.2	7.0
	June 12	3.1	2.7	4.4	-14.2	ND	-4.2	7.1	1.9	-40.4	8.8	5.7	8.3	0.9	9.5	11.8	3.5
Return on assets [%]	June 13	0.56	0.30	0.20	-0.30	ND	0.49	0.35	0.10	-3.56	0.55	0.24	0.25	-0.47	0.37	0.51	0.37
	June 12	0.15	0.13	0.13	-0.85	ND	-0.23	0.34	0.13	-2.16	0.51	0.25	0.58	0.05	0.36	0.50	0.18

Sources: ECB and national central banks, and own elaboration.

A key competitive feature of banks in Spain is their cost-to-income ratio which is, by far, the lowest among other large sectors in the EU. The ratio was 50% in 2013, compared to 70.9% in Germany, 67.6% in France, 63.4% in the UK, and 61% in Italy.

50% in 2013, compared to 70.9% in Germany, 67.6% in France, 63.4% in the UK, and 61% in Italy.

The effects of the restructuring and recapitalization process can also be seen by looking at profitability indicators. The return-on-assets (RoA) of banks in Spain has gone from -0.23% in 2012 to 0.49% in 2013. This is also the largest among similar-size peers with banks in Germany showing an RoA of 0.20%, 0.10% in Italy, 0.35% in France, and 0.37% in the UK. This relative better performance of banks in Spain during 2013 can be explained, inter alia, by the combination of the restructuring and recapitalization process, the financial deleveraging process, and the improvement of market conditions.

As for specialization, Table 3 displays the weight of some balance sheet items as a percentage of total assets. Total loans and advances represent 64.63% of assets in Spain, a level of specialization in lending activities which is comparable to that of Italian banks (66.82%), being a bit lower in Germany (60.67%), France (56.16%) and the UK (40.17%), countries where investment banking has a higher weight in relation to retail activities.

In the previous section, we elaborate on the holdings of public debt by Spanish banks. Table 3 offers some insight on total holdings of debt (private and public) and show that banks in Spain are at similar levels as other EU peers. In particular, total debt instruments were 17.12% of banks' assets in Spain in 2013, being 24.20% in the UK, 18.66% in Germany, 18.06% in Italy, and 12.48% in France.

Another key indicator in Table 3 is the funding base stability ratio, defined as "the ratio of total deposits (other than from credit institutions) to the sum of total deposits and total debt certificates". This ratio measures the liquidity risk by looking at the weight of the more stable funding sources (deposits) over total funding. Interestingly, this ratio was 68.12% in Spain compared to 60.86% in France, 60.46% in the UK, 59.16% in Germany, and 55.01% in Italy.

Table 4 shows a number of asset quality indicators. The main indicator is the ratio "total doubtful and non-performing loans (including debt securities) per total loans and advances and total debt instruments. One interesting feature of this indicator is that it does not only look at non-performing loans but also to the quality of other debt indicators. The ratio was 6.69% in Spain in 2013, lower than in Italy (11.68%) but larger than in France (4.52%), Germany (1.86%) and the UK (1.86%).

Taking as a reference the Tier 1 capital ratio, we observe that banks in Spain have increased their solvency from 9.65% in 2012 to 10.76% in 2013. This shows that the recapitalization process has put banks in Spain at similar solvency levels as other European peers with the Tier 1 ratio being 10.92% in Italy, 12.64% in France, 13.18% in the UK and 14.78% in Germany.

Finally, we compare the solvency status in the EU banking sectors in Table 5. Taking as a reference the Tier 1 capital ratio, we observe that banks in Spain have increased their solvency from 9.65% in 2012 to 10.76% in 2013. This shows that the recapitalization process has put banks in Spain at similar solvency levels as other European peers with the Tier 1 ratio being 10.92% in Italy, 12.64% in France, 13.18% in the UK and 14.78% in

Table 3

Country-level indicators: Selected balance sheet items

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Assets of reporting banks (% of total assets)																	
Total loans and advances [full sample]	June 13	63.99	69.85	60.67	41.45	68.87	64.63	56.16	66.82	79.38	70.04	71.96	71.09	72.48	47.00	70.07	40.17
	June 12	58.20	67.35	60.17	41.80	72.62	67.63	54.02	67.09	77.23	67.83	68.99	70.70	74.07	36.89	62.54	38.06
Total debt instruments [full sample]	June 13	18.29	13.45	18.66	15.17	17.28	17.12	12.48	18.06	9.80	20.13	10.93	15.56	16.71	11.35	10.36	24.20
	June 12	17.28	12.84	17.83	16.38	13.89	13.45	12.55	15.24	11.64	18.05	10.35	15.52	15.54	8.39	10.24	22.66
Total equity instruments [full sample]	June 13	0.52	0.58	3.54	0.17	0.47	0.93	2.94	1.00	0.35	1.73	0.96	1.15	1.03	0.61	1.91	2.13
	June 12	0.45	0.46	2.91	0.33	0.35	0.96	2.06	0.95	0.32	1.47	1.03	1.16	0.78	0.51	1.27	1.70
Value of equity																	
Total equity (as % of total assets) [full sample]	June 13	5.99	5.32	4.42	6.56	7.86	6.14	5.10	7.05	8.04	6.51	4.50	7.52	6.37	4.35	4.57	5.30
	June 12	4.83	4.73	3.86	5.98	ND	5.40	4.81	6.87	5.34	5.76	4.29	7.02	5.95	3.74	4.21	5.00
Tangible Equity / Tangible Total assets	June 13	5.75	4.87	4.17	6.45	7.19	5.01	4.44	5.56	7.96	6.34	4.29	6.93	6.14	4.25	4.10	4.70
	June 12	4.62	4.28	3.62	5.88	ND	4.39	4.08	5.39	4.84	5.59	4.06	6.36	5.71	3.66	4.21	4.44
Liquidity ratios (% of total assets)																	
Cash and trading assets ratio	June 13	14.39	NC	32.85	41.45	5.70	11.97	31.98	9.49	9.28	6.85	14.93	7.95	3.70	NA	26.14	49.15
	June 12	20.29	NC	36.09	39.53	5.66	12.79	31.70	11.32	8.17	10.71	16.49	8.69	3.98	NA	27.22	51.48
Cash	June 13	25.84	NC	39.56	48.66	9.50	22.43	37.72	20.90	11.67	19.94	23.27	16.78	17.27	NA	28.36	NA
	June 12	31.15	NC	41.93	45.62	12.48	20.66	37.27	20.57	11.26	21.02	24.11	17.26	15.16	NA	28.92	51.48
Funding base stability ratio (denominator other than total assets)	June 13	71.99	33.70	59.16	57.11	84.67	68.12	60.86	55.01	66.59	45.24	59.71	58.09	70.27	43.67	44.70	60.46
	June 12	68.81	31.42	55.88	54.23	77.11	66.01	59.54	51.88	76.74	40.55	55.90	55.75	65.59	38.47	42.42	56.57

Sources: ECB and national central banks, and own elaboration.

Table 4

Country-level indicators: Asset quality indicators

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Doubtful and nonperforming loans and loss provisions (%)																	
(Gross) Total doubtful and non-performing loans (loans and debt securities) per Total loans and advances and Total debt instruments	June 13	4.98	3.98	1.86	16.78	21.86	6.69	4.52	11.68	18.83	NA	2.55	4.60	7.57	0.70	0.78	1.86
	June 12	4.62	3.67	1.92	0.00	15.60	5.98	4.57	10.20	13.82	NA	2.63	4.26	6.36	0.81	0.90	2.06
(Net) Total doubtful and non-performing loans (loans and debt securities) per Total own funds for solvency purposes	June 13	47.05	31.44	NA	106.00	143.49	58.29	34.19	86.26	110.66	NA	25.28	13.71	40.61	NA	8.49	6.62
	June 12	44.34	47.98	NA	NA	NA	34.89	35.21	73.65	122.78	NA	26.71	17.54	38.04	NA	9.29	9.36
Total loss provisions per Total (Gross) Doubtful and Non-Performing Loans	June 13	28.28	42.63	NA	51.65	48.67	43.53	48.64	39.53	47.32	NA	35.82	72.34	54.08	NA	38.65	66.42
	June 12	27.31	8.23	NA	NA	50.26	61.12	51.28	38.43	44.89	NA	36.13	64.37	51.34	NA	40.22	61.36

Sources: ECB and national central banks, and own elaboration..

Table 5

Solvency indicators

		BE	DK	DE	IE	GR	ES	FR	IT	CY	LU	NL	AT	PT	FI	SE	UK
Solvency ratios																	
Overall solvency ratio	June 13	18.83	19.29	18.36	20.20	11.67	11.97	14.65	13.85	14.65	22.16	14.73	14.85	13.12	15.83	12.23	18.15
	June 12	17.50	16.93	16.47	19.12	NA	11.43	13.52	13.32	9.72	20.82	14.05	13.73	12.28	15.27	11.84	16.44
Tier 1 ratio	June 13	16.30	17.63	14.78	17.38	11.38	10.76	12.64	10.92	13.24	19.08	12.78	11.53	11.71	15.00	11.18	13.18
	June 12	14.81	15.13	12.82	16.70	NA	9.65	12.52	10.43	8.78	17.61	12.15	10.59	11.04	14.57	11.15	11.75
Capital buffer (%)	June 13	10.83	11.29	10.36	12.20	3.67	3.97	6.65	5.85	6.65	14.16	6.73	6.85	5.12	7.83	4.23	10.15
	June 12	9.50	8.93	8.47	11.12	NA	3.43	5.52	5.32	1.72	12.82	6.05	5.73	4.28	7.27	3.84	8.44
Capital requirements (% of capital requirements)																	
Total capital requirements for credit dilution and delivery risks	June 13	84.53	83.72	85.34	80.92	89.43	85.80	84.42	85.80	88.46	90.47	68.94	88.24	90.51	81.29	55.33	66.68
	June 12	85.65	83.07	85.10	82.66	87.14	87.46	85.63	85.91	90.10	88.80	71.39	88.02	91.26	86.76	60.05	65.97
Total capital requirements for position	June 13	7.01	8.71	5.27	1.16	2.98	3.93	4.69	1.89	1.94	0.88	2.68	2.62	1.63	1.59	3.16	7.75
	June 12	9.07	11.58	9.41	2.70	1.16	4.33	3.30	NA	1.82	8.68	0.22	2.93	1.83	2.89	1.58	3.56
Total capital requirements for operational risks	June 13	10.08	9.33	9.55	4.82	7.59	10.17	9.74	9.54	9.13	6.36	8.86	9.17	7.32	8.48	6.51	10.43
	June 12	0.20	9.18	9.29	5.69	8.94	8.95	9.60	8.89	9.12	6.52	8.35	9.03	7.18	7.57	6.37	10.13
Other capital requirements	June 13	1.14	-0.13	0.02	9.45	0.00	0.19	0.99	2.93	0.00	2.52	19.44	0.12	0.69	4.74	34.84	2.02
	June 12	NA	-0.13	0.01	6.94	0.01	0.36	0.00	3.48	0.00	3.89	17.07	0.04	0.02	0.15	29.86	0.72

Sources: ECB and national central banks, and own elaboration.

Germany. It is important to note that Spanish banks have been able to further increase their solvency ratios beyond the period shown in the exhibit. In particular, with the regulations approved towards the end of 2013 that will permit Spanish banks to increase their own funds by around 30 billion euros after considering the effects of deferred tax assets. Additionally, some anecdotal evidence from the "Banking structures report" published by the ECB in November 2013 suggests that Spain´s banks are reducing the risk profile of their assets at a faster pace. In particular, since the financial assistance program was established in Spain, the decline in risk-weighted assets which took place in Spain was a reduction of 223 billion euros in 2012 alone.

Overall, the indicators reveal that the restructuring and recapitalization of the Spanish banking sector is bearing fruit. Banks in Spain have maintained their competitive advantage, being among the most efficient EU banking sectors, are among the best performers in terms of profitability, and have improved their liquidity and solvency ratios substantially over the last two years. Nevertheless, the post crisis operating environment, characterized by deleveraging and more stringent regulatory requirements, will mean that Spanish banks must continue to boost cost and revenue efficiency to improve profitability.

References

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