THE STRESS TESTS RESULTS PROVE THE SOUNDNESS AND SOLVENCY OF THE SPANISH FINANCIAL SYSTEM

ALL SAVINGS BANKS OBTAIN SATISFACTOY RESULTS IN A DISCRETE ECONOMIC ENVIRONMENT AND THE VAST MAJORITY EVEN IN THE MOST EXTREME STRESS SCENARIO

THE BENEFITS OF THE CONSOLIDATION PROCESS UNDERTAKEN BY THE SPANISH SAVINGS BANK SECTOR ARE YET TO BE TAKEN INTO CONSIDERATION

The Spanish Savings Banks have always maintained a clear commitment to transparency, which is an essential requirement for the correct development of the financial markets. Hence, the publication of the stress tests results, monitored by the Committee of European Banking Supervisors (CEBS), in coordination with the European Central Bank (ECB) and that have been conducted by the Bank of Spain, have been much welcomed.

The Spanish Confederation of Savings Banks (CECA) and its associates are very satisfied, since Spain is the country that has submitted more entities to such examination, among which all Savings Banks, and because the results have shown, beyond any doubt, the soundness and solvency of the Spanish Financial System.

It has to be taken into consideration that such stress tests are largely comprehensive and prove the capacity of the financial institutions to face a scenario of general deterioration of the economy (rising unemployment, credit failure, devaluation of their investments, etc.).

Moreover, these tests have been conducted in the middle of the restructuring of the Sector, and therefore, in some cases, the benefits of the consolidation process of the Savings Banks are yet to be absorbed, such as the rationalization of the branch network, human resources, technological infrastructures and business lines that will certainly improve the solvency ratio of the entities involved in such process as long as the different stages are achieved.

In addition to these test results, the impact of the recent legislation reform should be taken into account. Such reform makes it easier for the Savings Banks to raise capital and therefore reinforces their capacity to confront possible difficult environments.

In each of the EU Member States, the requirement was to position its financial institutions in descending order according to their total assets to cover, at least, fifty percent of their financial system. Finally, 91 European financial institutions that represent 65 percent of the total assets under management within the EU have been submitted to this examination process.

Spain has gone even further with such requirement, being the country where the highest number of tests has been conducted, in particular, concerning twenty-seven entities: thus, nineteen Groups of Savings Banks and eight Commercial Banks, which means that, according to total assets as of March 2010, the stress test has been made over institutions accounting for 100 percent in the case of the Savings Banks and 97 percent of the total assets of Commercial Banks, that is to say the stress test, as a whole, has been passed over financial institutions that represent 94 percent of the Spanish financial system.

To carry out such stress test, different macroeconomic scenarios have been considered, including major variables and adverse conditions. In this sense, the first scenario assumes a three per cent reduction in the European Commission PIB forecast and the potential loss of 36 per cent decrease in housing value whereas, the second scenario, in addition, takes into account the losses associated to a further decline of the value of the EU countries sovereign debt.

In the most extreme scenario, the projected outcome of the *Tier 1* ratio of the Savings Banks for 2011 is very satisfactory for most of the analysed entities and only four Groups of Savings Banks, out of the nineteen tested, do not reach the minimum target required in the test of six percent, that is fifty per cent over the current legal minimum.

Out of the total, only four of the Savings Banks, all of them immersed in a consolidation process, do not reach, in the extreme circumstances considered in the test, the target of six percent of their Tier 1. It has to be brought to the attention, the future wide horizon that is referred to in this simulation in order to register this capital ratio and the fact that all consolidation process count on clear guidelines, viable projects submitted to the Bank of Spain and strong management teams committed to its achievement, although they may require a maturity period of at least two years until the benefits will start to flourish. Having considered the extreme negative scenarios to happen in 2011, such benefits cannot possibly be materialised.

It is worth underlining that the solvency of the Savings Banks, even before conducting the stress test, is highly satisfactory as all Tier 1 capital ratio of the entities and groups now analyzed, already in 2009, exceeded by far the minimum required by law, even doubling it, and furthermore that in all scenarios foreseen, all Savings Banks are over four per cent.