

**PRESS RELEASE**

Madrid, 31 July 2012

Independent valuation of the Spanish banking system

Today marks the completion of another milestone of the Independent Valuation of the Spanish Banking Sector. The first part of the accounting review conducted by the auditing firms has been delivered to the Spanish authorities, as foreseen, the 31 July. The rest of this Independent Valuation process is on track and, as announced, final results will be delivered in the second half of September. This process is one of the most relevant steps of a holistic strategy to restore and strengthen the soundness of the Spanish banking sector. It is also an integral part of the *Memorandum of Understanding on Financial-Sector Policy Conditionality* (MoU) approved by the Eurogroup on 20 July¹.

The Independent Valuation of the Spanish Banking Sector is comprised by the following elements:

1 A top-down stress test of the Spanish banking sector conducted by two independent consultants (Oliver Wyman and Roland Berger), whose results were released on 21 June². Previously, the IMF in collaboration with the Bank of Spain under the framework of the Financial Stability Assessment Programme, conducted another top-down stress test exercise, whose results were released on 8 June³.

After the publication of the results of the top-down exercise, a more detailed examination and analysis to encompass a thorough and granular evaluation of bank portfolios was launched.

2 A bottom-up exercise (a bank-by-bank stress test), which is meant to determine the precise capital needs of individual banks going forward and which will encompass a thorough and granular asset quality review of bank portfolios. This exercise began at the end of June and will finish in the second half of September. It is being conducted by an external consultant (Oliver Wyman), based on the inputs from four independent auditors (Deloitte, PwC, Ernst & Young and KPMG).

The mandate of the four auditors –an accounting review of the credit loan portfolio of entities- was extended in order to capture the data required for an economic value assessment of the assets. This will include a wider (basically random) sample, necessary to assess the systems and appropriateness of loan origination, classification and management of impaired assets to check and adjust the current classification and risk parameters. The information obtained from the auditors will be combined with

additional bank specific data, as requested by the consultant, from official authorities and directly from banks through direct interaction as needed. In addition, a rigorous appraisal of the value of collateral and foreclosed assets value will be required to fully inform a comprehensive asset quality review carried out by the external consultant.

As of 31 July the auditors have completed the first part of the accounting value assessment of credit portfolios and foreclosed assets of the largest Spanish banking groups which started in early June.

Due to the holistic nature of the exercise, the results delivered to the authorities today will not be released publicly as they are only an intermediate step in the whole process. In the second half of September 2012, the results of the entire bottom-up Stress Test will be published.

This process, involving five independent external firms (the consultant and the four auditors) is coordinated and overseen by another external consultant (the Boston Consulting Group), and has been scrutinized and guided since its inception by the European Commission, the ECB, the EBA and the IMF, apart from the Spanish authorities. A Strategic Coordination Committee ("SCC") and an Expert Coordination Committee ("ECC"), with the participation of those mentioned national and international authorities, have been created for this purpose and are already up and running. This new governance structure, included in the aforementioned MoU, replaces the former Steering Committee and Advisory Panel.

¹ http://www.bde.es/webbde/en/secciones/prensa/info_interes/mou_en.pdf

² http://www.bde.es/webbde/en/secciones/prensa/info_interes/reestructuracion.html

³ <http://www.imf.org/external/pubs/ft/scr/2012/cr12137.pdf>