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AMENDMENT OF THE CURRENT BANKING PROVISION SYSTEM

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The Bank of Spain ("BoS") has recently published a proposal of amendment which intends to simplify the system of accounting provisions for Spanish financial institutions (the "Spanish Lenders"), the main difference being the shortening of the periods for the provisioning of credits, and the amendment of the valuation of assets acquired by Spanish Lenders in satisfaction of payments linked to defaulted credits.

To date, the system imposed by the BoS with regards to the calculation of the deterioration of the value of the credit is set forth in the Circular 4/2004, of 22 December (the "Circular"), and entails the application of certain minimum coverage percentages which result from a schedule of progressive deterioration of the credit/debt. These calculations have historically taken into account the specific nature of the credit to tailor the calendar of deterioration, thus being up to five different calendars and coverage percentages used by Spanish Lenders.

On 26 May 2010, the BoS has announced and released a public consultation addressed to the Spanish Lenders, with the proposed amendments to the Circular, which if finally enacted, would comprise: (i) the creation of a single calendar of deterioration for all doubtful credits or "Créditos Dudosos" (the "Doubtful Credits"); (ii) the reduction of the schedule of provision of the losses caused by Doubtful Credits; and (iii) a specific treatment for the valuation/provision of real estate security and reposessions carried out by such Lenders.

If the Circular is finally amended, among others the following changes will apply:

1. Creation of a single calendar and unique coverage percentages applicable to all Doubtful Credits. The amount of any Doubtful Credit shall be provisioned by Lenders as loss following the percentages and time-frames set forth in the chart below (Chart 1).

From the date of first default	Percentage of the credit to be provisioned as a loss
Up to 6 months	25%
Default between 6 and 9 months	50%
Default between 9 and 12 months	75%
Any default beyond 12 months	100%

For the purposes of applying the above percentages, the date of application would be that of the earliest payment default or instalment defaulted.

2. With regards to credits secured by rights *in rem* over real estate properties, the value of the property securing a Doubtful Credit shall be reduced in the percentages set forth in the chart below, in accordance with the specific type of the property (Chart 2):

Type of property	Value to be reduced
Fully constructed main residence of the debtor	20%
Rustic land, offices and business premises in general	30%
Any other fully constructed residential properties	40%
Plots of land and any other real estate assets	50%

The provisioning of losses of the above referred credits would be calculated taking into account the outstanding amount of the credit exceeding the value of the secured property reduced in the percentages set out in Chart 2, and subsequently applying the rules of provision set forth in Chart 1 above.

3. The last of the amendments to the Circular would affect any reposessions/repayments of credits through real estate assets. In this respect, the value of any assets acquired by Spanish Lenders in satisfaction of their credits would be reduced by 10% on the date of acquisition. Furthermore, once the asset enters into the balance sheet of the Lender, and unless the Lender receives any offers from potential buyers regarding the asset received in payment which may be indicative of a higher value, the asset should be provisioned in the balance sheet in accordance with the chart below (Chart 3):

Time elapsed from the date of acquisition the asset by the Lender	Value of the asset to be reduced in the balance sheet
More than 12 months	20%
More than 24 months	30%