CECA Sector

Regulatory and financial outlook

November, 11th 2015
Restructuring process
CECA Sector

BRANCHES
14,636
47% of SFS

EMPLOYEES
83,704
42% of SFS

DEPOSITS
576,730 EUR Mill.
42% of SFS

CREDITS
578,425 EUR Mill.
40% of SFS

TOTAL ASSETS
929,643 EUR Mill.
36% of SFS

AVERAGE TOTAL ASSETS
93,087 EUR Mill.

Stock listed entities
Sold to BBVA in 2014

Restructuring process
CECA Sector
Law 26/2013 on savings banks and banking foundations

Reform of the Savings Banks regime

- **Delimitation of the activity**: entities engaged in deposit taking and lending with a business scope restricted to one autonomous region, or neighboring provinces with a maximum of 10.

- **Stricter incompatibility regime**: executives of political parties, trade unions and professional associations, elected representatives of government, senior officials of the government, or persons which held that position in the last two years, cannot be members of the governing bodies.

- **Transformation into banking foundations**: the savings bank will have to transfer its financial activity to a credit institution when the value of its assets exceeds 10 billion euros, or its market share in deposits in its autonomous region exceeds 35%.

New figure: banking foundations

- **Definition**: Foundation that maintains a holding in a credit institution that reaches, directly or indirectly, at least 10% of the capital or voting rights, or allows it to appoint or remove at least one member of its board of directors.

- **Purpose**: development of their social project and management of their participation in the financial institution.

- **Requirements depending on their participation in credit institutions**:
  - If it exceeds 30% or grants control: obligation to prepare a management protocol for the financial participation, and a financial plan.
  - If it exceeds 50% or grants control: in addition, the financial plan should include a plan for investment diversification and risk management, and a reserve fund has to be created (the fund will not be compulsory if the plan for diversification includes a divestment strategy in order to reduce the participation below 50% within five years).
  - If it does not reach 10% and cannot appoint at least one member of the board of directors, the banking foundation will be transformed into a general-regime (regular) foundation.
Royal Decree 877/2015 on reserve fund

**Subjective scope of application**
- Banking foundations whose participation in a credit institution, directly or indirectly, is equal or higher than 50% or grants control unless the foundations have established a divestment strategy in its diversification plan to reduce their stake to non-control levels.

**Content**
- The **minimum target amount** of the reserve fund will be a **percentage of the total RWAs** of the group or consolidated subgroup whose parent company is the credit institution. Adjustments may be applied in different circumstances.
- The fund must be invested in financial instruments of **high liquidity and credit quality**, and may be allocated within the banking foundation itself or through a **holding company**.
- The target amount of the fund should be reached in a **maximum of 5 years** (with the possibility of extending this up to 2 years, if the Bank of Spain authorizes it).
- Banking foundations have a period of **three months** to submit the new (or updated) financial plan.

**Timeline**
- The fund must be invested in financial instruments of **high liquidity and credit quality**, and may be allocated within the banking foundation itself or through a **holding company**.
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**Draft regulation related to savings banks or banking foundations**

**Draft Order on Annual Corporate Governance Report and accounting obligations**
- Details the content and structure of the Annual Corporate Governance Report of savings banks, and its disclosure requirements. Also, it develops corporate governance and remuneration rules for listed companies and savings banks.
- Establishes the rules and financial information templates applicable to banking foundations.
- Open hearing in April 2015.

**Draft Circular on Annual Corporate Governance Report and Annual Remuneration Report**
- Develops the content of the Annual Corporate Governance Report and Annual Remuneration Report of savings banks which do not issue securities listed for trading on Official Stock Markets.
- Establishes banking foundation obligations as shareholders of credit institutions.
- Open hearing in October 2014.
II. Other laws

Royal Decree-law 11/2015 on ATM cash withdrawal fees

- It aims to prevent clients to pay two different fees in ATM cash withdrawals.
- The ATM (automatic teller machine) owner (i) will not charge fees to the customers who withdraw cash using a debit card, without prejudice the fee applied by the card issuer; and (ii) before cash withdrawal it will inform of the fees to pay by the card issuer.
- The card issuer and the ATM owner can reach an agreement on the fee to be paid by the card issuer (interchange fee). If agreements are not reached a standard fee will be applied across the country.
- It lays down rules and procedures related to the recovery and resolution of credit institutions and investment firms based in Spain. The main aspects are the following:
  - Compulsory preparation of recovery and resolution plans.
  - Among the resolution tools, the bail-in by the shareholders and creditors of the failing institution may be applied for any of the following purposes:
    - to recapitalize an institution or an entity.
    - to convert debt to equity or reduce the principal amount of claims or debt instruments.
  - National resolution fund: when a contribution to loss absorption and recapitalization of at least 8% of total liabilities (including own funds) has been made by the shareholders and creditors, and that amount is not enough to restore the financial situation of the entity, the national resolution fund can contribute an amount which will not exceed 5% of the total liabilities (including own funds) of the institution under resolution.

Law 11/2015 on recovery and resolution of credit institutions and investment firms

- It completes the adaptation of Spanish laws to the EU solvency framework and develops the supervision regime of financial entities integrated in financial conglomerates.
- The main issues addressed in the project relate to: (i) calculation of capital requirements for credit risk, (ii) capital buffers, (iii) governance and internal organization, (iv) assessment of fit and proper criteria, (v) incompatibilities and remuneration regime, (vi) delegation of the provision of services or the exercise of their functions, (vii) requirements related to capital adequacy assessment and the supervisory review process and evaluation, and (viii) disclosure requirements.
- When approved, current Solvency Circular (Circular 3/2008 of the Bank of Spain) will be repealed.
CAPACITY ADJUSTMENT

Process of capacity adjustment continues in the first half of 2015, although at a lower pace.

Since 2008, the number of employees has fallen by 35% and the number of branches by 38%.

The reduction in the number of employees has been higher in central services.
The process of credit deleveraging continues but at a more moderated pace.

**BUSINESS ACTIVITY**

**Deposits from non financial corporations and households**
- Annual variation:
  - jun-13: -4.4%
  - jun-14: 2.9%
  - jun-15: -3.2%

**Off-balance-sheet customer funds**
- Annual variation:
  - jun-13: 15.9%
  - jun-14: 24.8%
  - jun-15: 24.2%

**Credit to non financial corporations and households**
- Annual variation:
  - jun-13: -20.6%
  - jun-14: -7.3%
  - jun-15: -6.7%

Deposits decreased in June 2015 due to the low profitability of term deposits.

This continues promoting a strong increase in off-balance-sheet customer funds.

The process of credit deleveraging continues but at a more moderated pace.
CECA sector’s NPL ratio performed favourably since the end of 2013...

...mainly as a result of the decline in non-performing loans

Impairment losses fall significantly from the high levels of 2012 and 2013

The cost of risk fell to 0.6% in the second quarter of 2015 from 0.9% at the end of 2013

(*) Impairment losses on financial assets and others over total assets
RESULTS

Consolidated profits improved from the low levels of 2013

...due to the decrease of asset impairment losses and the rise of gross income

Positive performance of income due to fees and commissions (up to 21 b.p. over 2013)

With a similar increase in net interest margin over the period
The return on equity stands at a high level, up to 2.4 p.p. over 2013.

The return on assets was 0.46% in 2Q 2015, still far from pre-crisis levels.

The cost to income ratio stands at 50.7% in 2Q 2015, 8 p.p. less than in 2013.

Substantial improvement of employee’s productivity in 2Q 2015.
SOLVENCY

Improvement of the capital position both at a quantitative and qualitative level

CET1 ratio reached 12.39% by the end of 2014

The increase of CET1 ratio amounts to 1.8 p.p. in 2014...

...due to an increase of own funds (0.8 p.p.) and a decrease of RWAs (1 p.p.)