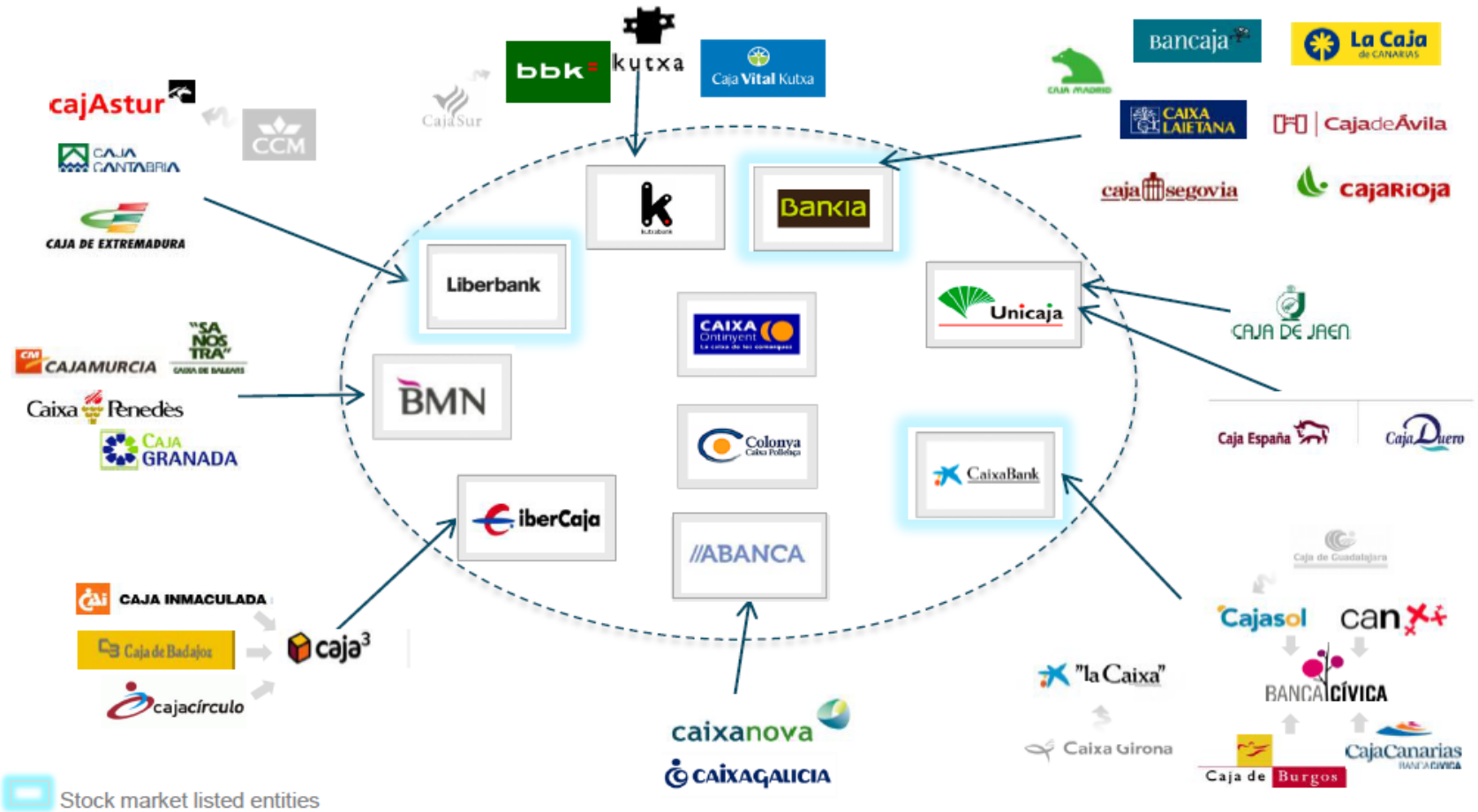


CECA Sector

Regulatory and financial outlook

April, 25th / 2017



BRANCHES
12,891
45% of SFS

EMPLOYEES
74,742
39% of SFS

DEPOSITS
514,865 EUR Mill.
38% of SFS

CREDITS
508,670 EUR Mill.
36% of SFS

TOTAL ASSETS
800,136 EUR Mill.
33% of SFS

AVERAGE ENTITIES SIZE
84,858 EUR Mill.

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

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**.

Order 2575/2015 on Annual Corporate Governance Report and banking foundation accounting obligations

Report

- It details the content and structure of the Annual Corporate Governance Report of banking foundations, and its reporting and disclosure requirements.

Accounting

- Rules and financial information templates applicable to banking foundations are established. Bank of Spain is authorized to develop them.

Circular Bank of Spain 6/2015 on Annual Corporate Governance Report and Annual Remuneration Report of savings banks and banking foundation obligations

Reports

- It 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 the Stock Exchange.

Banking foundations

- It establishes the content of: the management protocol, the financial plan and the reinforced financial plan, which some banking foundations have to develop. It also establishes the criteria for concerted action.

Circular Bank of Spain 7/2016 of accounting information for banking foundations

Content

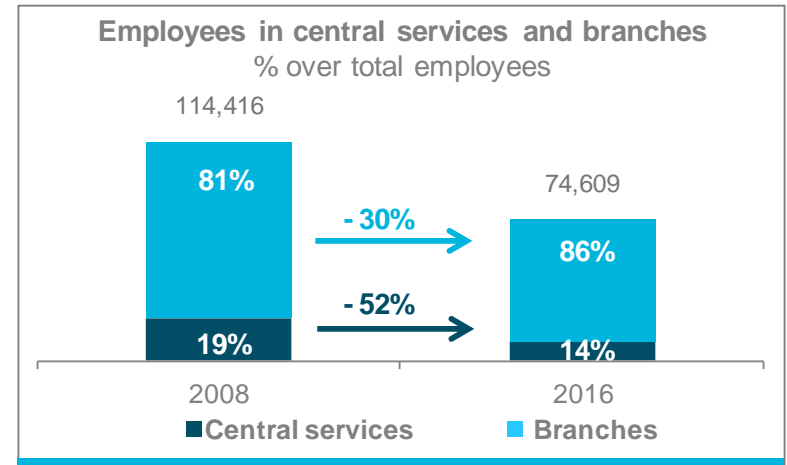
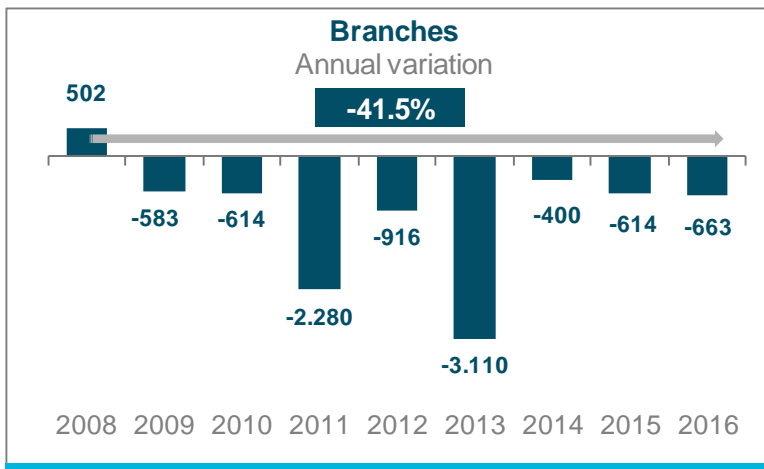
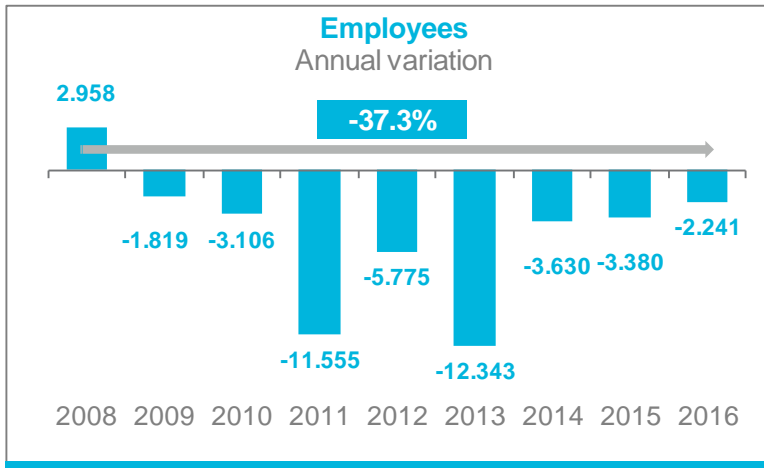
- It develops standards and models of financial information for banking foundations.
- It adapts accounting regulation of non-profit entities to the specific characteristics of banking foundations. Additionally, banking foundations will apply the General Accounting Plan, complemented with sectoral adaptations and Resolutions of the Institute of Accounting and Audit.

Draft Royal Decree regulating the reserve fund of banking foundations

Content

- It proposes to extend the maximum period to reach the target amount of the reserve fund from 5 to 7 years.
- It modifies the minimum percentage (from 50 to 30%) of the amounts received from credit institutions as dividends to be allocated to the reserve fund.

CAPACITY ADJUSTMENT



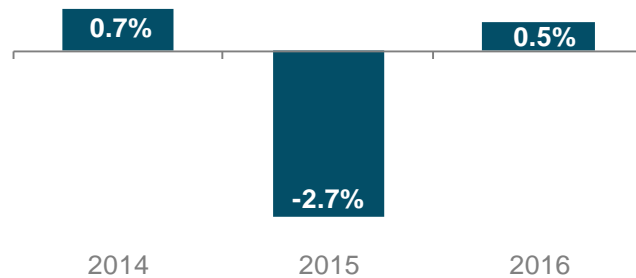
The capacity adjustment continues in 2016...

...with a fall in the number of branches slightly higher than in 2015 and a less intense decrease of employees.

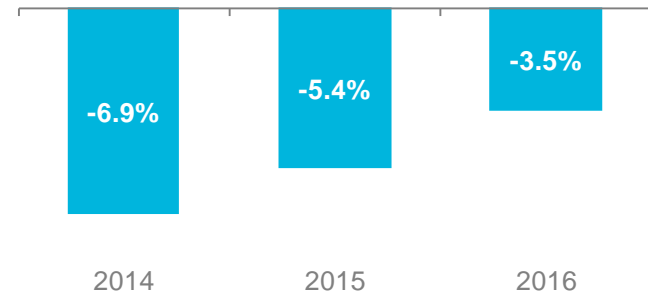
Since 2008, the number of employees in central services has been reduced by more than a half, and branches by 31%.

BUSINESS ACTIVITY

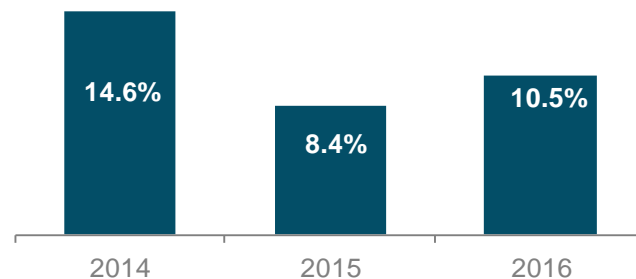
Deposits from non financial corporations and households
Annual variation



Credit to non financial corporations and households
Annual variation



Off-balance-sheet customer funds
Annual variation

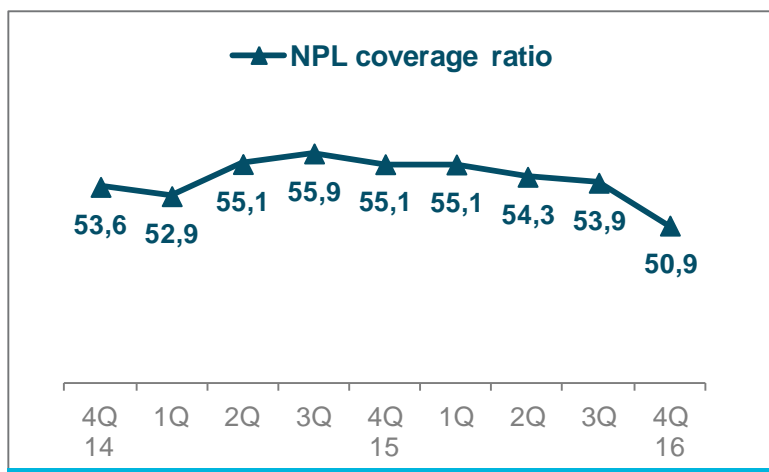
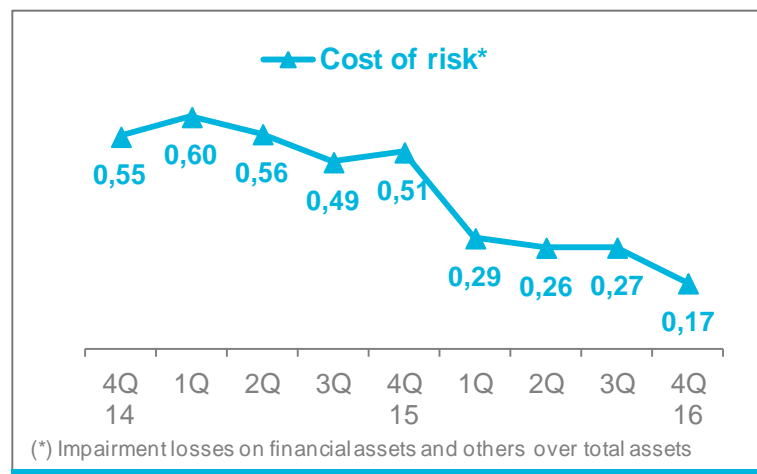
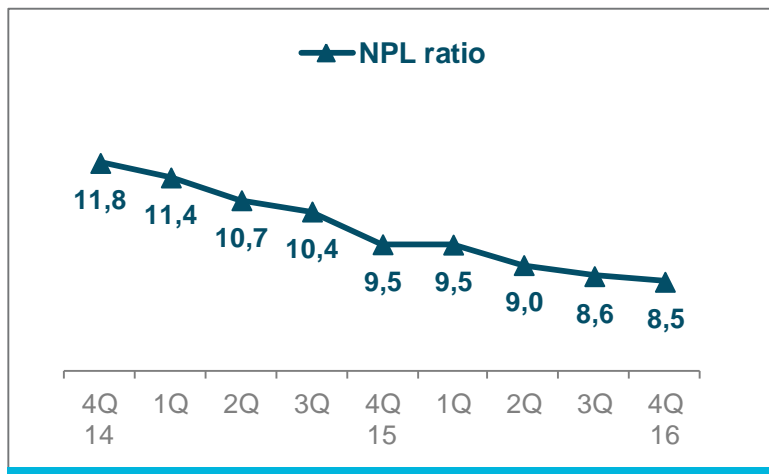


Small increase in retail deposits in 2016, despite the channeling of term deposits towards...

... off-balance-sheet customer funds, which are again gaining momentum in the second half of 2016.

Credit deleveraging process continued to moderate.

CREDIT RISK



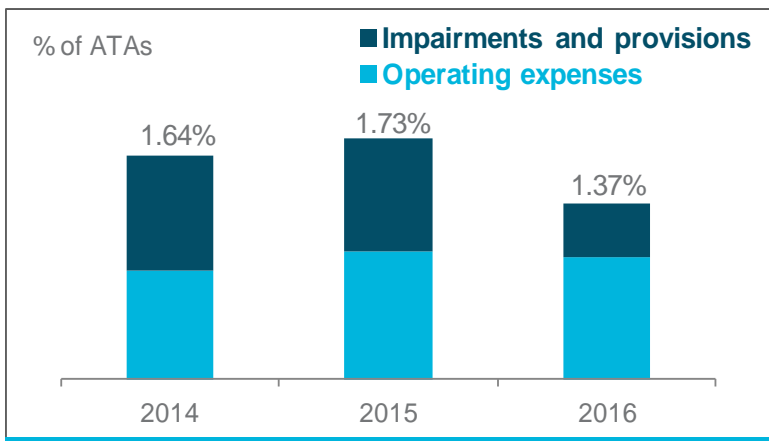
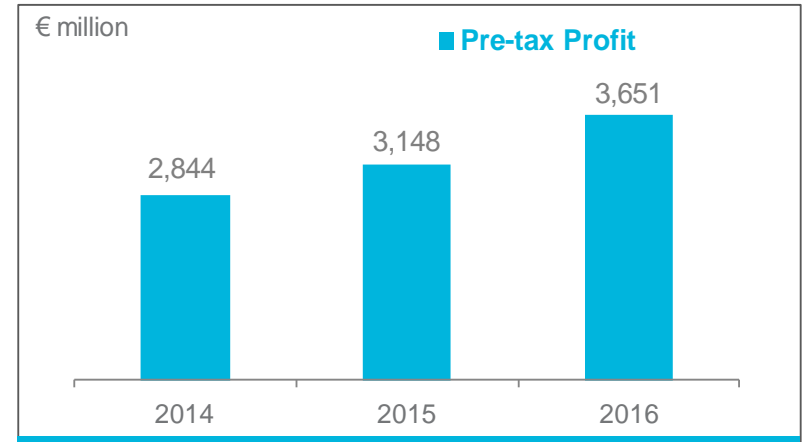
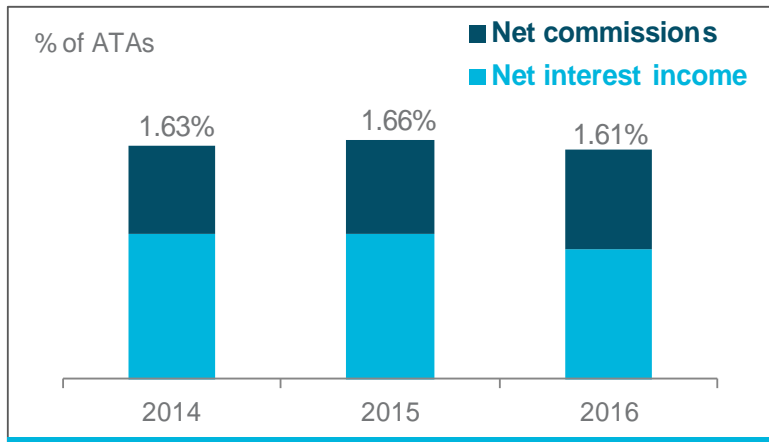
The continuous fall of non performing loans at a more intense pace than the total credit, allows the decrease of NPL ratio.

The entry into force of the new “Annex IX of CBE 4/2004” reveals a high level of coverage for NPL ...

...leading to a decrease in the NPL coverage ratio and the cost of risk.



RESULTS

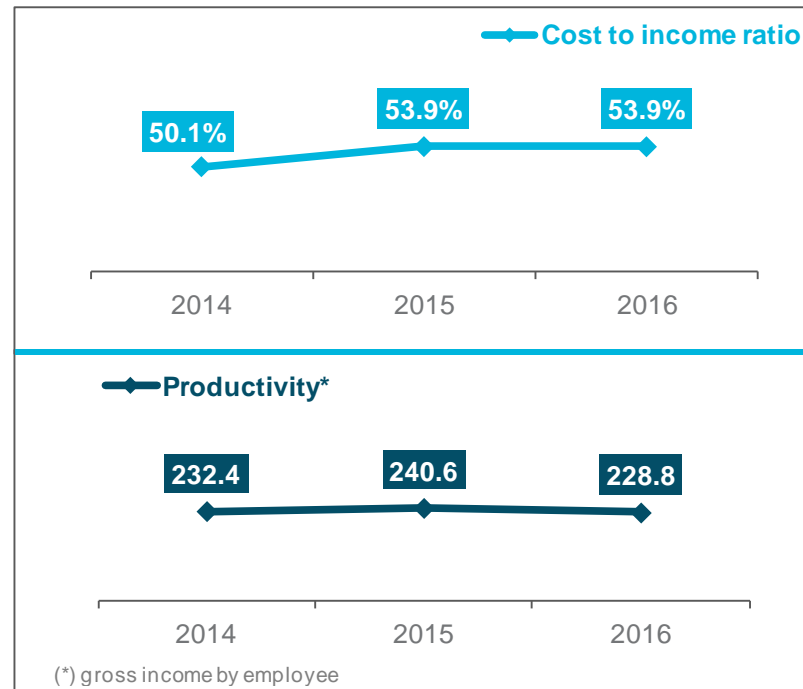
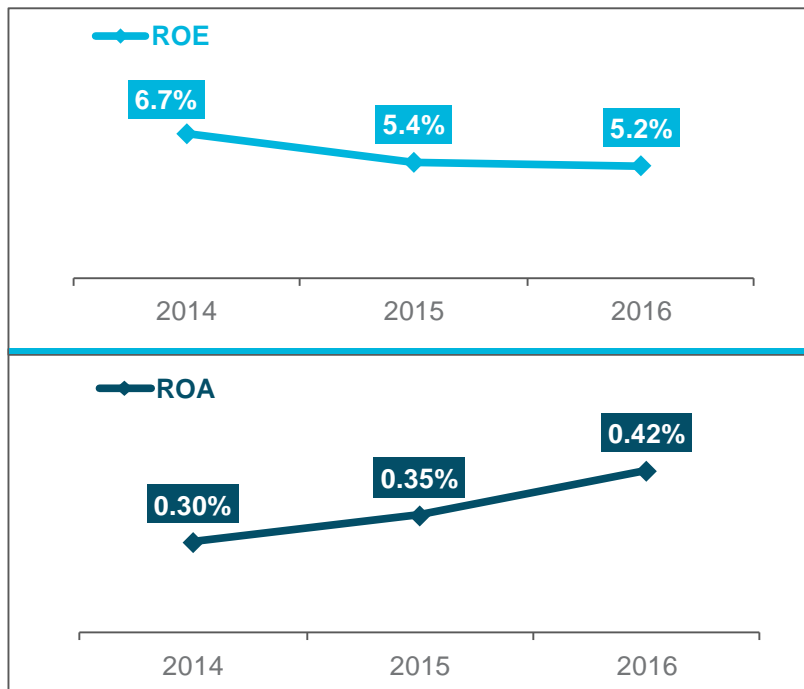


The decline in recurrent income due to the low interest rates environment...

...is offset by a greater cost reduction, especially in impairments.

Accordingly, the pre-tax profit increased by 16% in 2016.

FINANCIAL RATIOS



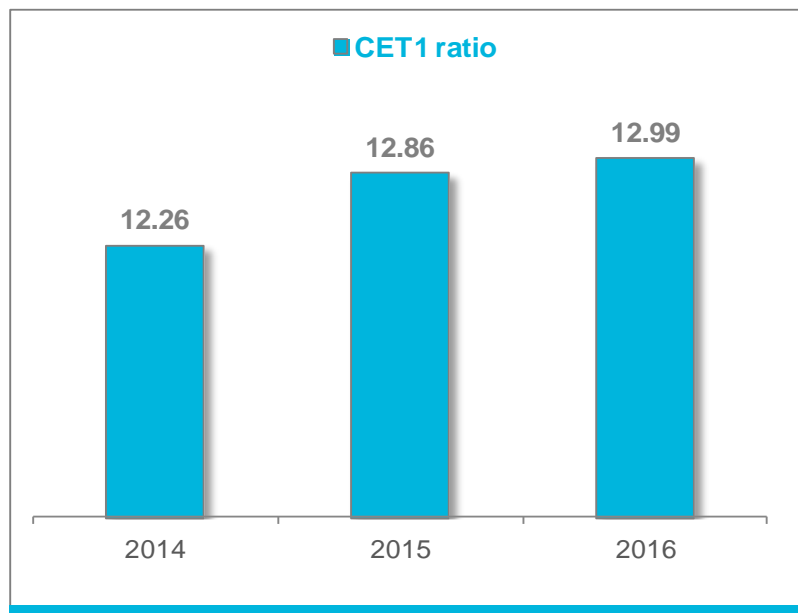
The increase in taxes due to the tax reform introduced by RDL 3/2016, led to a decrease in attributable income ...

... and to a slight fall in the return on equity, that stands at 5.2%.

Despite the fall in operating incomes, a high level of efficiency remains due to cost adjustment measures...

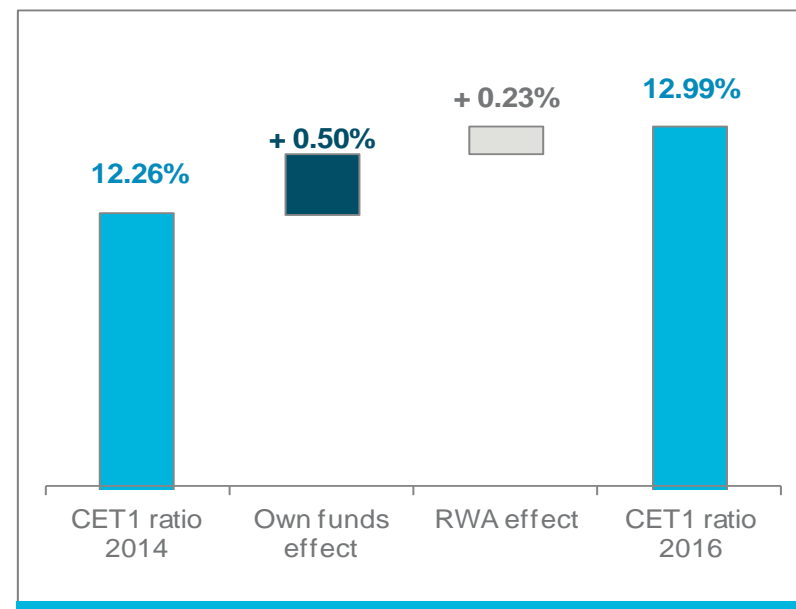
... combined with an adequate productivity level per employee.

SOLVENCY



The strengthening of solvency ratios continues in 2016.

The CET1 ratio stands at 12.99 in 2016, 73 b.p. higher than in 2014 and 13 b.p. more than 2015



The causal analysis of the annual variation of CET1 ratio reveals that...

...the own funds effect is 50 b.p. and the RWAs effect is 23 b.p.

