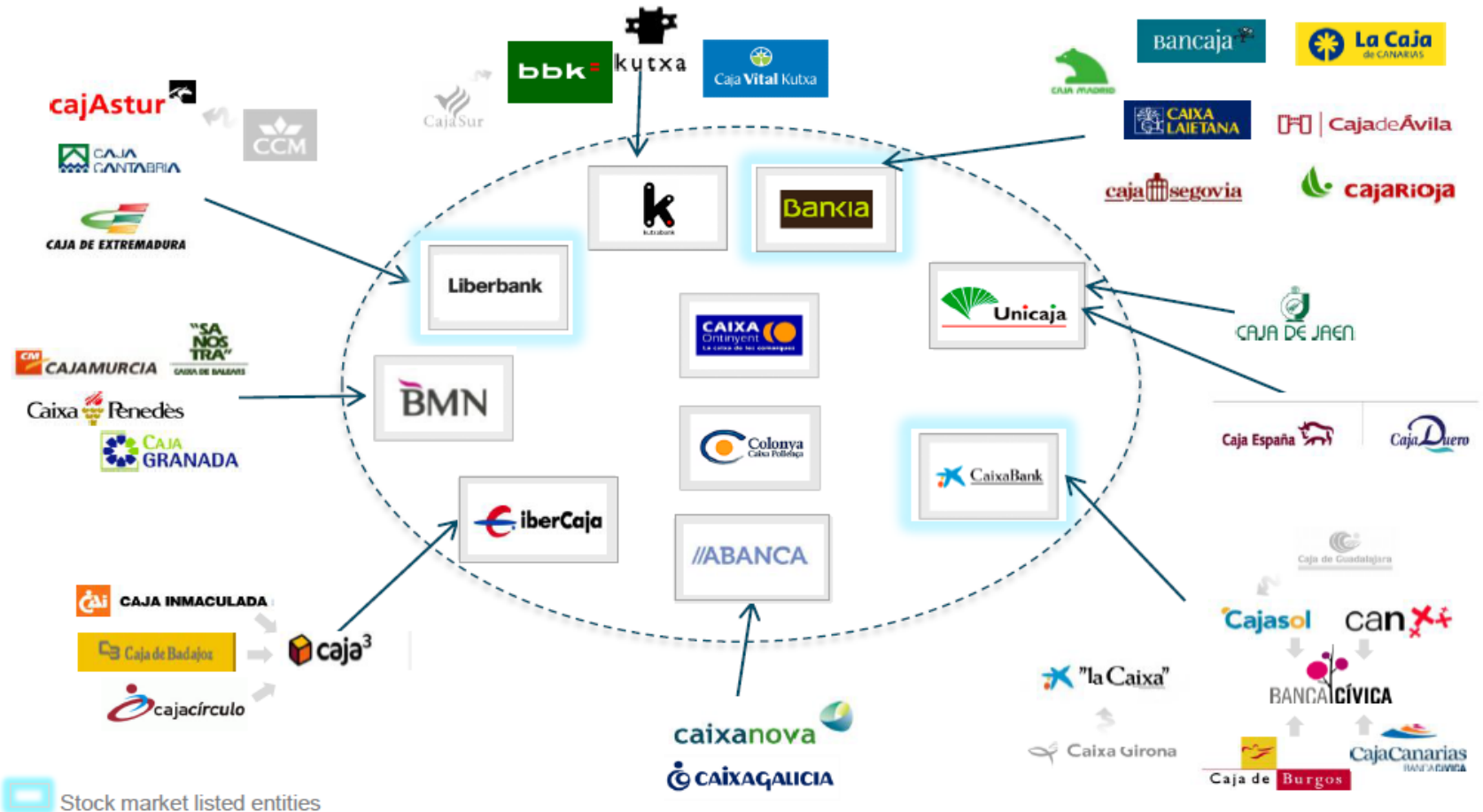


# CECA Sector

Regulatory and financial outlook

June, 20<sup>th</sup> / 2017



BRANCHES	EMPLOYEES	DEPOSITS	CREDITS	TOTAL ASSETS	AVERAGE ENTITIES SIZE
12,682 45% of SFS	74,332 39% of SFS	507,560 EUR Mill. 38% of SFS	507,842 EUR Mill. 36% of SFS	791,096 EUR Mill. 32% of SFS	84,313 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.

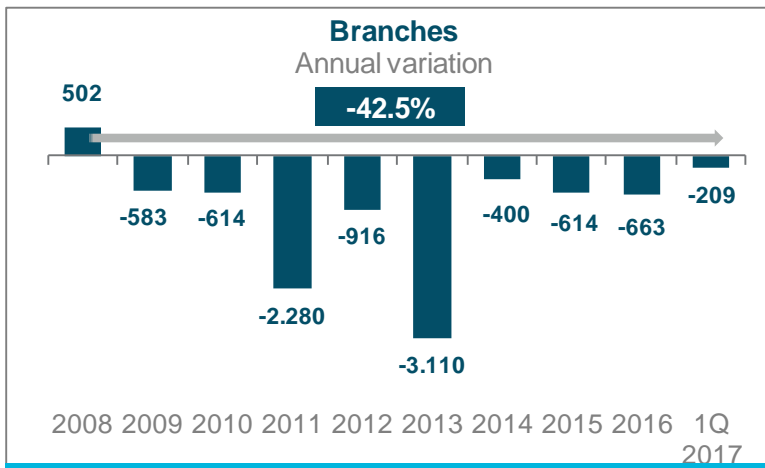
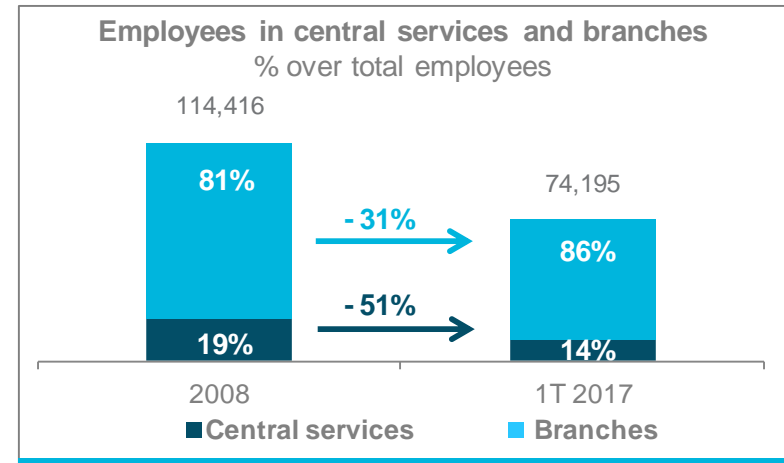
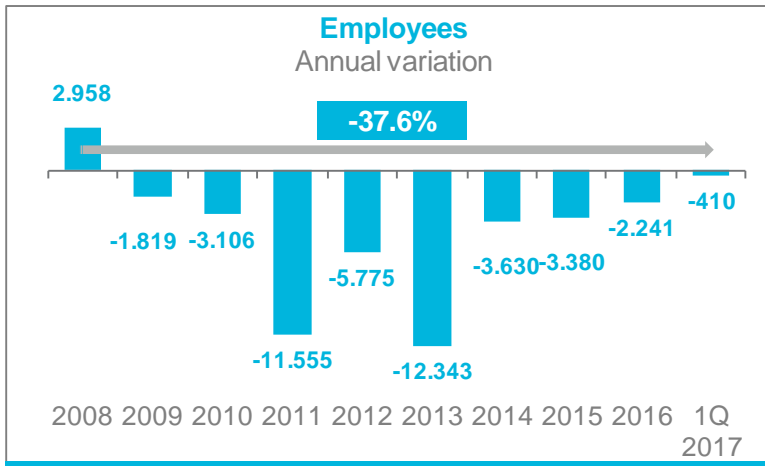
## Royal Decree 536/2017 regulating the reserve fund of banking foundations

### Amendment RD 887/2015

- It extends the maximum period to reach the target amount of the reserve fund to 8 years, plus an additional one upon request to the Bank of Spain.
- It reduces the minimum percentage of the amounts received from credit institutions as dividends to be allocated to the reserve fund to 30%.
- Banking foundations can update their financial plan in three months.



## CAPACITY ADJUSTMENT



The strong capacity adjustment, initiated eight years ago, continues in the 1Q 2017...

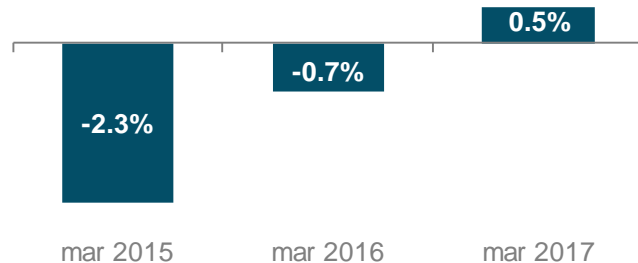
...with a more intense drop in the number of branches and a more moderate decrease in the number of employees.

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

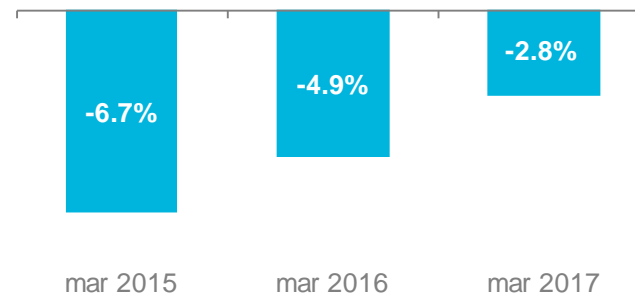
## BUSINESS ACTIVITY

Deposits from non financial corporations  
and households

Annual variation

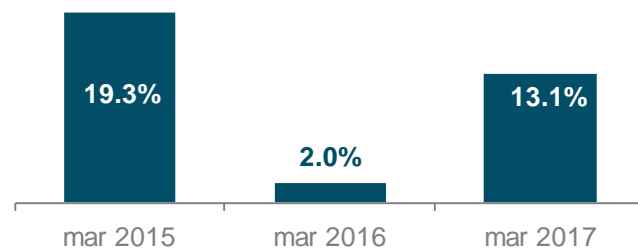
Credit to non financial corporations  
and households

Annual variation



## Off-balance-sheet customer funds

Annual variation

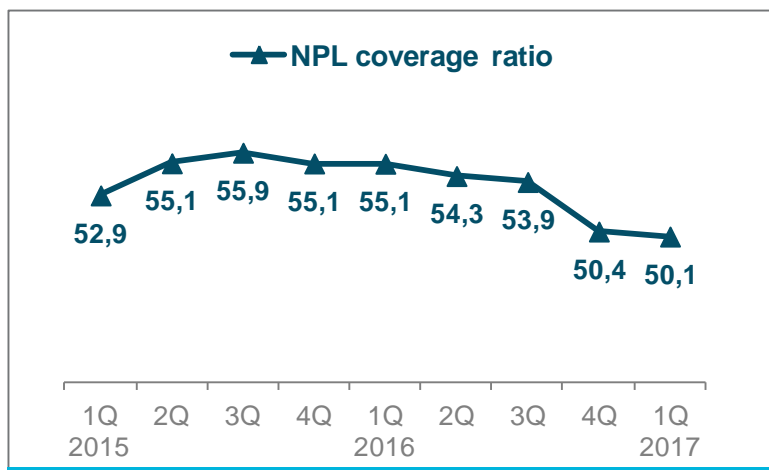
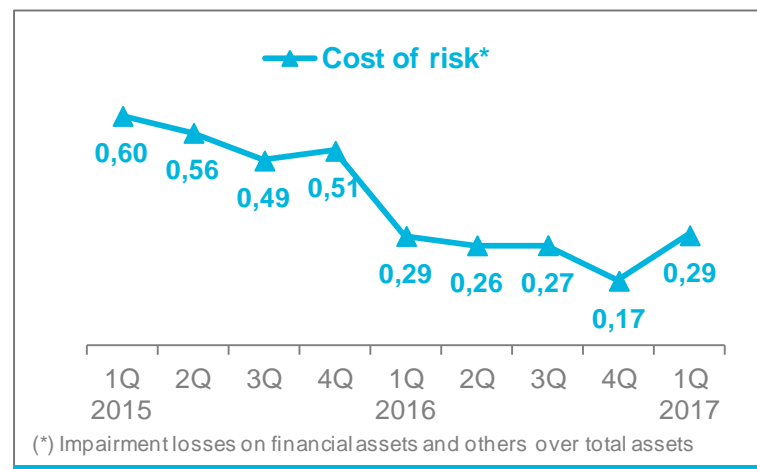
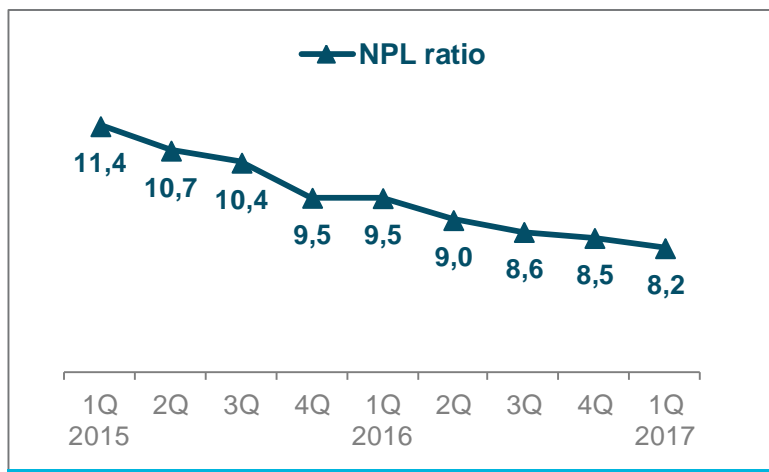


Retail deposits grew at the beginning of 2017, driven by sight deposits...

... while off-balance-sheet customer funds are gaining momentum since the second half of 2016.

Lending to the private sector continued to fall, but at a more moderate rate, in line with the increasing volume of new loans.

### CREDIT RISK

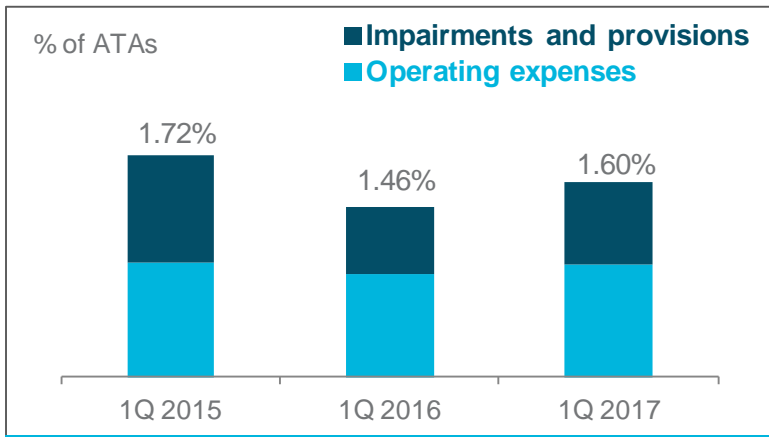
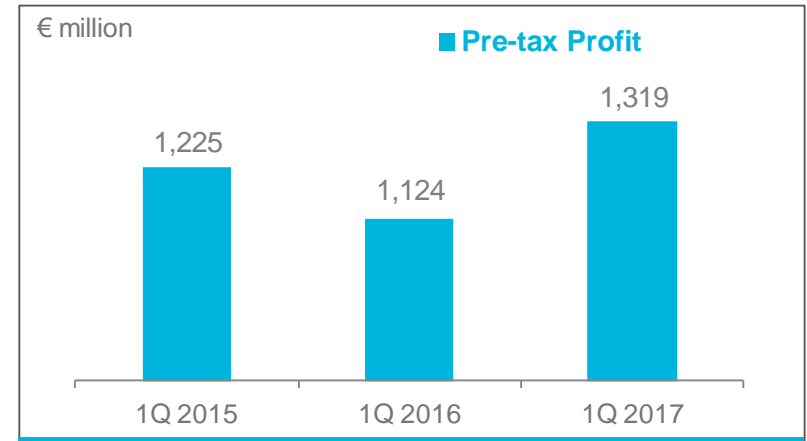
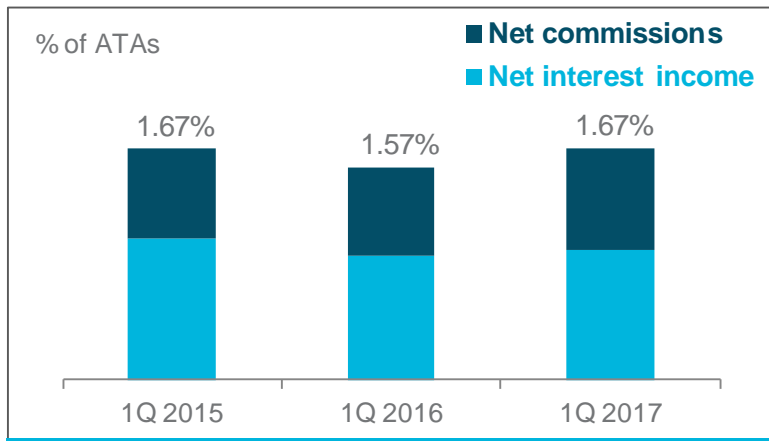


Non performing loans decline is still sharper than the decline of total credit, which allows the downward trend of NPL ratio...

...while maintaining high levels of non performing loans coverage.

Despite the improvement in asset quality, the cost of risk remains around 0.3%.

## RESULTS



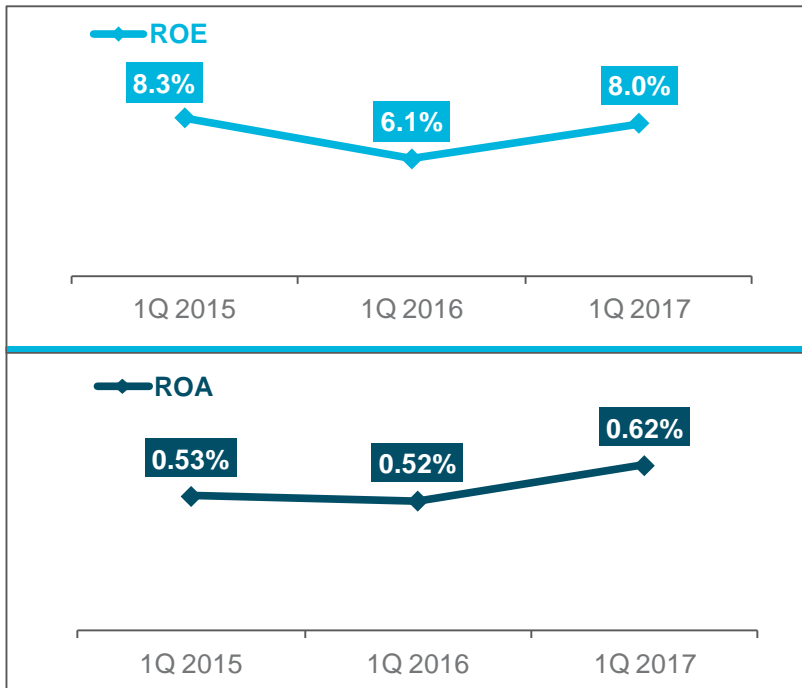
Recurrent income grew at the beginning of 2017...

... offsetting the increase of operating expenses and impairments.

Additionally, the increase of non recurring profits rose the pre-tax profit by 17%.

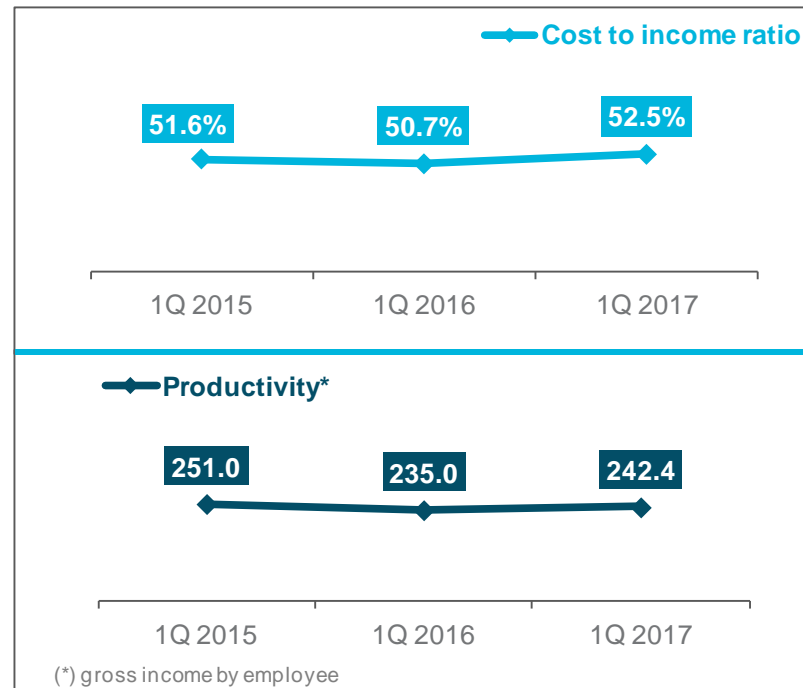


## FINANCIAL RATIOS



Return on equity rose by 8% due to the growth of attributable income and despite the strengthening of the capital base.

Return on asset also increased in the first quarter of 2017.

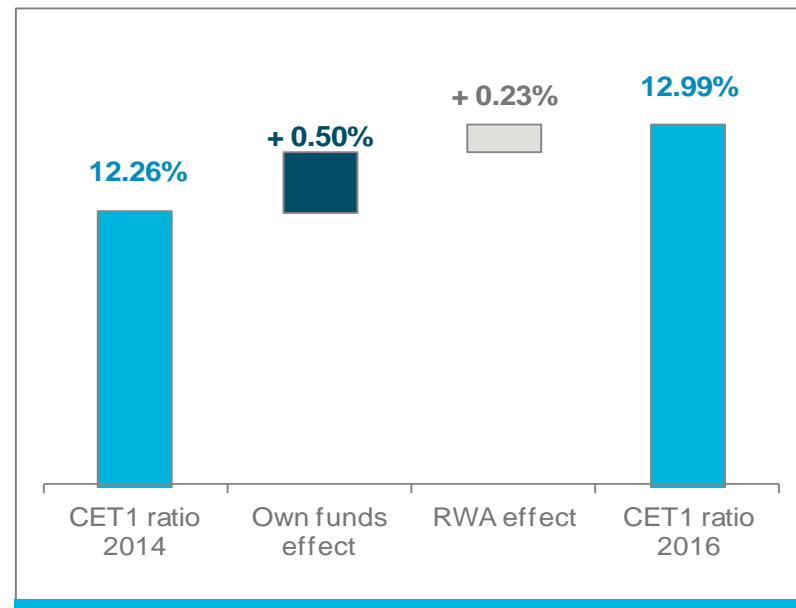
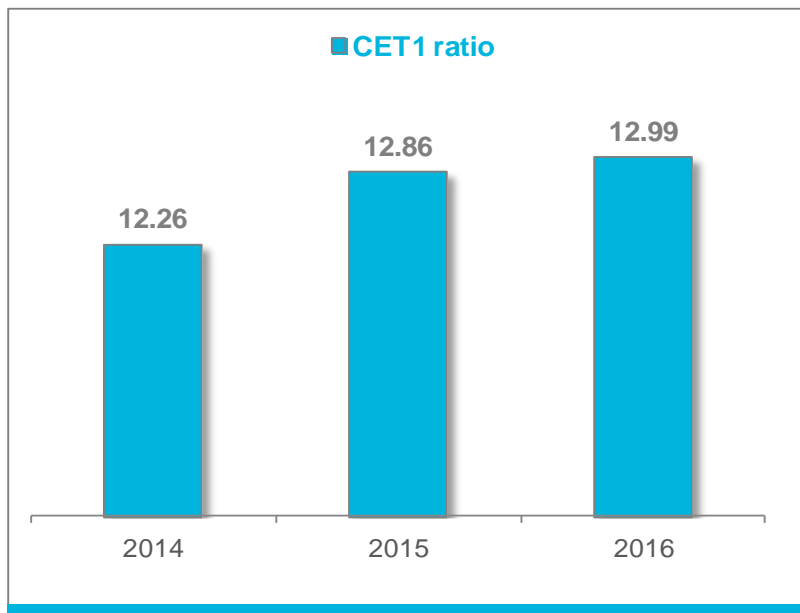


A high level of efficiency remains, in spite of the quarterly increase of the ratio...

... which is combined with an improvement of the productivity level per employee.



SOLVENCY



The strengthening of solvency ratios continues in 2016.

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

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

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

