

CECA Sector: regulatory and financial outlook

16 April 2020





Restructuring process

Restructuring process

Branches

10,804
43% of SFS

Employees

68,349
38% of SFS

Deposits

536,291 Mill. €
38% of SFS

Credits

491,721 Mill. €
36% of SFS

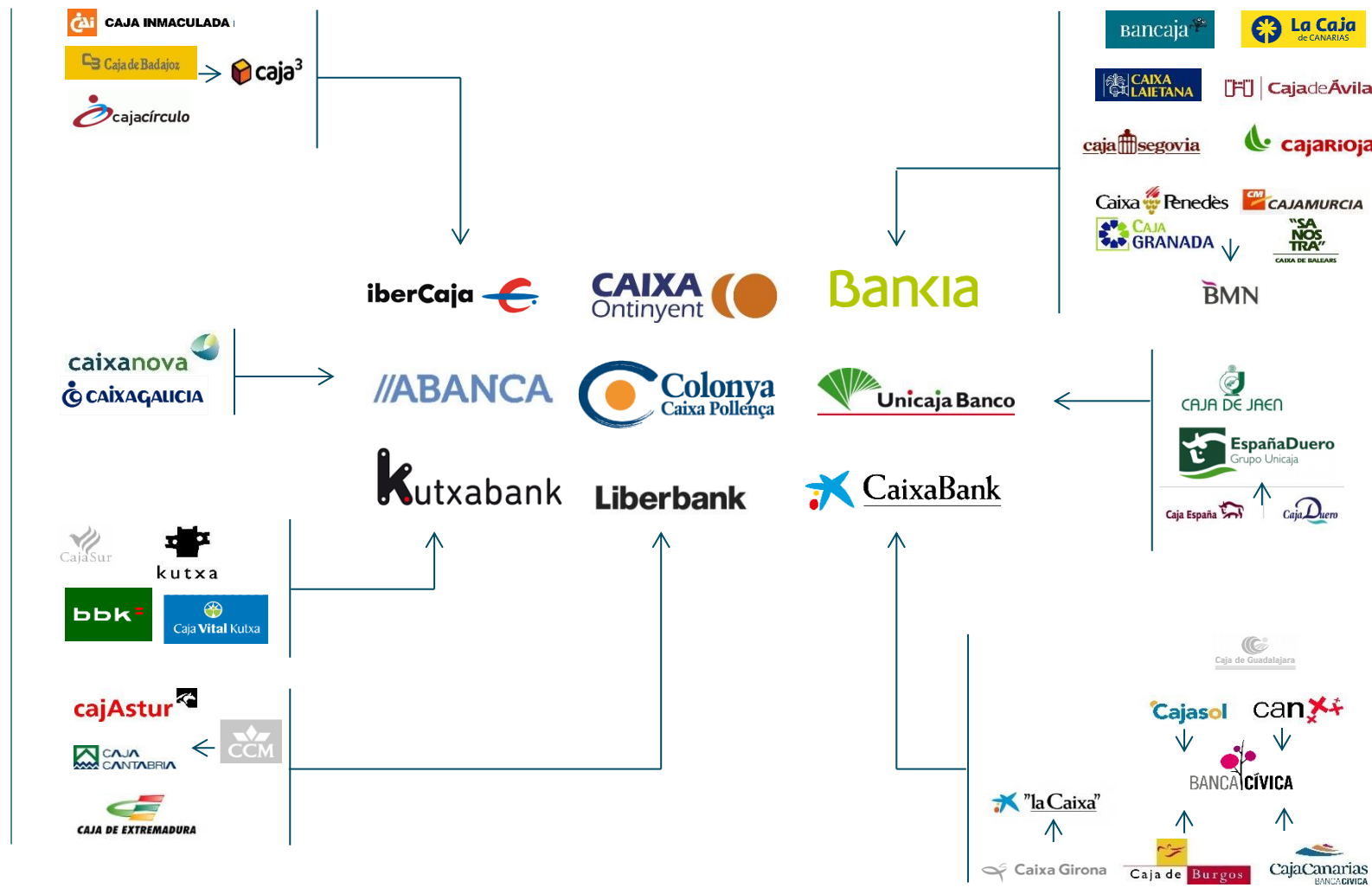
Total Assets

785,883 Mill. €
31% of SFS

Average entities size

97,353 Mill. €

Data as of December 2019





Regulation

Regulation (I)

1

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 foundation

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.

2

Royal Decree 877/2015 on reserve fund

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**.

Regulation (II)

3

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.

4

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.

5

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

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.

6

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

Amendment Royal Decree 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.

7

Royal Decree-law 11/2020 of complementary urgent measures in the social and economic field to deal with COVID-19

Amendment Law 26/2013

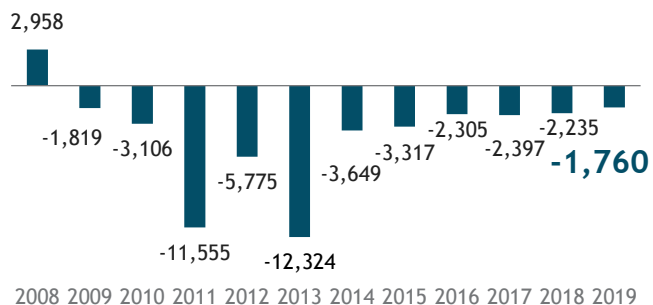
Banking foundations that have a divestment program within their diversification plan may choose to **extend the term to meet the divestment objective for up to two additional years**. In this case, the banking foundation must **establish a reserve fund** to which it must contribute, in each of the years that the aforementioned extension lasts, an annual allocation of at least 50% of the dividend received from the credit institution.



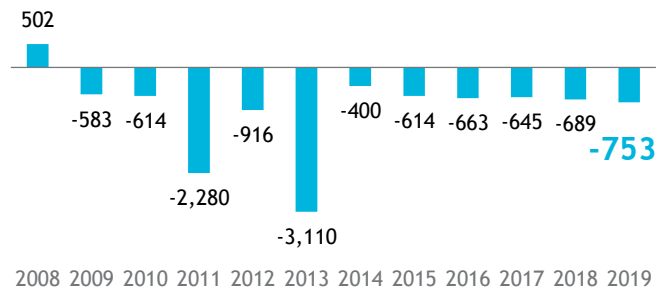
Financial data

Financial data. Capacity adjustment

Employees
Annual variation



Branches
Annual variation

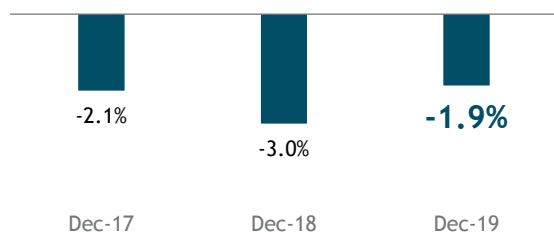


| | Annual variation | Variation since 2008 |
|-----------|------------------------------|----------------------|
| Employees | -1,760 → -2.5% | -42.6% |
| Branches | -753 → -6.5% | -51% |

Financial data. Business activity

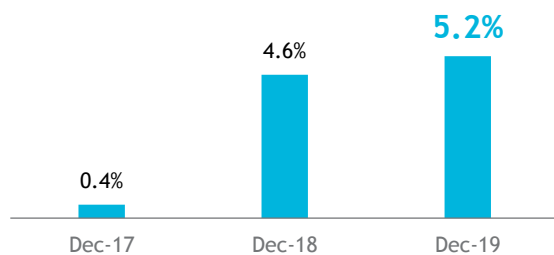
Credit to non financial corporations and households

Annual variation

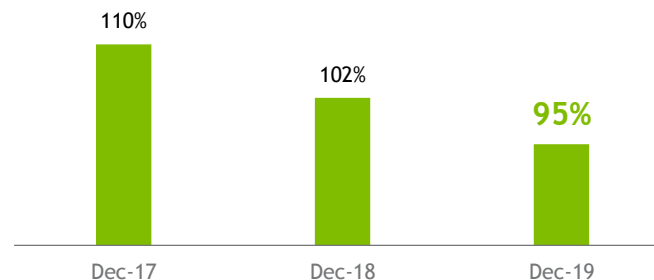


Deposits from non financial corporations and households

Annual variation



Loan to deposit ratio (%)



Credit to business and households declines to -1.9% in December.



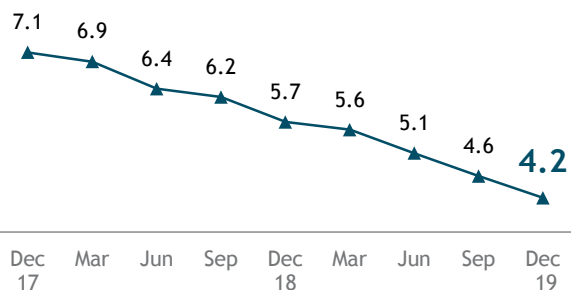
While business and household deposits are increasing at a rate of 5.2%, fostered by sight deposits.



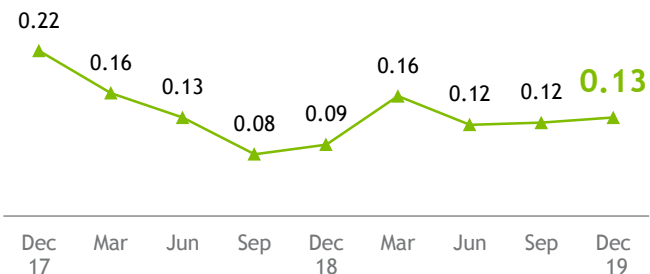
The loan to deposit ratio continues decreasing, to stand at 95%.

Financial data. Credit risk

NPL ratio (%)

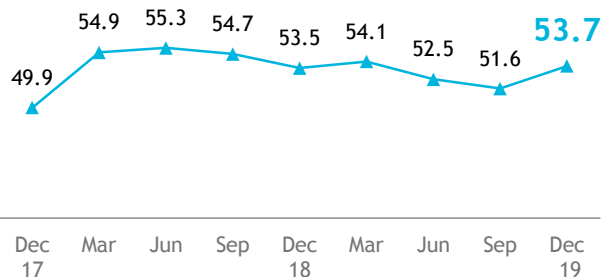



Cost of risk (%)





Cost of risk = Impairment losses on financial assets over total assets

NPL coverage ratio (%)



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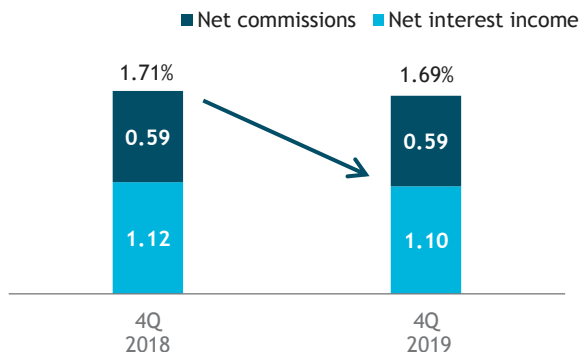
The continuous decline in doubtful assets is reflected in a decreasing trend in the non performing loan (NPL) ratio, that stands at 4.2% in December, 2.9 p.p. lower than in 2017.
- 

The coverage ratio increases 3.8 p.p. from December 2017, despite a decrease in the last quarter to 53.7%.
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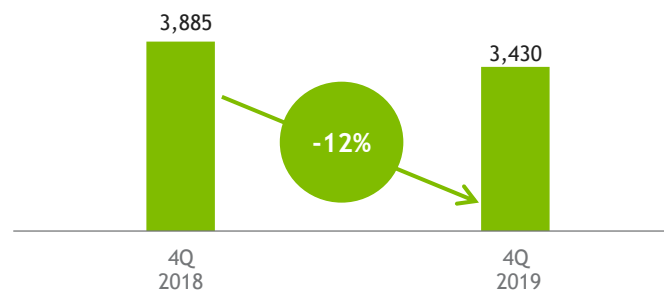
The cost of risk increased slightly in December, to 0.13%, which represents 9 b.p. less than in December 2017.

Financial data. Results

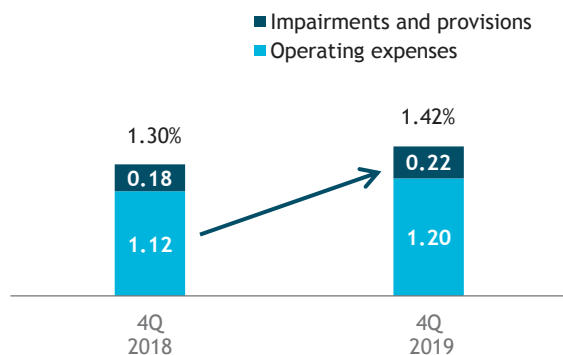
Net interest income and commissions % of ATAs



Net profit € million



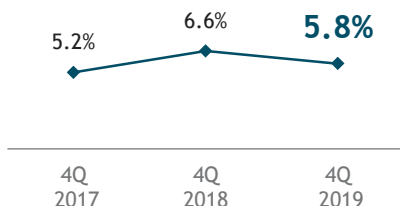
Operating costs and impairments % of ATAs



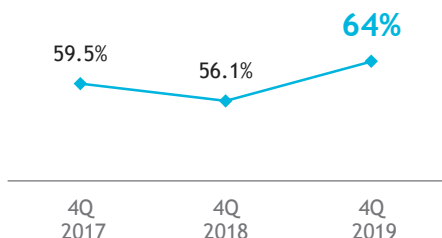
- ↓
Recurrent revenues decrease slightly as a percentage of total assets.
1.69%
- ↑
While the ratio of impairments and, above all, operating expenses increase in the fourth quarter driven by extraordinary costs.
1.42%
- ↓
As a result, net profit annual growth decreases by 12% compared to the fourth quarter of 2018.
3,430

Financial data. Financial ratios

ROE



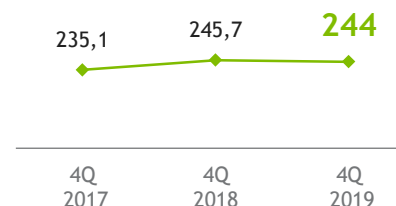
Cost to income ratio



ROA



Productivity



Productivity = gross income by employee



Return on equity decreases in the fourth quarter of 2019, to 5.8%.



The cost to income ratio increases by 7.9 p.p. compared to the fourth quarter of 2018, to 64%, due to extraordinary expenses.



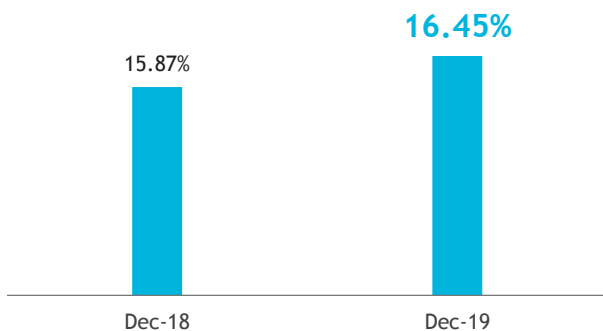
The return on assets decreases to 0.47%, 12 b.p. lower than in the same period of 2018.



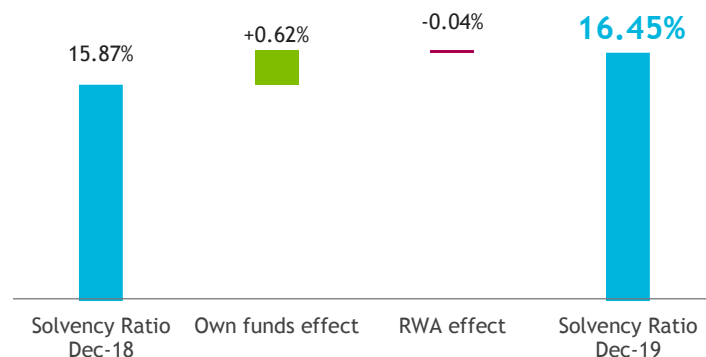
Productivity per employee decreases slightly compared to December 2018 to 244 thousand €.

Financial data. Solvency

Total capital ratio as % of RWA



Breakdown of Total capital ratio as % of RWA



In the fourth quarter of 2019, CECA entities continue to strengthen their solvency ratios.

Total capital ratio increases by 58 b.p. compared to the same period of 2018 and reaches **16.45%** in December 2019.

The causal analysis reflects that the raise of the solvency ratio in the fourth quarter of 2019 is due to an increase in own funds that compensates the lower increase in RWAs during this period.

