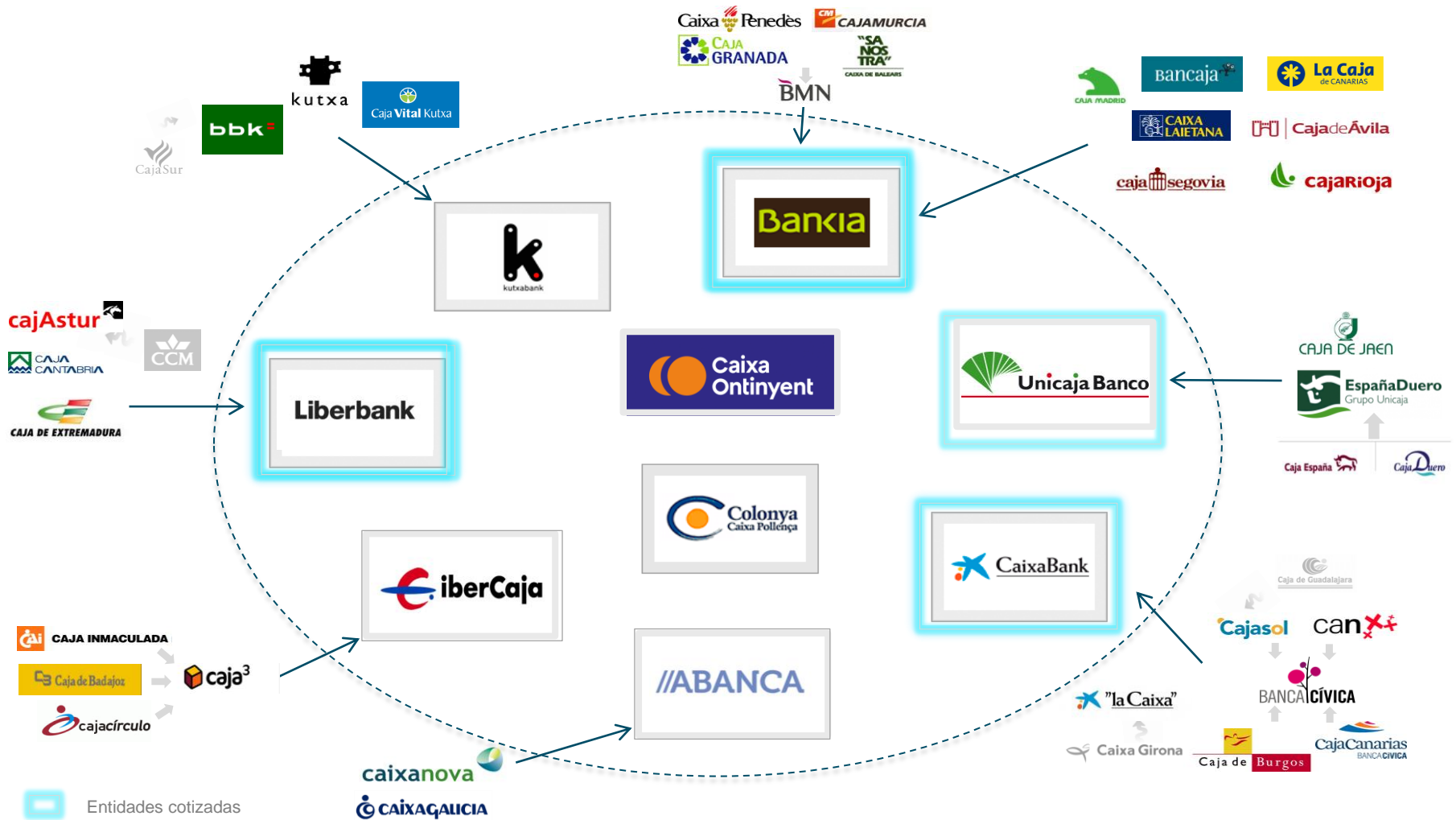


# CECA Sector

Regulatory and financial outlook

December, 11<sup>th</sup> / 2018



**BRANCHES**  
11,740  
44% of SFS

**EMPLOYEES**  
70,740  
39% of SFS

**DEPOSITS**  
522,525 Mill. EUR  
39% of SFS

**CREDITS**  
496,608 Mill. EUR  
36% of SFS

**TOTAL ASSETS**  
782,147 Mill. EUR  
32% of SFS

**AVERAGE ENTITIES SIZE**  
94,942 Mill. EUR

## 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.

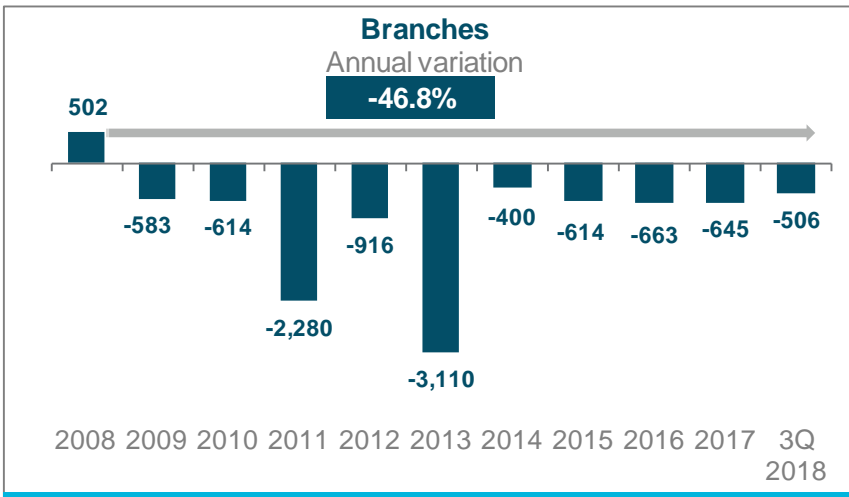
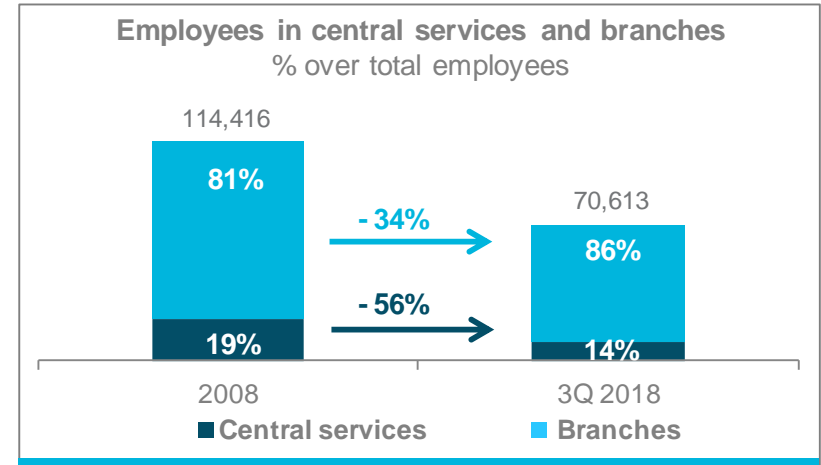
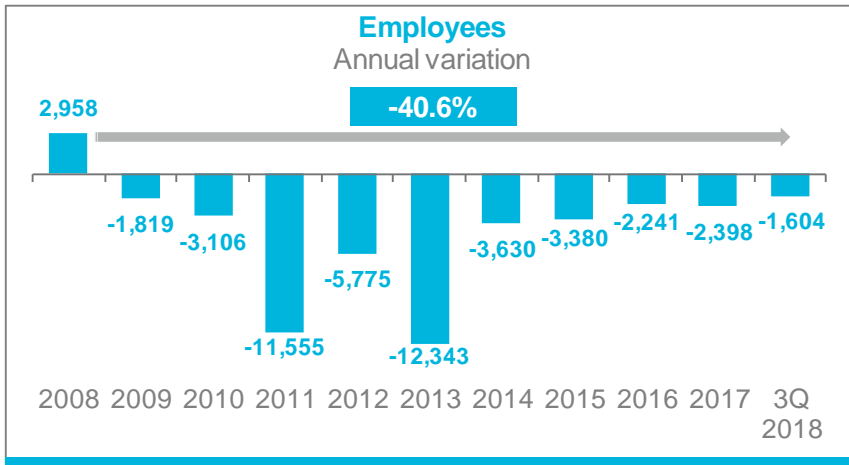
## Royal Decree 536/2017 regulating the reserve fund of banking foundations

### 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



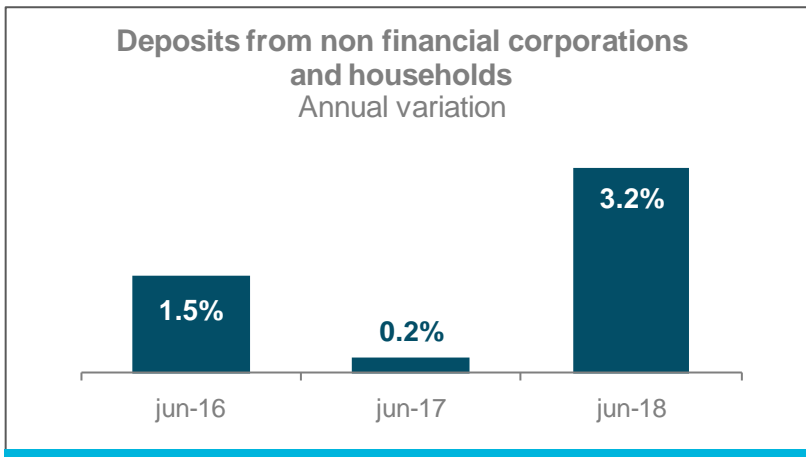
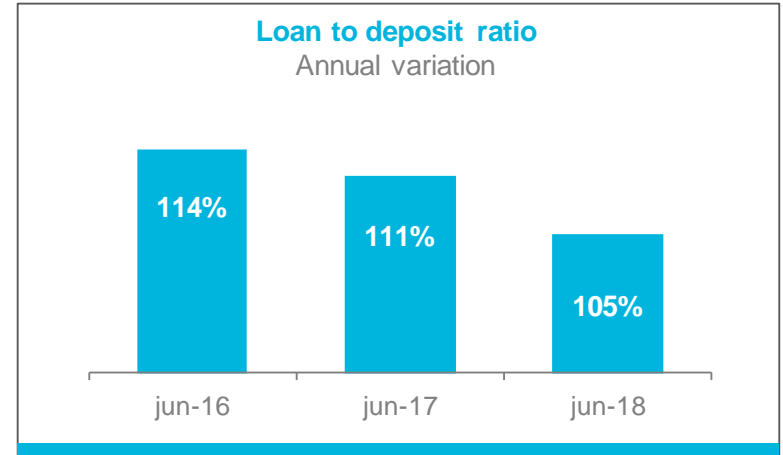
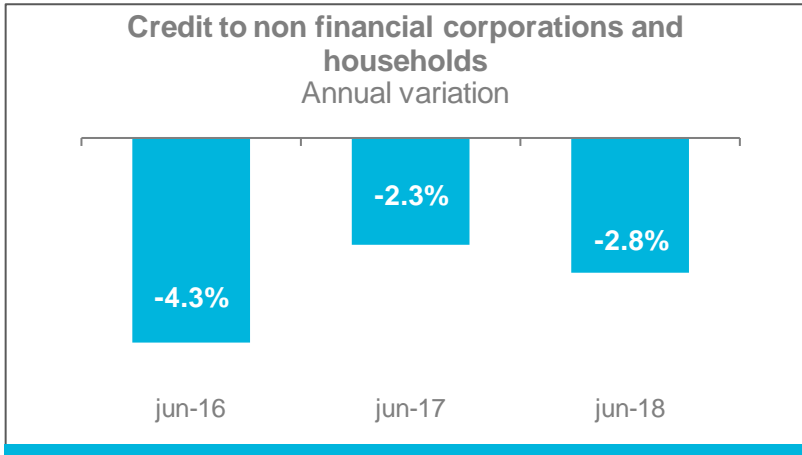
The process of capacity adjustment continues until September 2018...

...with a reduction of 1,604 employees (-2.1%) and 506 branches (-2.9%) since December 2017

Since 2008, the number of employees has decreased by 40.6% and the number of branches by 46.8%



**BUSINESS ACTIVITY**

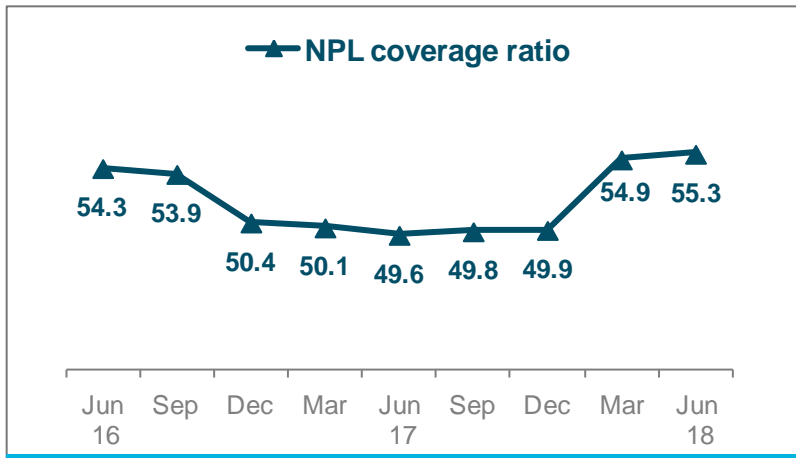
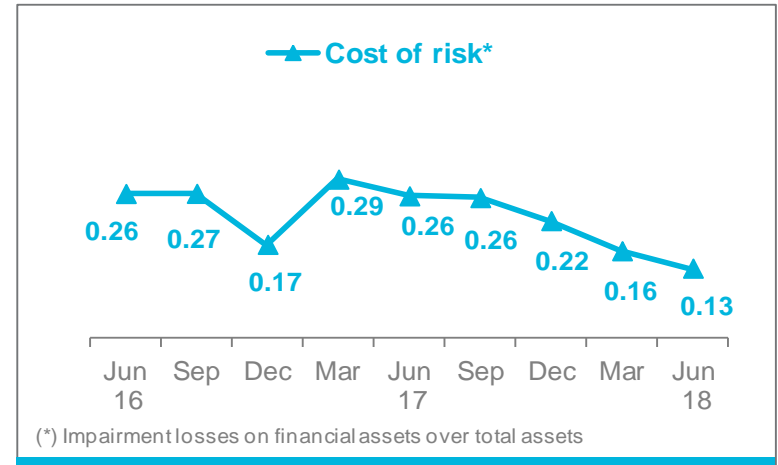
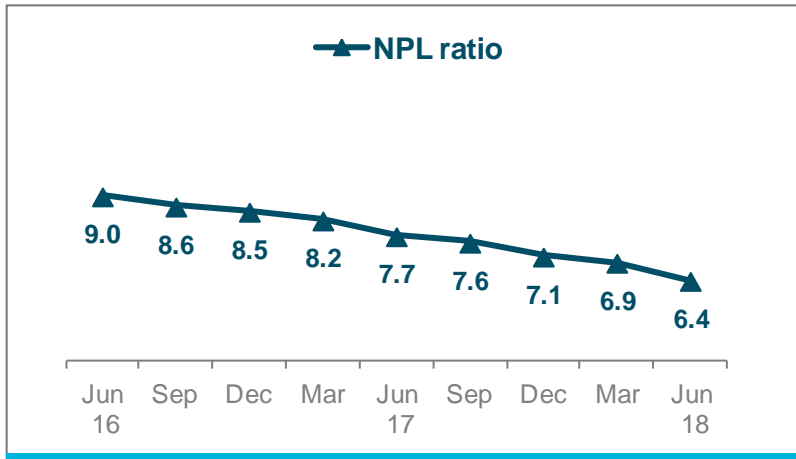


The increasing sale of damaged assets has led to a more intense credit decline in June 2018

Meanwhile, business and household deposits are increasing at a higher rate

As a result, the loan to deposit ratio dropped to 105%

CREDIT RISK

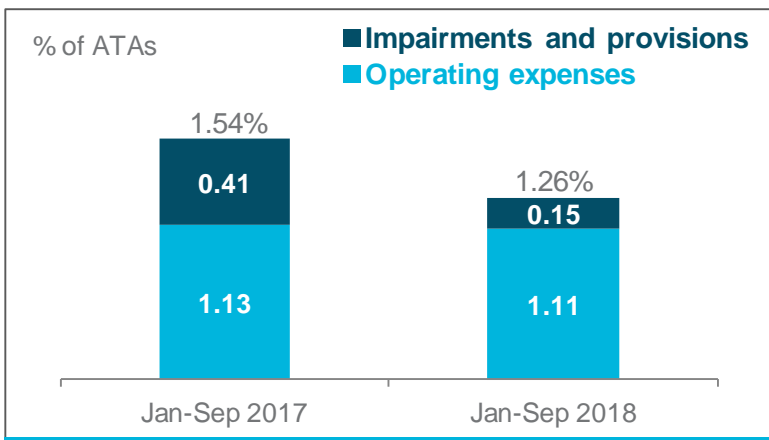
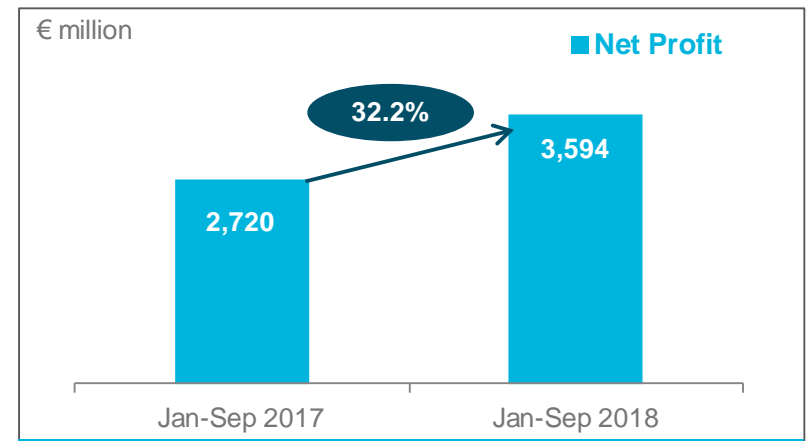
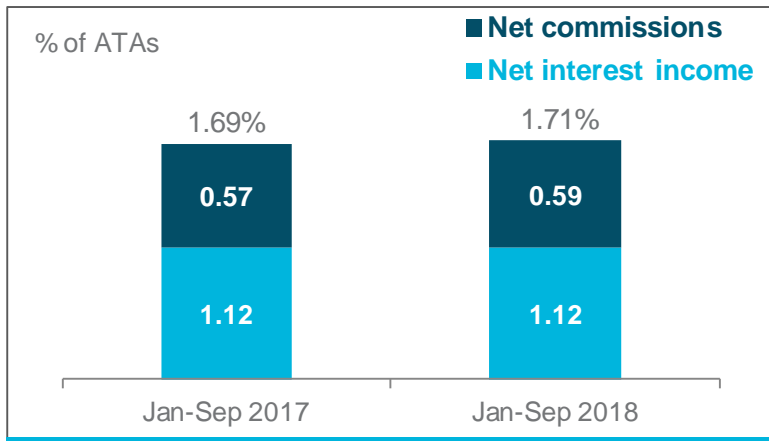


The continuous decline in doubtful assets is reflected in a decreasing trend in the non-performing loan ratio

At the same time that the NPL coverage ratio rises by 55%

The cost of risk drops to minimum levels, 0.13%

RESULTS



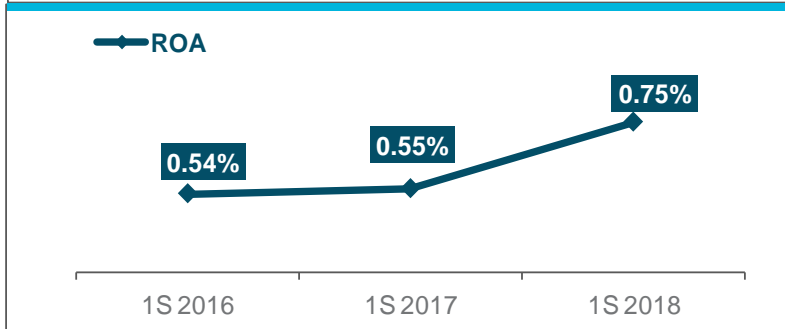
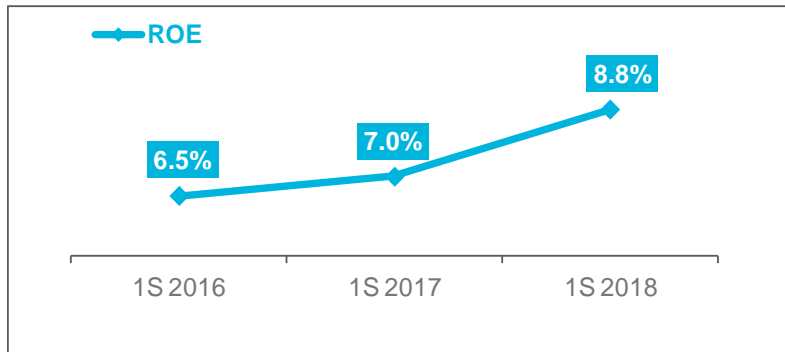
Recurrent revenues remain stable as a percentage of assets ...

...while impairments and provisions decrease significantly ...

...leading to a consolidated net profit growth of 32.2%

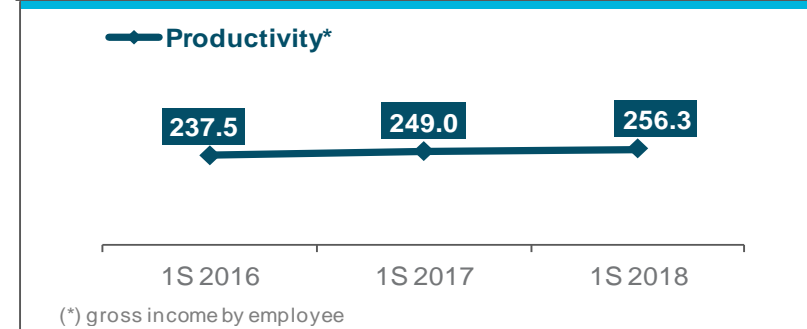
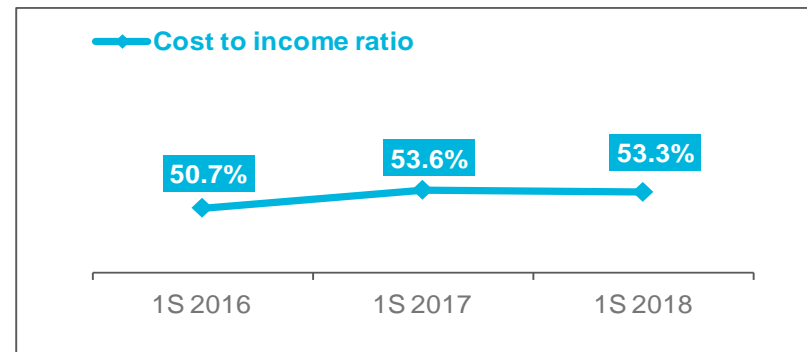


FINANCIAL RATIOS



Relevant increase of the return on equity, by 8.2%

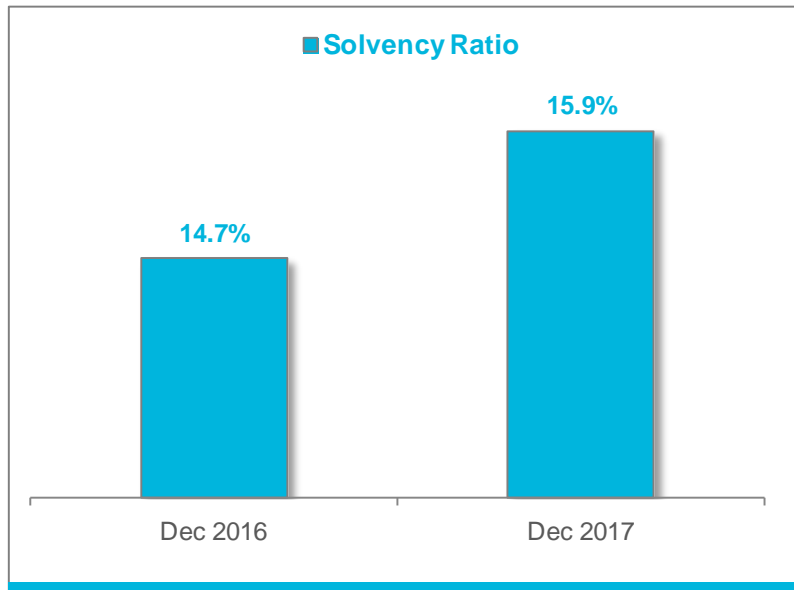
The improvement of results also allows an increase in the return on assets



The cost to income ratio remains very positive, even improving by 1.2 p.p. to 53.3%

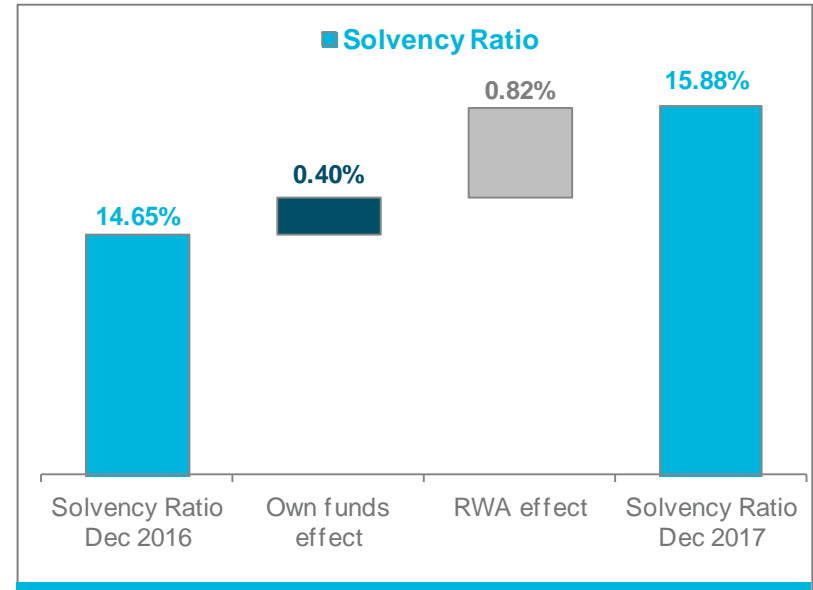
At the same time that productivity by employee keeps its increasing trend

## SOLVENCY



The strengthening of solvency ratios continues in 2017...

...as the solvency ratio reaches 15.9%, 120 b.p. more than the previous year



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

... the contribution of own funds is 40 b.p. and the RWAs effect is 82 b.p.

