

CECA Sector: regulatory and financial outlook

11 June 2019





Restructuring process

Restructuring process

Branches

11,414
44% of SFS

Employees

70,363
39% of SFS

Deposits

529,401 Mill. €
38% of SFS

Credits

490,535 Mill. €
36% of SFS

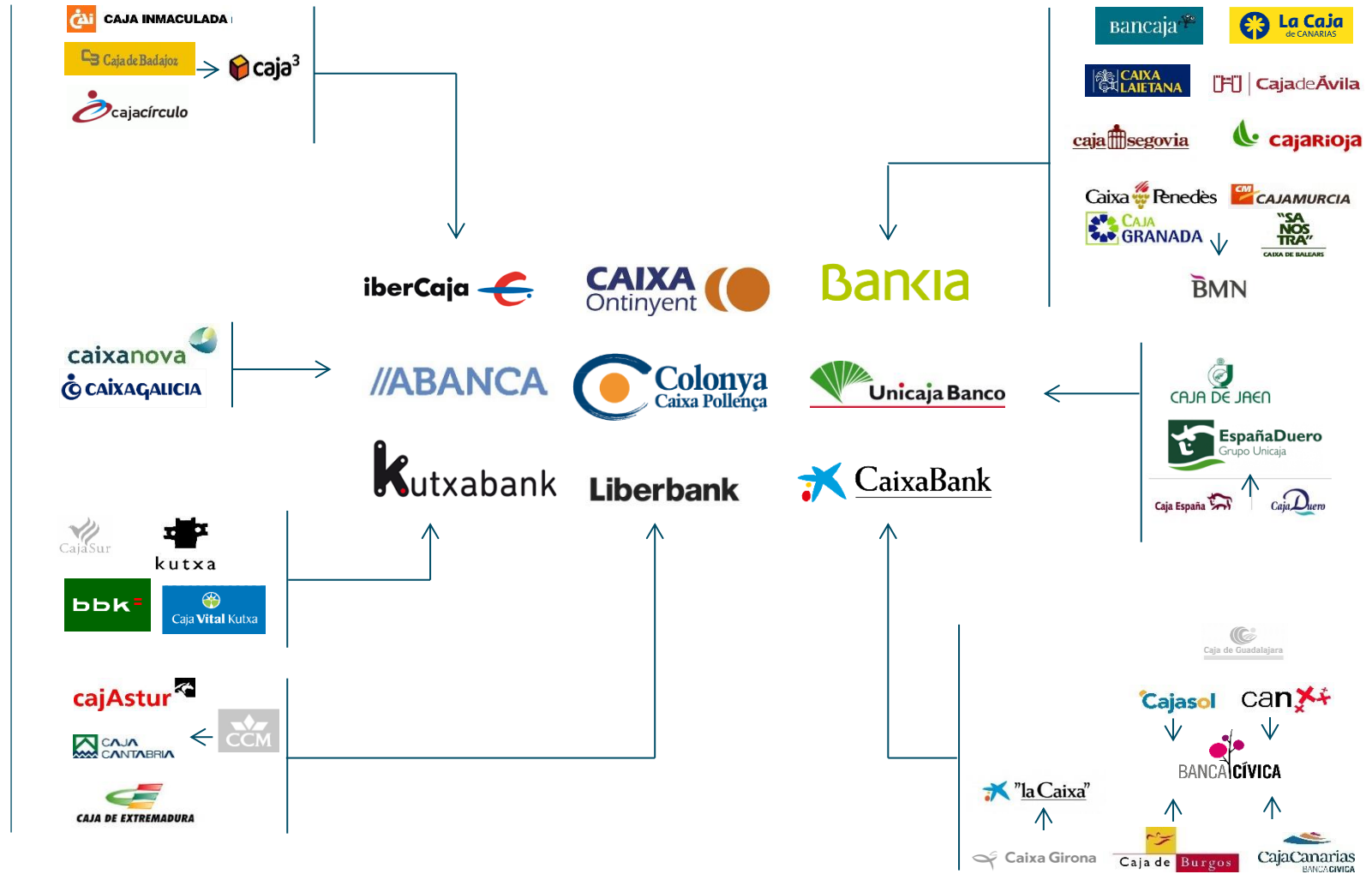
Total Assets

797,152 Mill. €
32% of SFS

Average entities size

95,917 Mill. €

Data as of March 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

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.

6

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%.

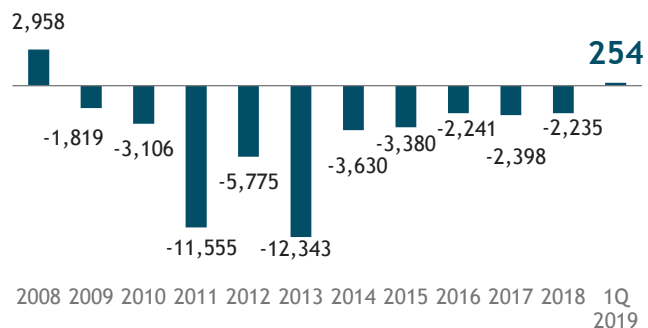
Banking foundations can update their financial plan in three months.



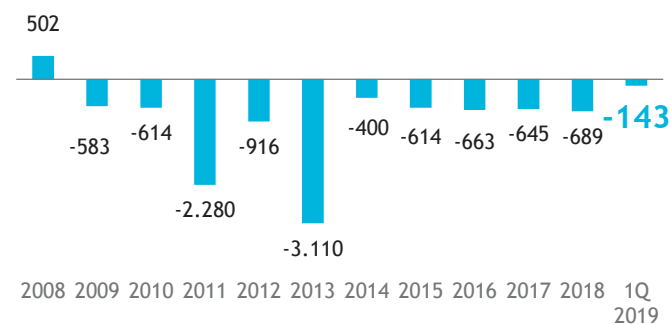
Financial data

Financial data. Capacity adjustment

Employees
Annual variation



Branches
Annual variation



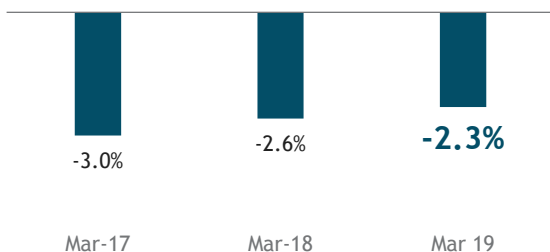
	Annual variation
Employees	-2,170 → -3%
Branches	-605 → -5%

Variation since 2008
-40.9%
-48.2%

Financial data. Business activity

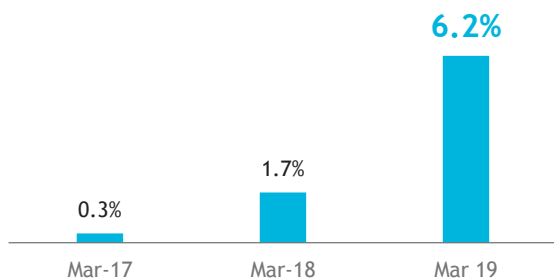
Credit to non financial corporations and households

Annual variation

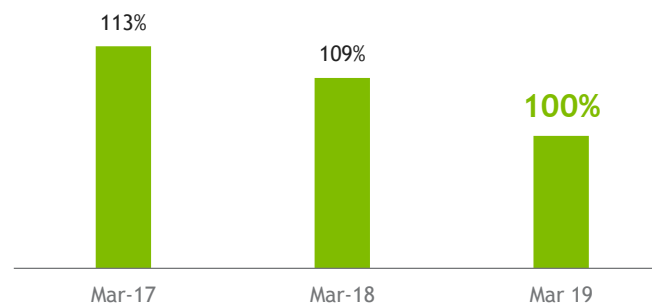





Deposits from non financial corporations and households

Annual variation



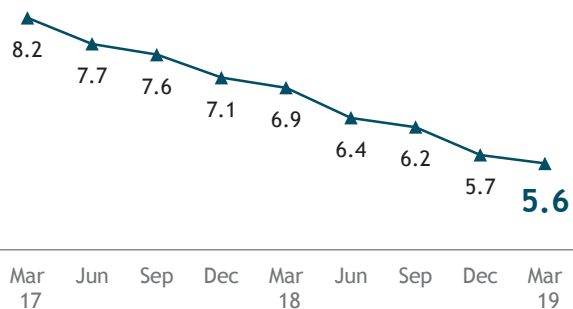
Loan to deposit ratio (%)



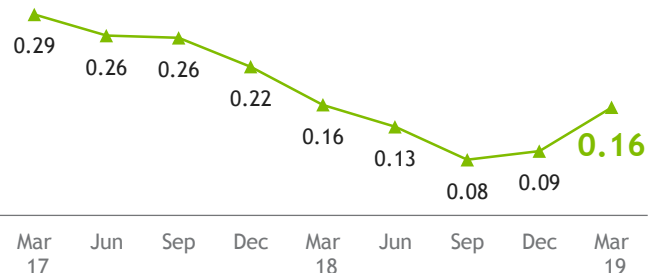
-  Credit to business and households moderates its decline to -2.3% in March.
-  Meanwhile, business and household deposits are increasing at a rate of 6%, fostered by sight deposits.
-  As a result, the loan to deposit ratio continues its decreasing tend, reaching 100%.

Financial data. Credit risk

NPL ratio (%)

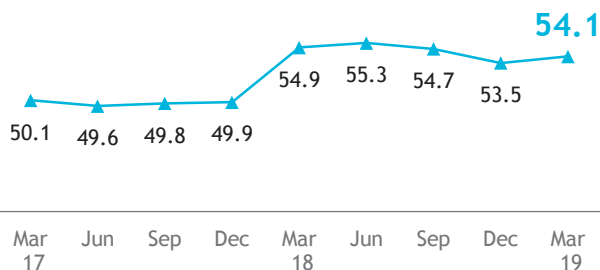



Cost of risk (%)





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

NPL coverage ratio (%)



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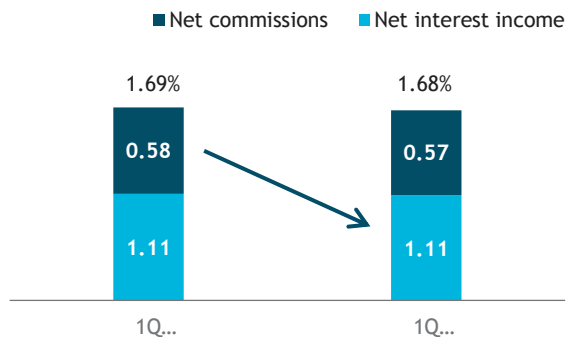
The continuous decline in doubtful assets is reflected in a decreasing trend in the non performing loan ratio, that stands at 5.6% in March 2019, 2.6 p.p. lower than in 2017.
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Meanwhile, the coverage ratio increases 4.2 p.p. from December 2017 and 6 b.p. in the last quarter to 54.1%.
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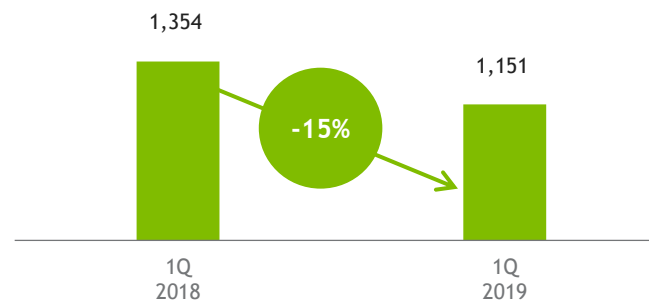
The cost of risk increases 7 b.p. from December 2018, reaching 0.16%.

Financial data. Results

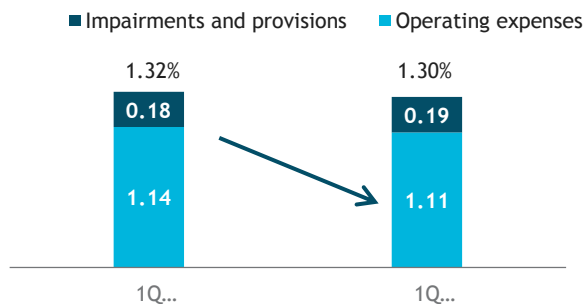
Net interest income and commissions % of ATAs






Net profit € million



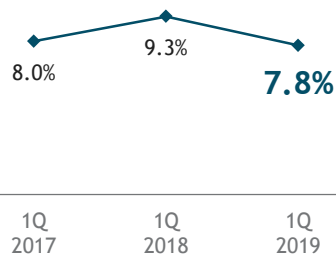
Operating costs and impairments % of ATAs



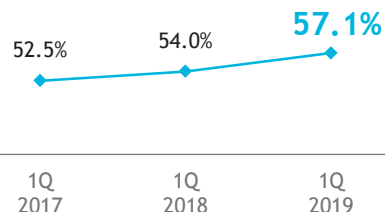
-  Recurrent revenues decrease slightly as a percentage of total assets, driven by lower net commissions. **1.68%**
-  Impairments increase in the first quarter while operating expenses reduce their ratio over total assets by 3 b.p. **1.30%**
-  Net profit annual growth decreases by 15% in the first quarter. **1,151**

Financial data. Financial ratios

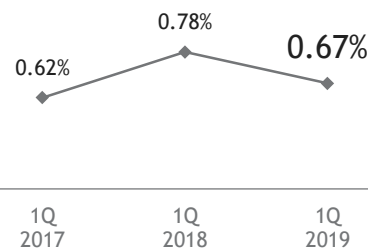
ROE



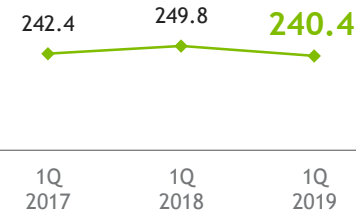
Cost to income ratio



ROA



Productivity



Productivity= gross income by employee



Return on equity decreases in the first quarter 2019, to 7.8%.



The cost to income ratio increases by 3.4 p.p. compared with the first quarter 2018, to 57.1%



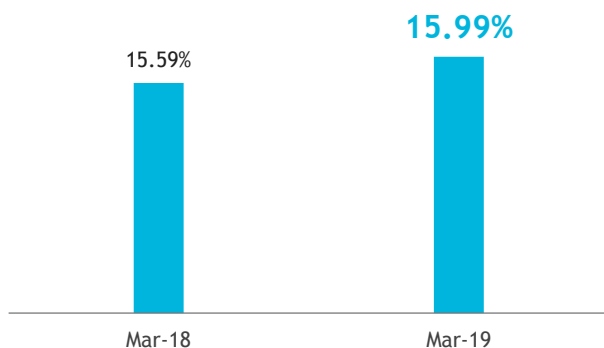
The return of assets amounts to 0.67%, 11 b.p. lower than in the same period of 2018.



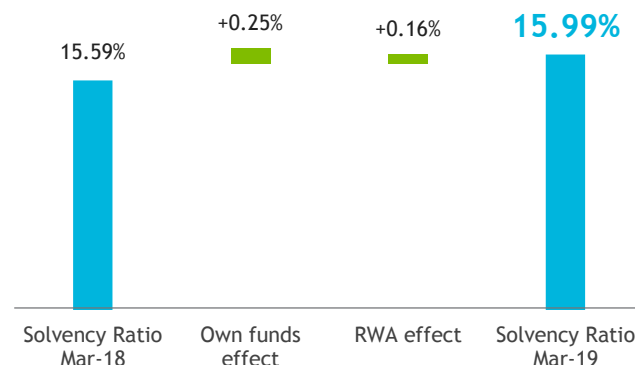
Productivity per employee decreases slightly, up to 240.4 mill. €.

Financial data. Solvency

Total capital ratio as % of RWA



Breakdown of Total capital ratio as % of RWA



In the first quarter of 2018, CECA entities continued to strengthen their solvency ratios.

Total capital ratio increased by 4 b.p. compared to the same period of 2018 and reaches **15.99%** in March 2019.

The raise of the solvency ratio in the first quarter of 2019 is due to an increase in own funds that more than compensates the increase in RWAs during this period.

