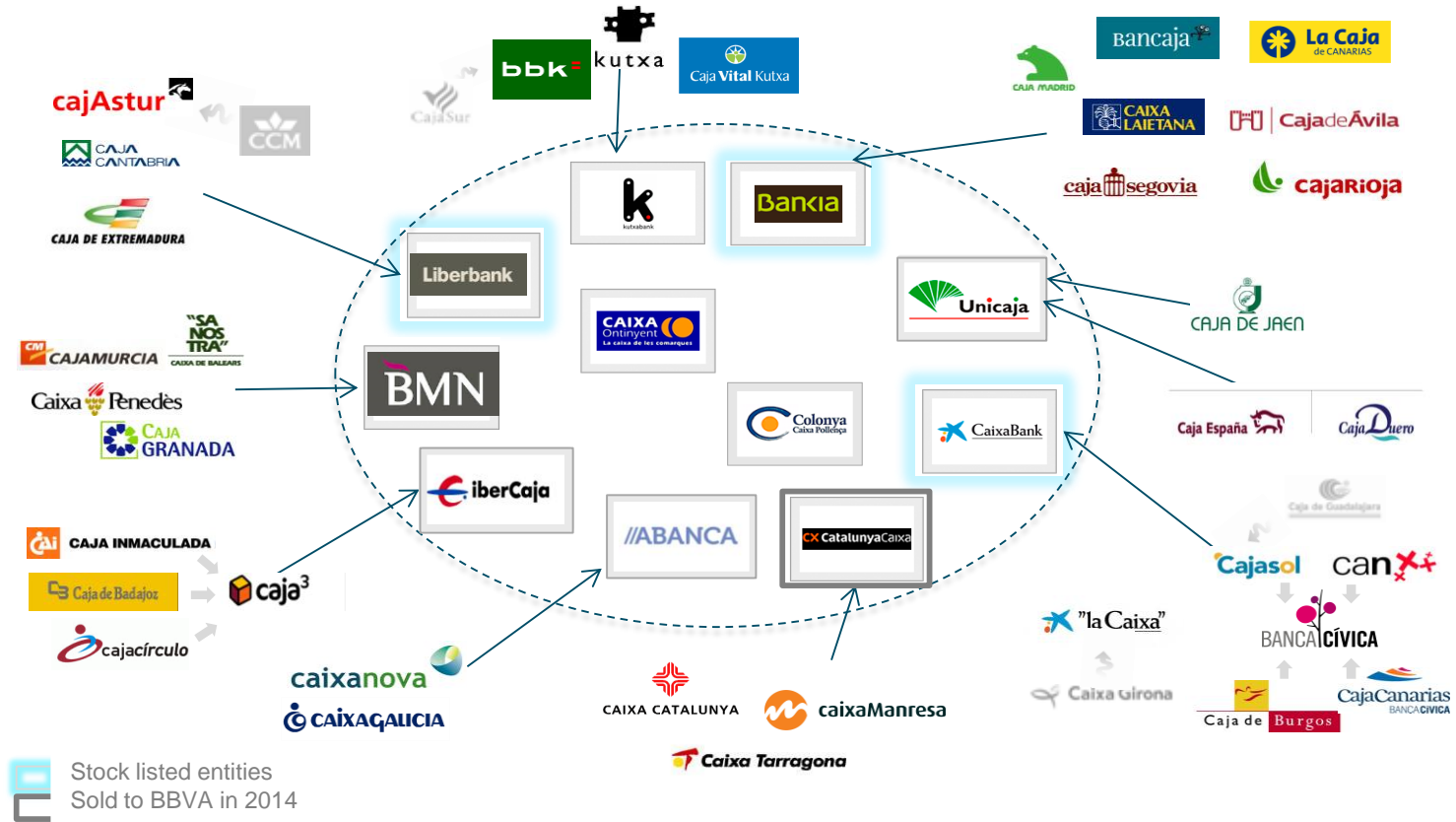


CECA Sector

Regulatory and financial outlook

September, 13th / 2016



BRANCHES

13,971
46% of SFS

EMPLOYEES

79,708
41% of SFS

DEPOSITS

560,308 EUR Mill.
41% of SFS

CREDITS

546,409 EUR Mill.
39% of SFS

TOTAL ASSETS

876,002 EUR Mill.
34% of SFS

AVERAGE ENTITIES SIZE

85,975 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.



Draft accounting Circular 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 sectorial adaptations and Resolutions of the Institute of Accounting and Audit.



II. Other laws

Draft law on real estate credit contracts

- Its purpose is **the partial transposition of Mortgage Credit Directive 2014/17/EU**.
- It applies to (i) credit mortgage loans on residential immovable property granted to natural persons, or (ii) loans which purpose is to acquire or retain land or existing or projected buildings, as well as (iii) the intermediation of these type of contracts.
- It entitles the Government to regulate issues related to (i) transparency, (ii) knowledge and competence requirements for staff and (iii) requirements for providing advisory services.
- It also develops the legal status of real estate credit intermediaries, appointed representatives and real estate lenders.

Circular CNMV 4/2016 on depositaries functions of collective investment institutions

- It develops the scope of **the functions entrusted to depositaries** of collective investment institutions, venture capital entities and closed collective investment institutions. It also details technical aspects considered necessary for depositaries to carry out their functions in an adequate manner.
- It specifies the procedure for calculating the **minimum liquidity ratio** of the collective investment institutions and the categories of liquid assets in which it can be allocated.

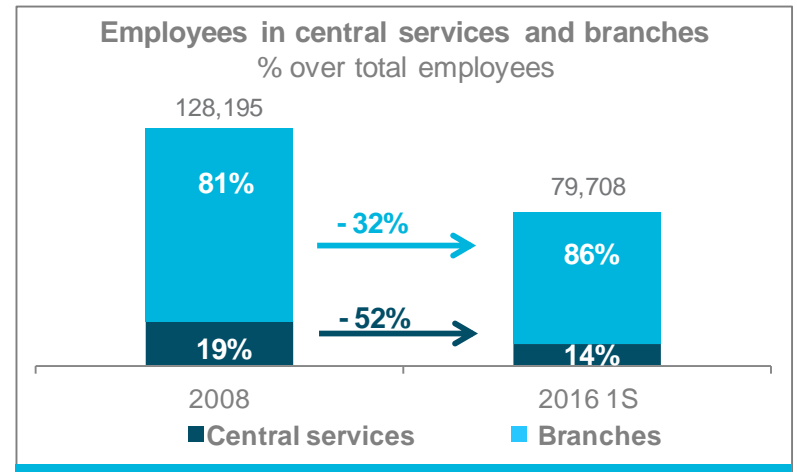
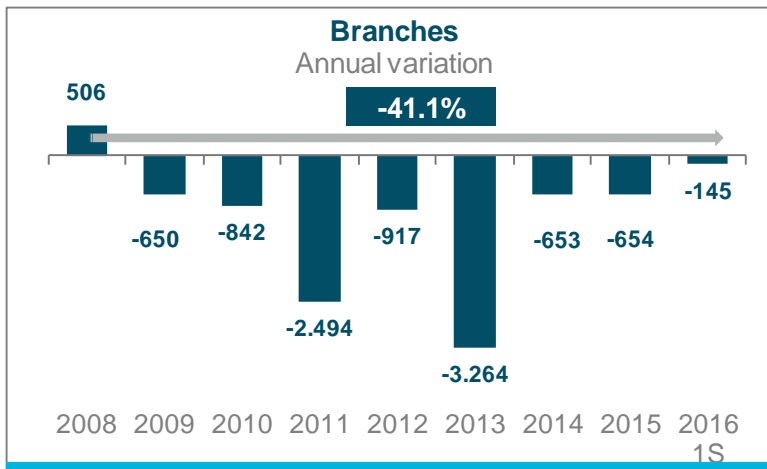
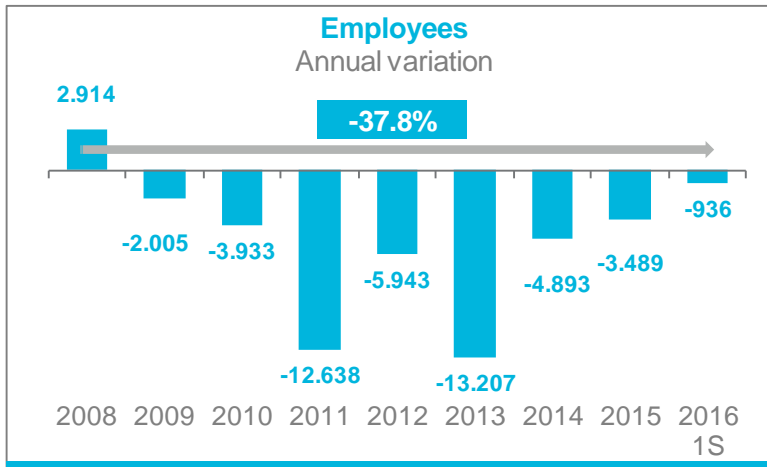
Circular Bank of Spain 6/2016 on “Financial Information-SME” document and risk rating methodology

- It details the **content and format of the “Financial Information-SME” document** established by Law 5/2015 on promoting corporate financing. This document will be delivered to SME customers at their request, or when the entity intends to significantly reduce the flow of funding.
- It incorporates the methodology to develop a standardized risk rating to be used in the “Financial Information-SME” document. In addition, institutions shall provide information to the SME about its relative position in the sector in which it operates.

Circular Bank of Spain 4/2016 amending Annex IX of Accounting Circular

- The **main changes** refer to: (i) the new accounting policy for the amortization of intangible assets, (ii) the adaptation of the confidential and public statements, and (iii) the content of the data set on collateral of CIR (risk database).
- In relation to the new **Annex IX**, it includes the following: (i) estimation of collective and specific provisions based on internal models, (ii) the substandard category is eliminated and a new risk subcategory, “special surveillance”, is added within the normal risk category, (iii) alternative solutions for the estimation of certain coverages, (iv) criteria to estimate the adjusted appraised value of real estate assets foreclosed or received in payment of debts.

CAPACITY ADJUSTMENT



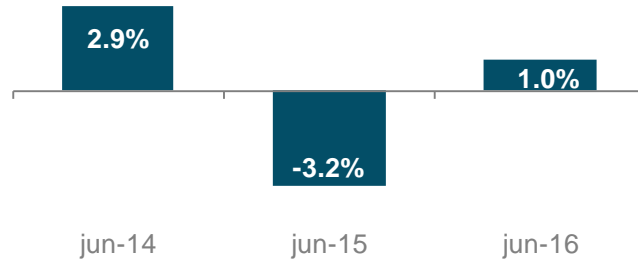
In a process of continuous adaptation to the economic and financial framework...

...it has carried out an intense structural adjustment since late 2008...

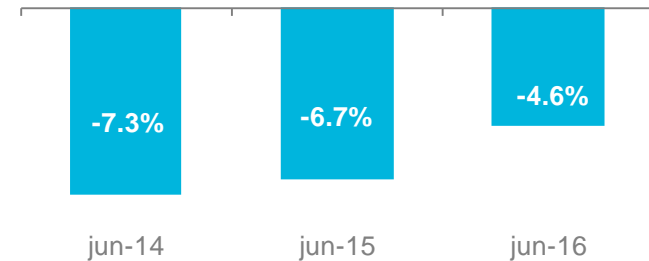
...that has come to reduce employees by 38% and the branches by 41% until the first half of 2016

BUSINESS ACTIVITY

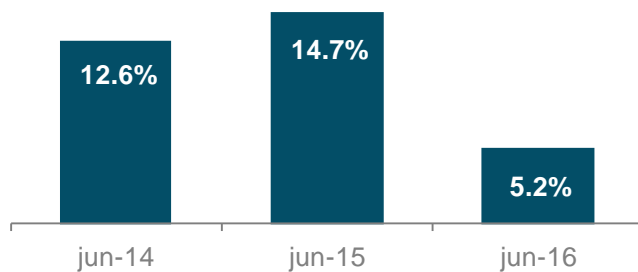
Deposits from non financial corporations and households
Annual variation



Credit to non financial corporations and households
Annual variation



Off-balance-sheet customer funds
Annual variation

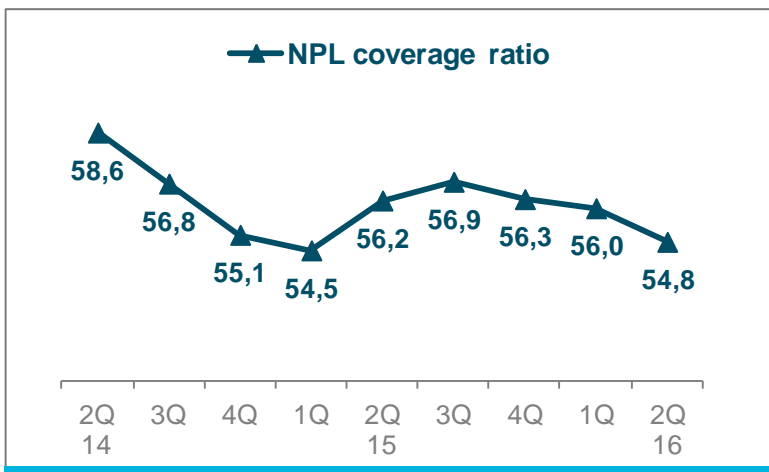
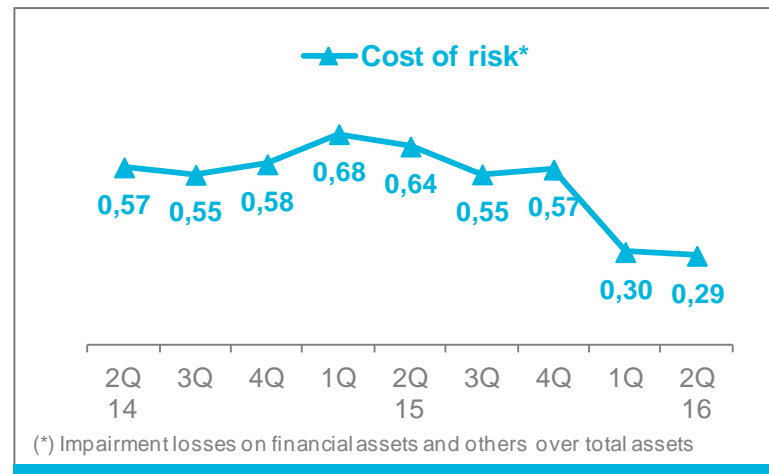
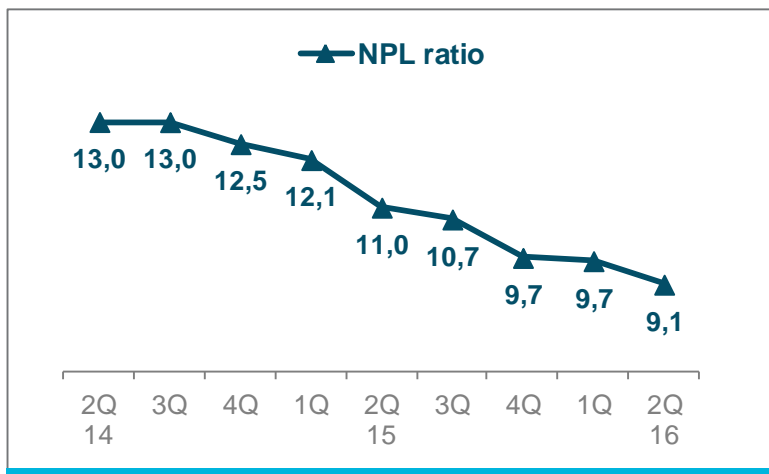


Deposits has returned to the pace of positive growth in 2016 thanks to the development of sight deposits...

...while the off-balance-sheet customer funds growth slows

Credit deleveraging process continues to moderate

CREDIT RISK



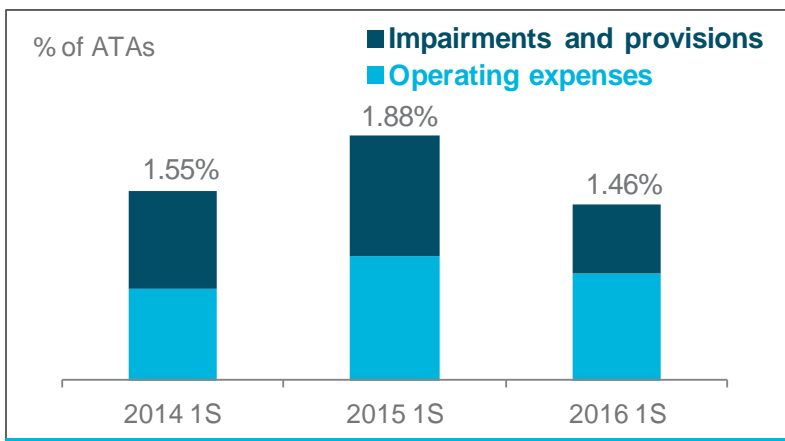
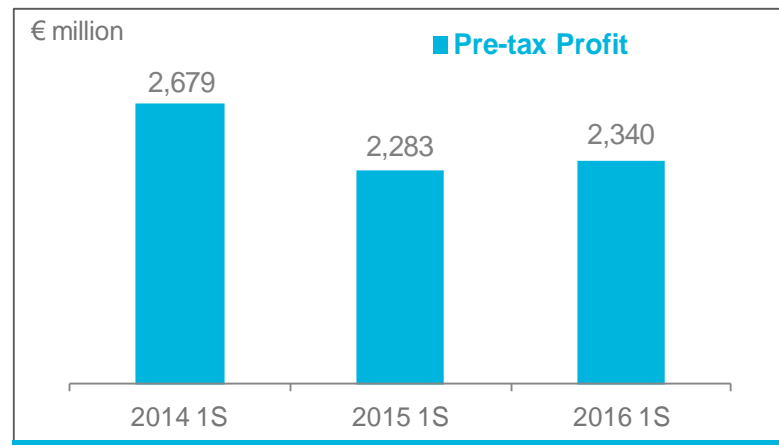
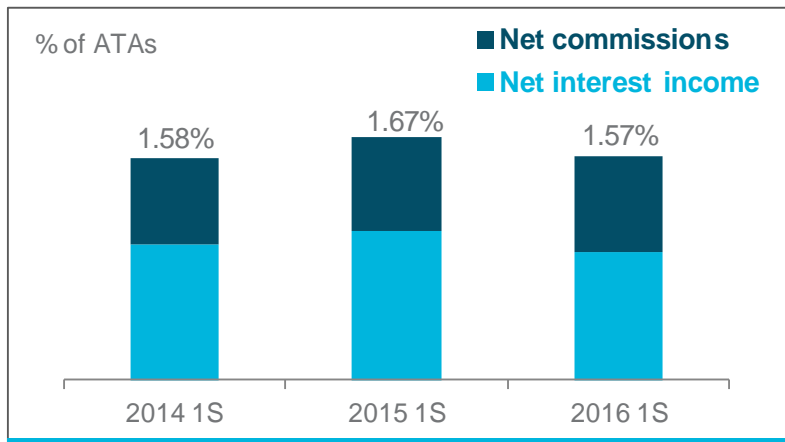
The decreasing trend in non performing loans ratio continues....

... preserving a high degree of the NPL coverage ratio

The improvement of asset quality is reflected into a substantial decrease in the cost of risk in 2016



RESULTS

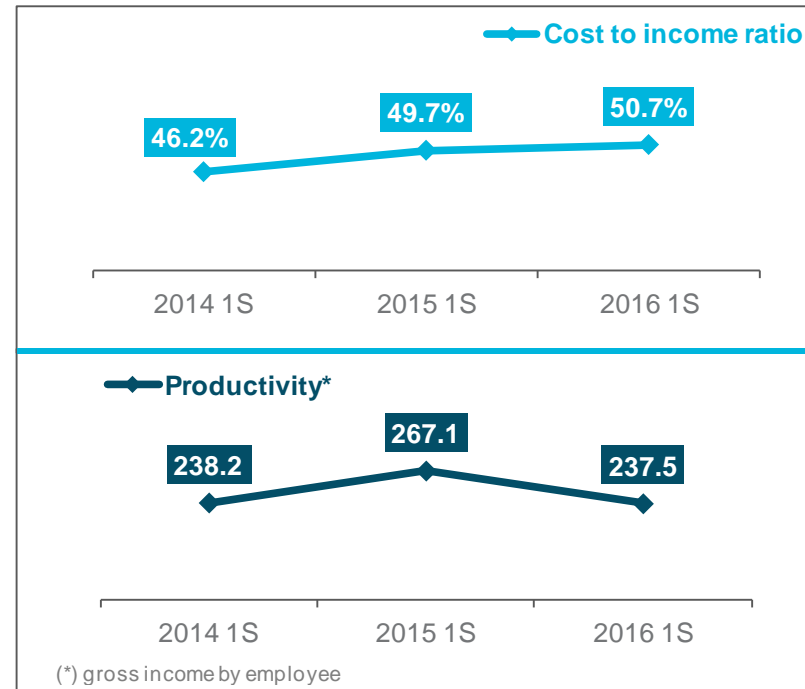
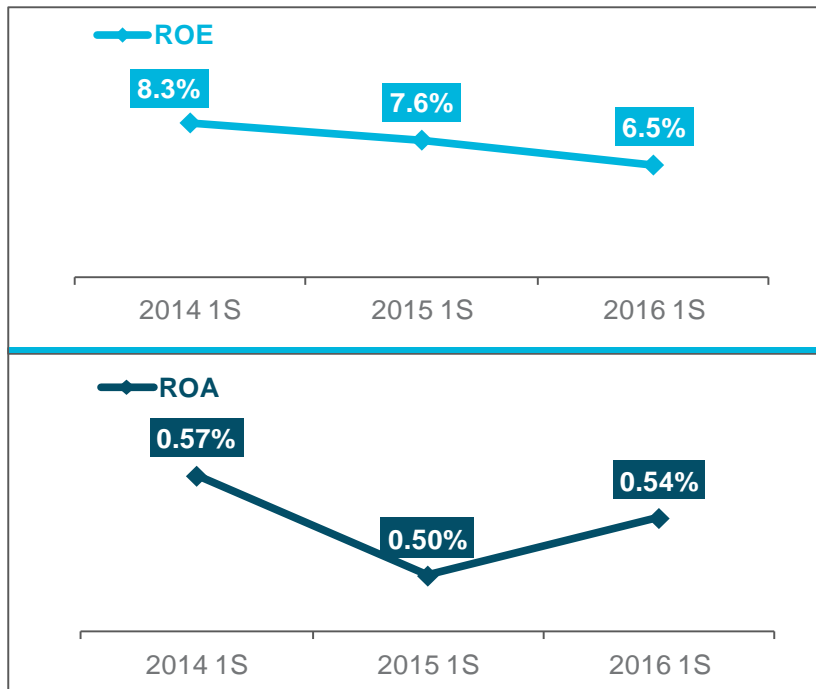


Recurrent income only decreases by 10 b.p. over ATAs despite the interest rate context

While a significant cost reduction occurs by 42 b.p.

Accordingly, the pre-tax profit increased by 2.5% year-on-year

FINANCIAL RATIOS



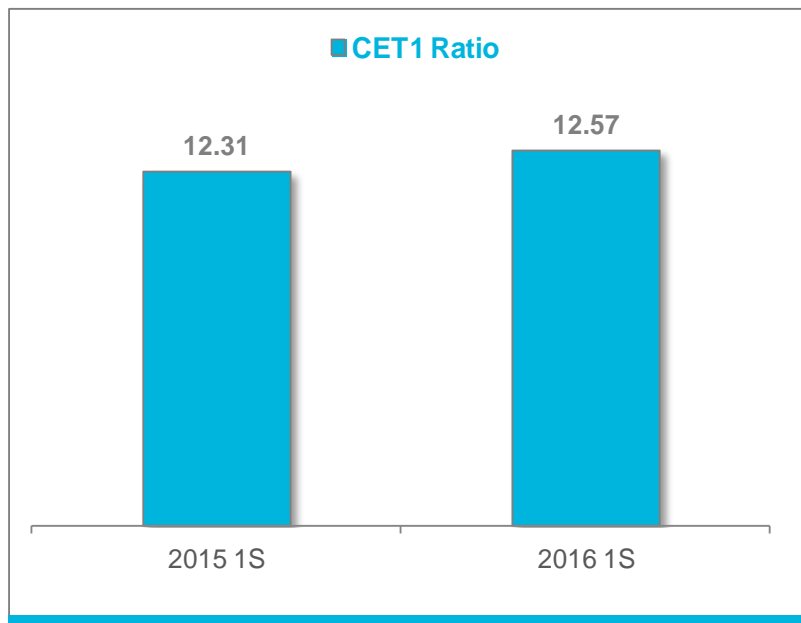
In the first half of 2016, the return on equity stands at 6,5%...

... and the return on assets stands at 0,54%

It has remained a high level of efficiency in 2016...

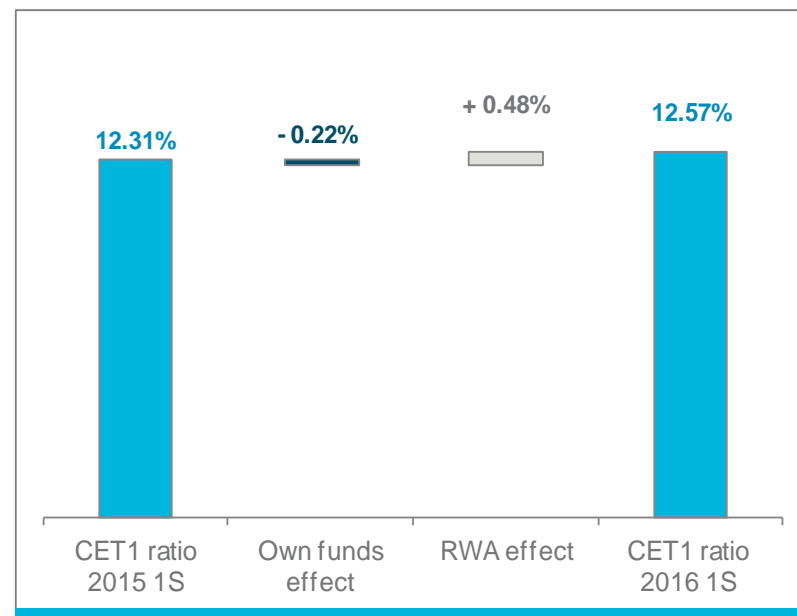
... combined with an accurate productivity level per employee

SOLVENCY



The CET1 ratio stands at 12.57% in the first half of 2016 ...

... exceeding by 26 b.p. the level reached a year ago



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

...the own funds effect is -22 b.p. and the RWAs effect is 48 b.p.

