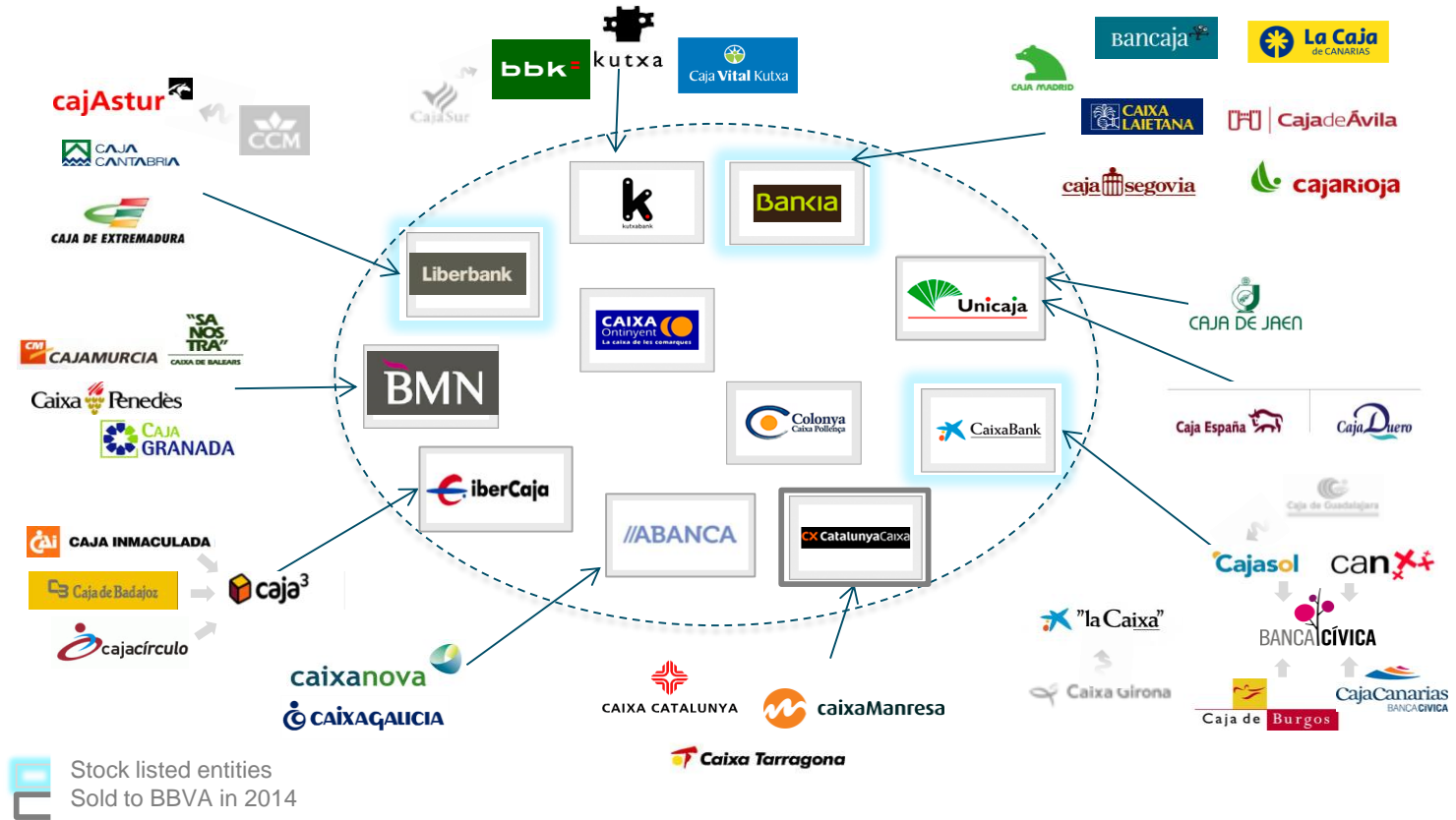


# CECA Sector

Regulatory and financial outlook

June, 15<sup>th</sup> / 2016



BRANCHES	EMPLOYEES	DEPOSITS	CREDITS	TOTAL ASSETS	AVERAGE ENTITIES SIZE
14,118 46% of SFS	80,644 41% of SFS	553,917 EUR Mill. 41% of SFS	543,711 EUR Mill. 39% of SFS	869,471 EUR Mill. 34% of SFS	87,609 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

#### Subjective scope of application

- Banking foundations whose participation in a credit institution, directly or indirectly, is equal or higher 50% or grants control unless the foundations have established a divestment strategy in its diversification plan to reduce their stake to non-control levels.

#### 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**.

#### Timeline

- The target amount of the fund should be reached in a **maximum of 5 years** (with the possibility of extending this up to 2 years, if the Bank of Spain authorizes it) from the entry into force of the Circular 6/2015.
- Banking foundations shall submit the new (or updated) financial plan within three months from the entry into force of the Circular 6/2015.



### 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.



### II. Other laws

#### Circular Bank of Spain 5/2016 on the method of calculating the contributions of the member institutions to DGF are commensurate with the risk profile

- It establishes the method for adjusting contributions to Deposit Guarantee Fund (DGF), based on the amount of covered deposits, by the degree of risk incurred by each member institution. In addition, the DGF can further adjust the contribution (up to +/- 20%).
- The risk indicators considered are related to capital, liquidity and funding, assets quality, business and management model, and potential losses for the DGF.
- This method will be first used for the calculation of the contributions corresponding to financial year 2016.

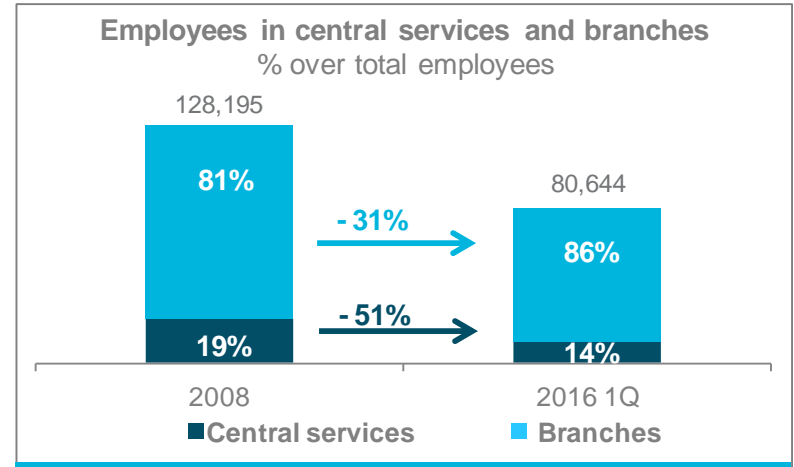
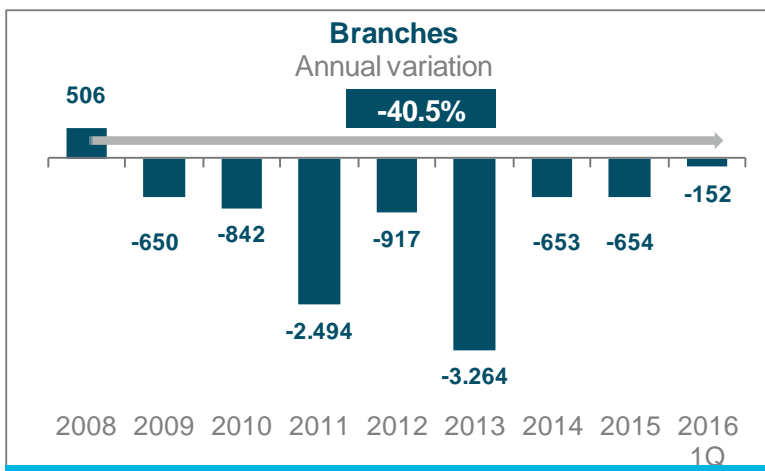
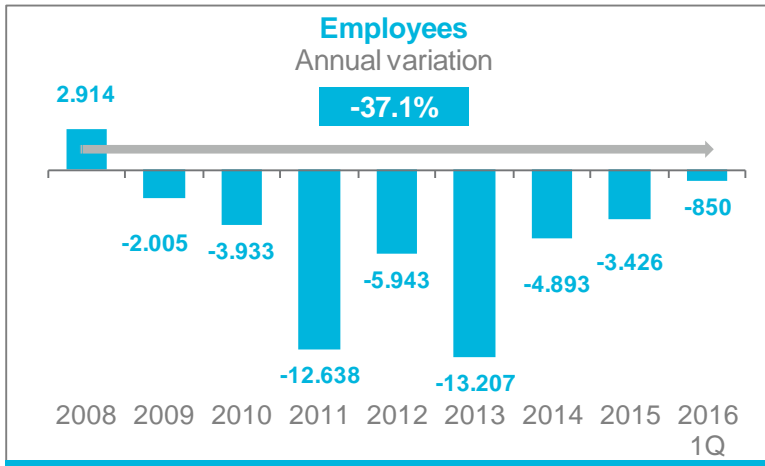
#### Circular Bank of Spain 4/2016 amending Annex IX of Accounting Circular

- It incorporates the latest regulatory developments to the Accounting Circular in order to prepare it for IFRS 9.
- 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.

#### Circular Bank of Spain 2/2016 on supervision and solvency

- It completes the adaptation of Spanish laws to the **EU solvency framework** and develops the supervision regime of financial entities integrated into **financial conglomerates**.
- The main issues addressed in the project relate to: (i) calculation of capital requirements for credit risk, (ii) capital buffers, (iii) governance and internal organization, (iv) assessment of fit and proper criteria, (v) incompatibilities and remuneration regime, (vi) delegation of the provision of services or the exercise of their functions, (vii) requirements related to capital adequacy assessment and the supervisory review process and evaluation, and (viii) disclosure requirements.
- Solvency Circular (Circular 3/2008 of the Bank of Spain) is repealed.

## CAPACITY ADJUSTMENT



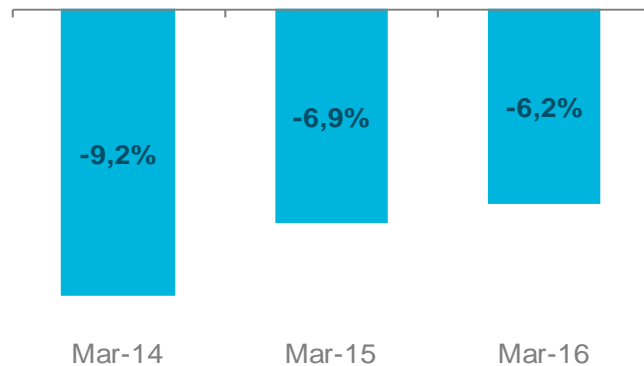
The reduction of employees and branches continues at the beginning of 2016...

...in order to increase efficiency levels

The fall in employees has been higher in central services

## BUSINESS ACTIVITY

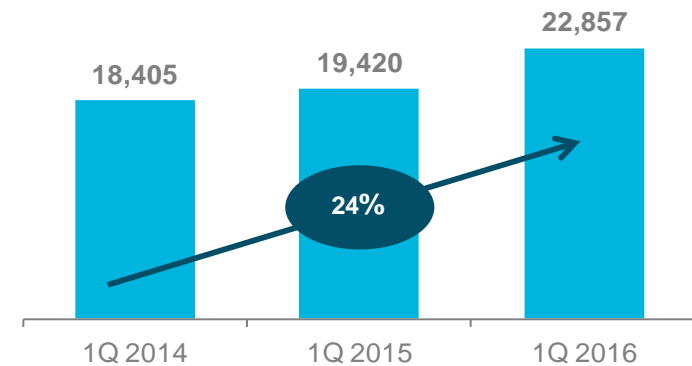
**Credit to non financial corporations and households**  
Annual variation



The deleveraging process continues ...

...although at a more moderate pace

**New credits**  
(€ million)

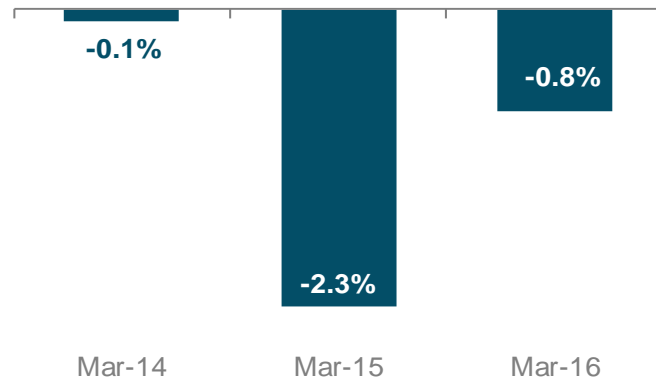


The volume of credit granted is increasing...

...showing similar growth rates in households and non financial corporations

## BUSINESS ACTIVITY

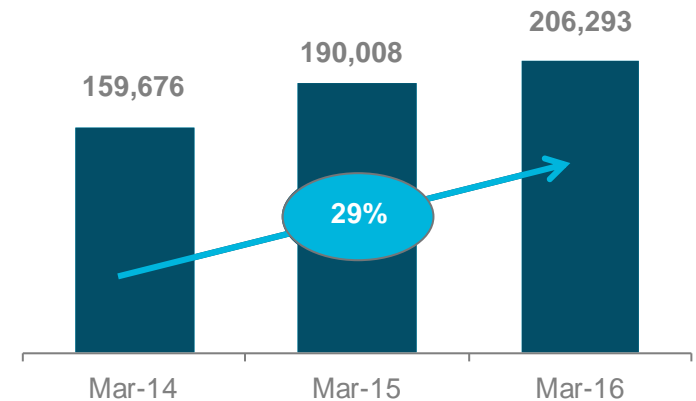
**Deposits from non financial corporations and households**  
Annual variation



The decline of deposits moderates in the first quarter of 2016, despite low interest rates

Meanwhile, it has prompted a shift from time deposits to sight deposits

**Off-balance-sheet customer funds**  
(€ million)

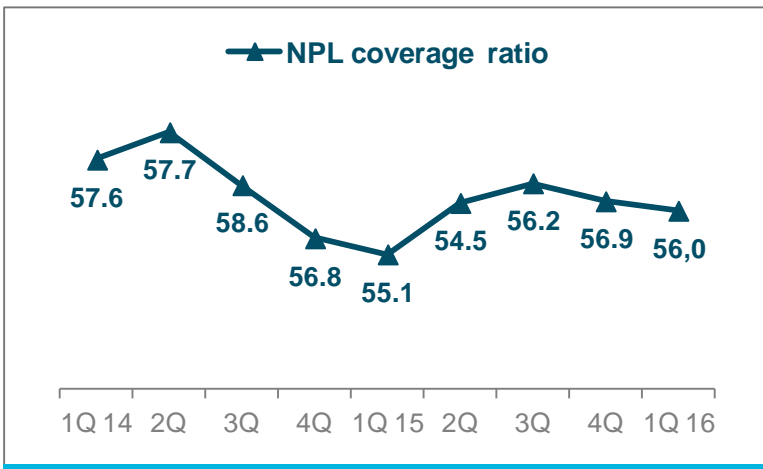
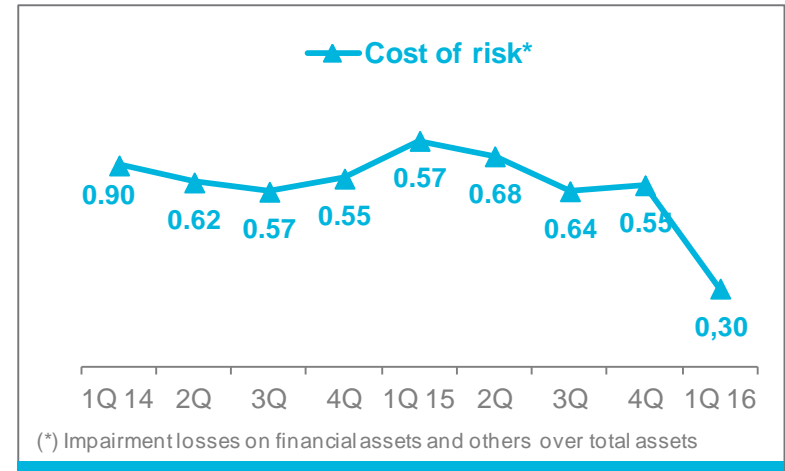
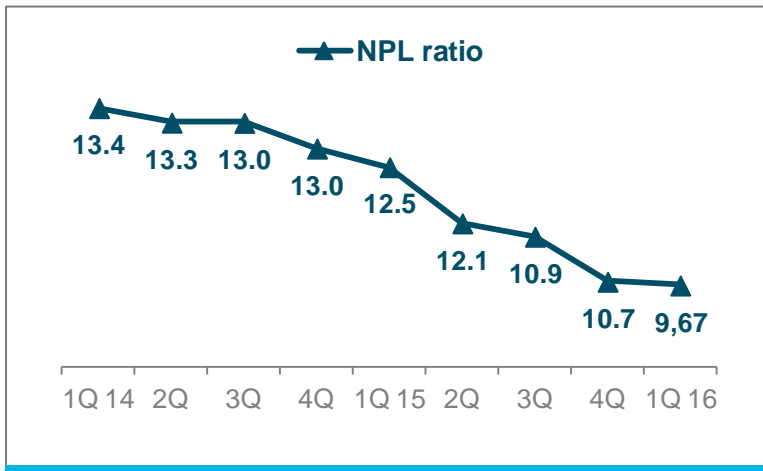


The off-balance-sheet customer funds continue increasing...

...with positive growth in all segments and particularly in investment funds



### CREDIT RISK

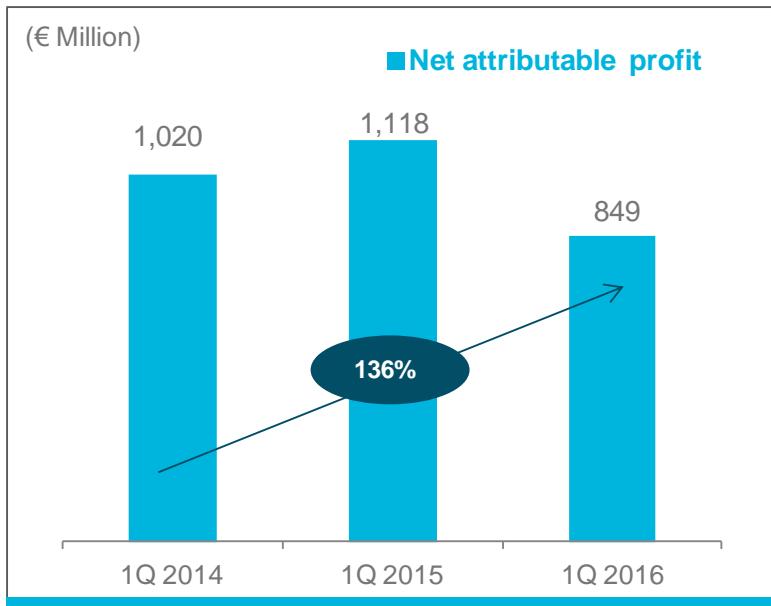


In the last two years the NPL ratio decreased by 3,64 p.p....

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

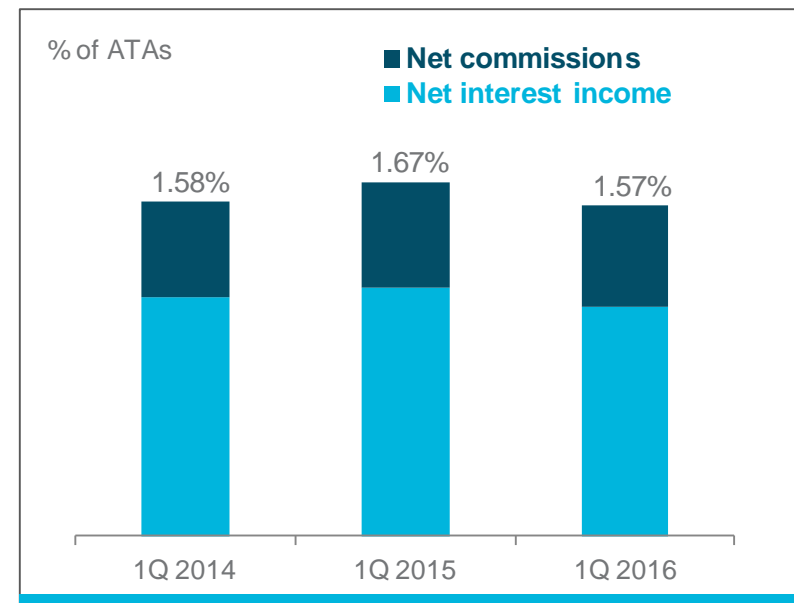
The improvement in the NPL ratio explains the fall in the cost of risk in 2016

## RESULTS



In the first quarter of 2016, net profit was lower than in the same period of 2015...

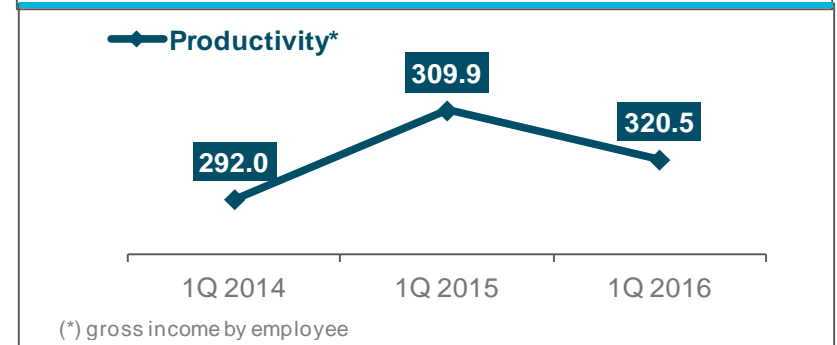
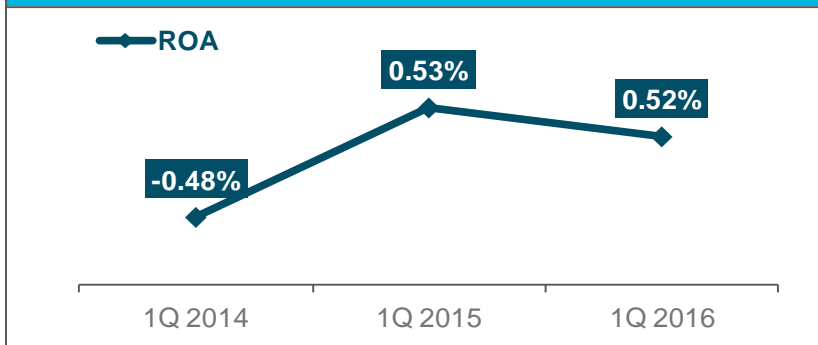
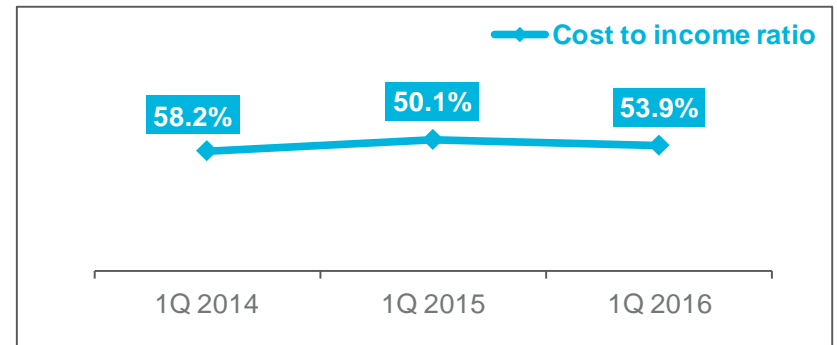
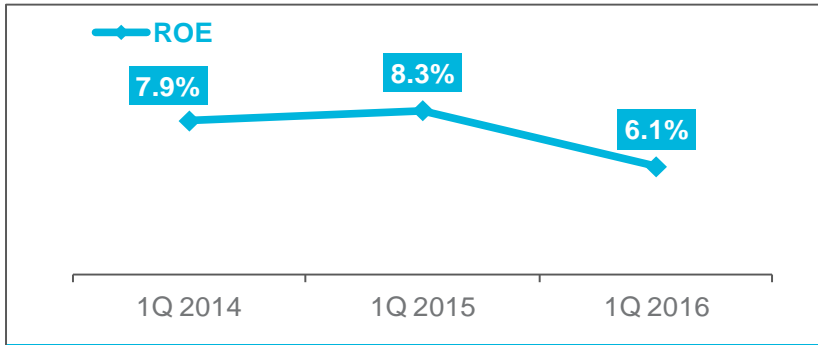
...affected by falling interest rates and the negative performance of financial markets



However, recurrent income decreases only by 10 p.b over ATAs....

...returning to the levels achieved in 2014

FINANCIAL RATIOS



In the first quarter of 2016, the return on equity stands at 6,1%...

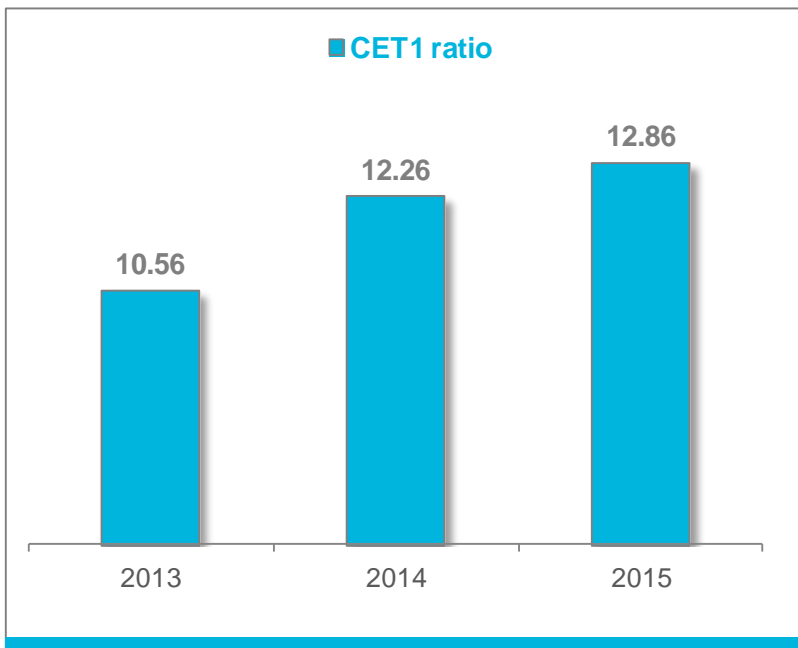
The high level of efficiency increases slightly in 2016...

... and the return on assets is stable at 0,52%

... although productivity level per employee decreases

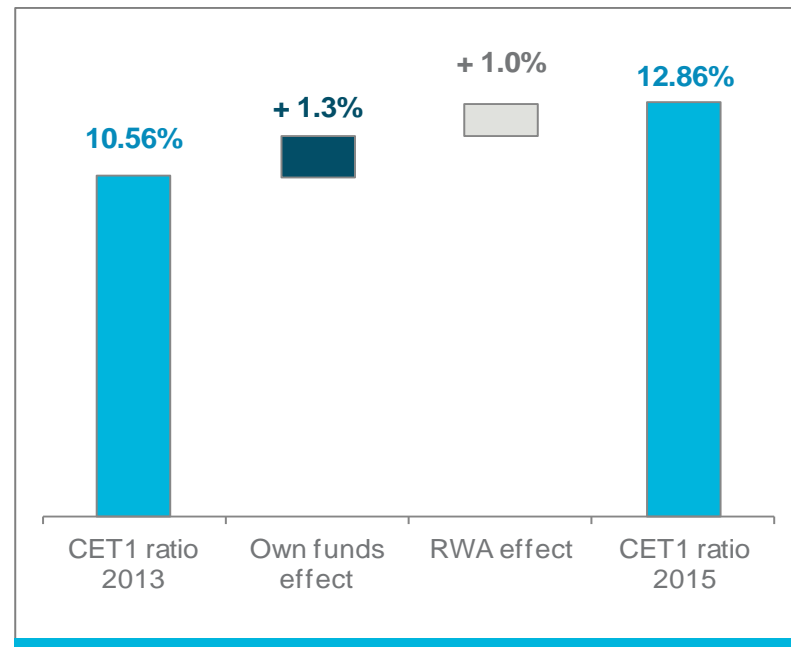


SOLVENCY



Reinforcement of the higher quality solvency ratio ...

... reaching a CET1 ratio of 12,9% in 2015



The improvement of CET1 ratio from 2013 occurs by means ...

...of the increase of own funds and the decrease of RWAs

