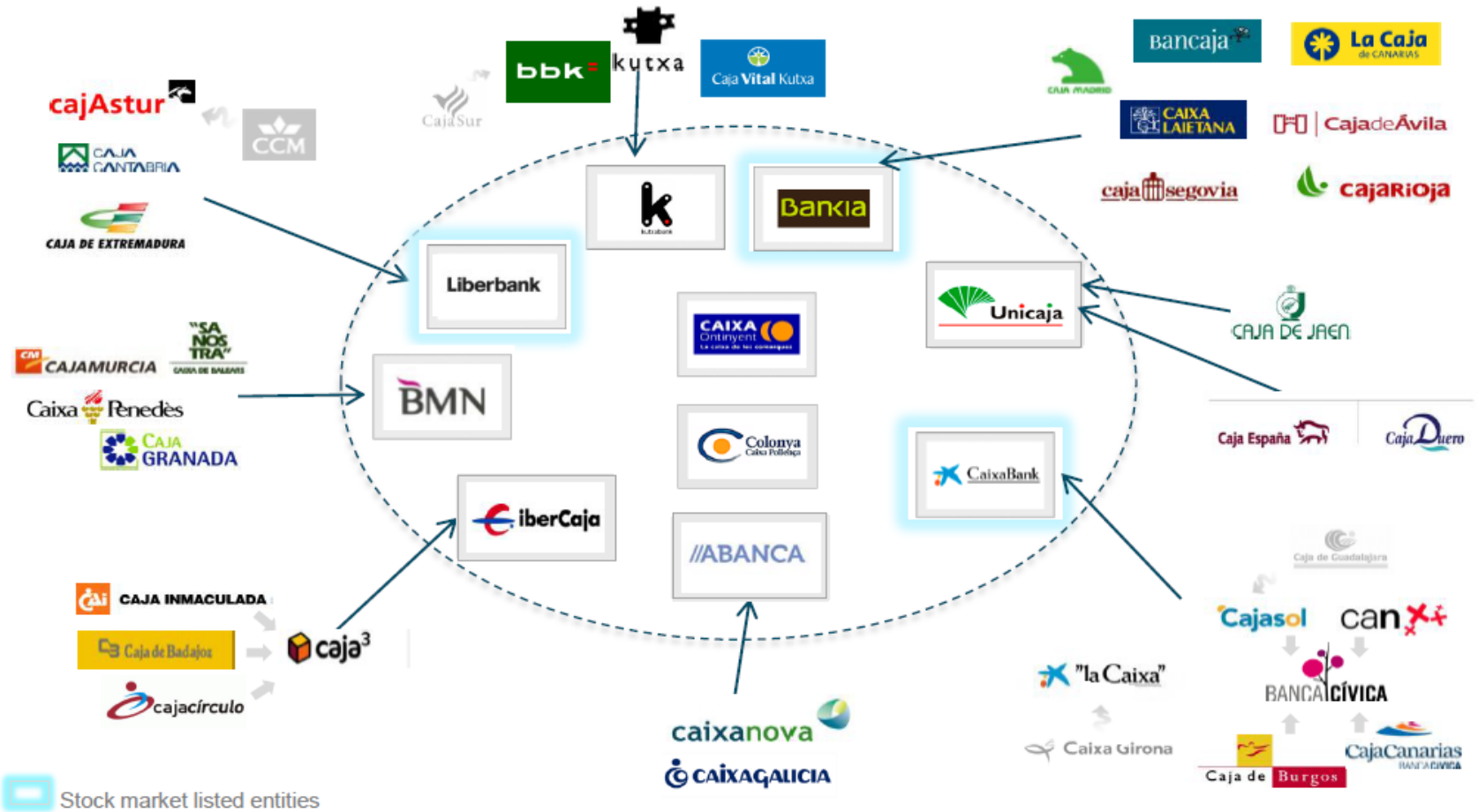


# CECA Sector

Regulatory and financial outlook

September, 19<sup>th</sup> / 2017



BRANCHES	EMPLOYEES	DEPOSITS	CREDITS	TOTAL ASSETS	AVERAGE ENTITIES SIZE
12,555 45% of SFS	73,696 39% of SFS	516,802 EUR Mill. 38% of SFS	492,240 EUR Mill. 36% of SFS	783,441 EUR Mill. 32% of SFS	84,821 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.

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

### Content

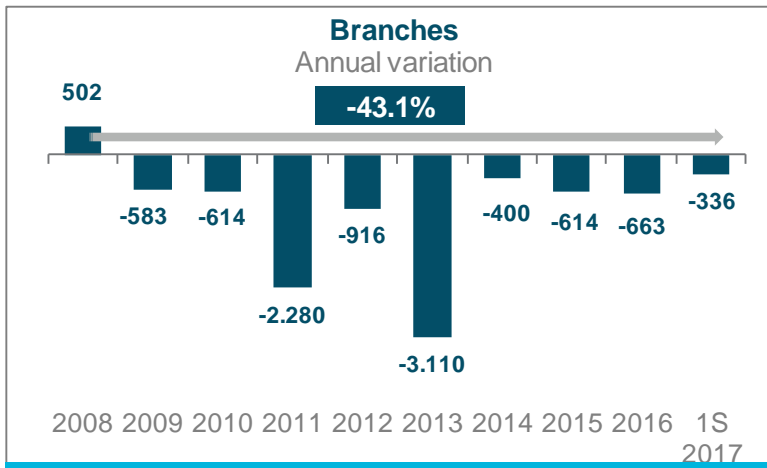
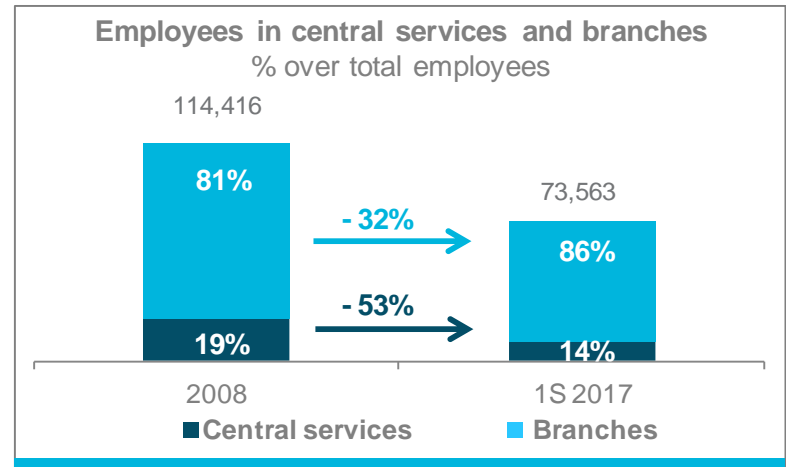
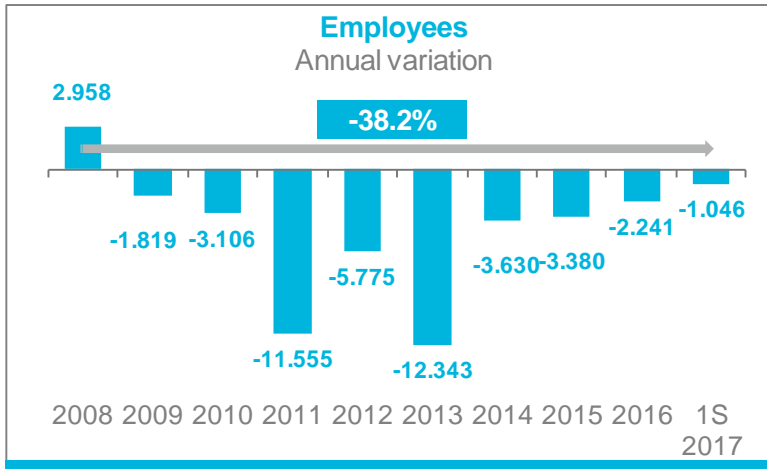
- It develops standards and models of financial information for banking foundations.
- It adapts accounting regulation of non-profit entities to the specific characteristics of banking foundations. Additionally, banking foundations will apply the General Accounting Plan, complemented with sectoral adaptations 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



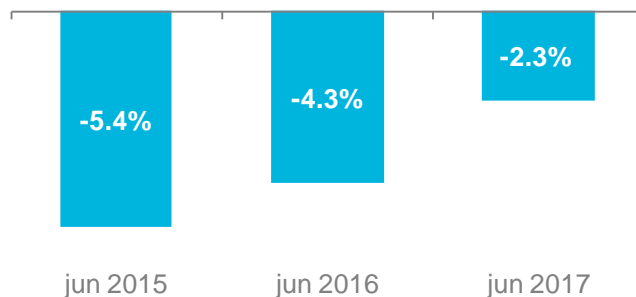
The strong capacity adjustment continues in the second quarter of 2017...

...at a similar pace than the average pace of the last three years.

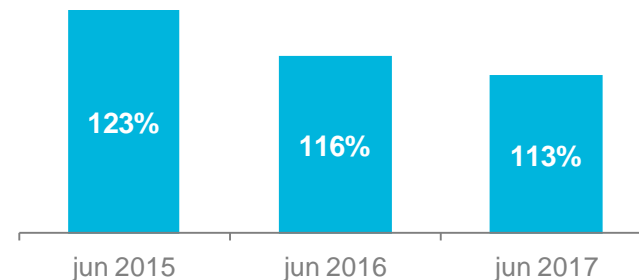
The number of employees was reduced by 1,046 and the number of branches by 336 in the second quarter of 2017.

## BUSINESS ACTIVITY

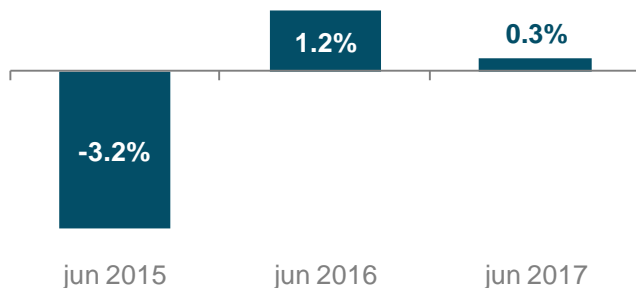
**Credit to non financial corporations and households**  
Annual variation



**Loan to deposit ratio**  
Annual variation



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

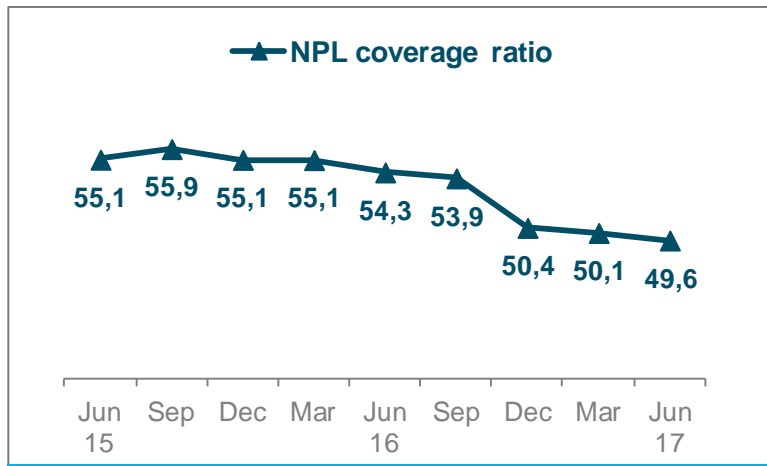
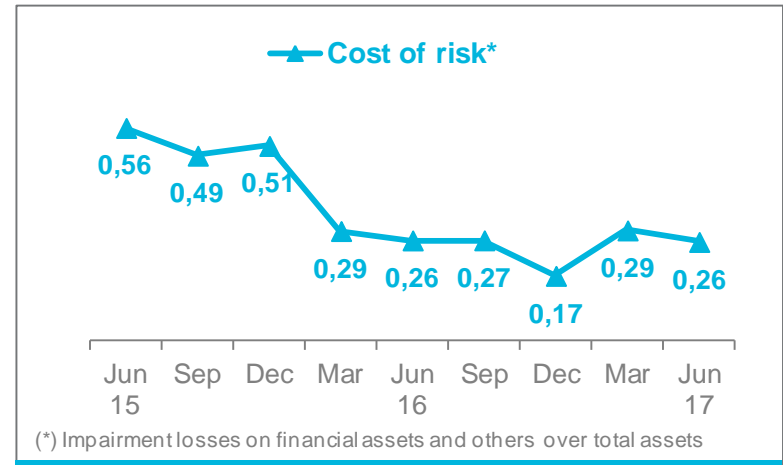
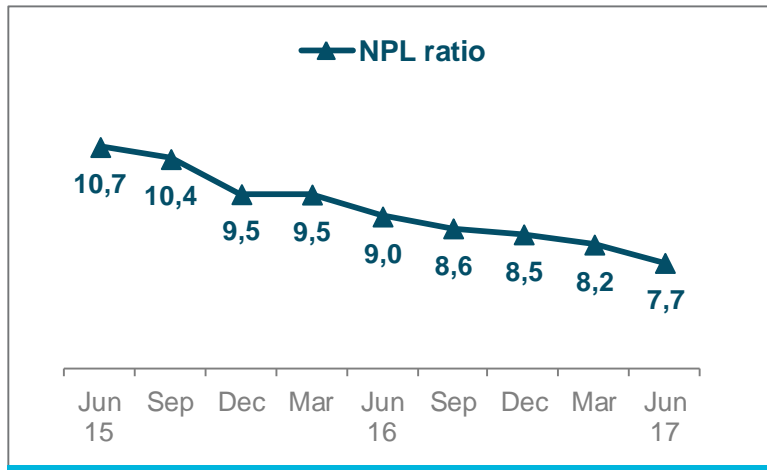


Retail deposits grew slightly in the first semester of 2017, fostered by sight deposits.

The pace of adjustment of lending to the private sector moderates, in line with an increasing volume of new loans.

Both effects resulted in a reduction of the ratio of credits over deposits until 113%.

### CREDIT RISK

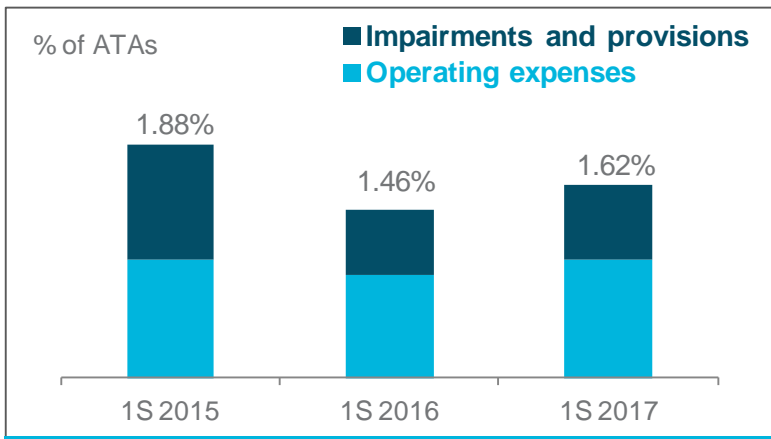
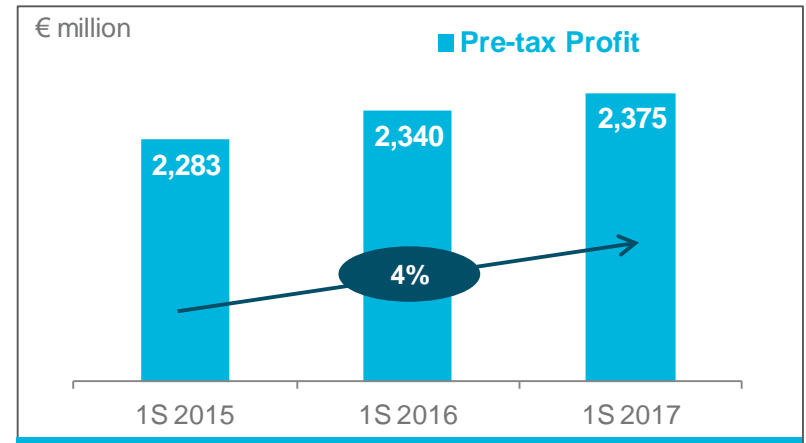
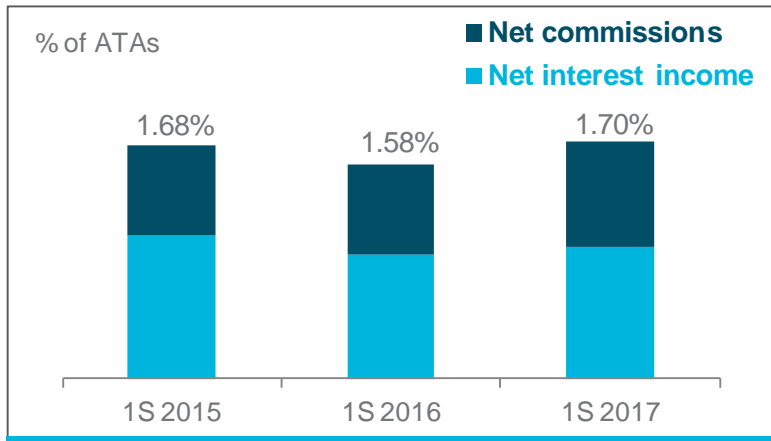


The trend of decreasing non-performing loans continues in the first half of 2017...

...while the level of coverage ratios remains around 50%...

... and the cost of risk stand at the same level than 2016.

RESULTS



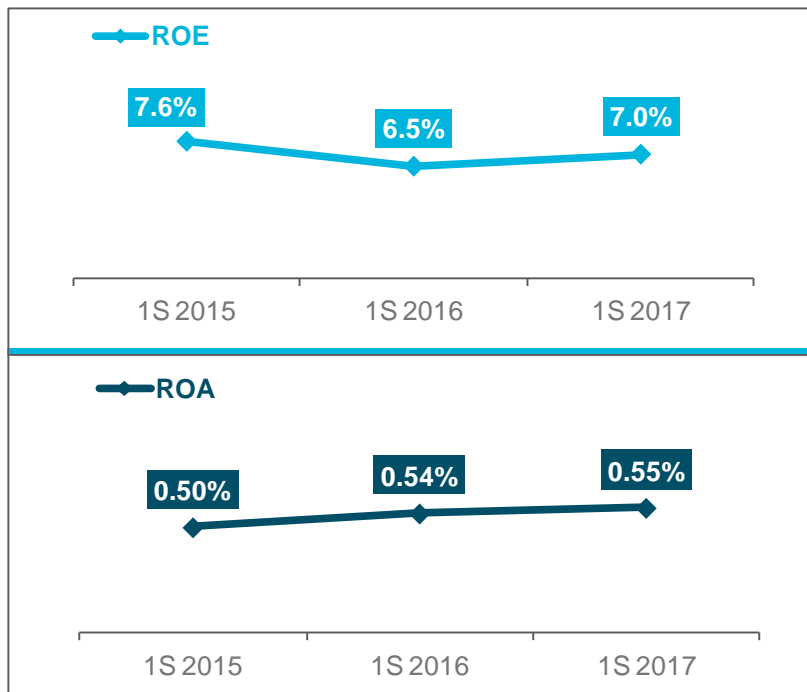
The increase of recurrent income at the first semester has compensated...

...higher operating expenses and provisions linked to restructuring process.

Pre-tax profit shows a moderate but sustained increase over the last two years.

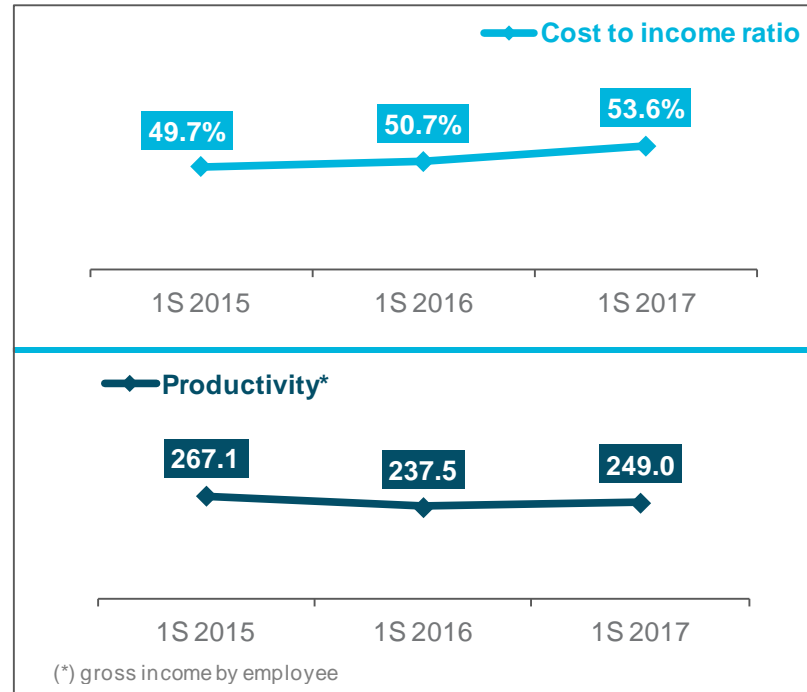


## FINANCIAL RATIOS



Return on equity stands at 7%, 50 basic points higher than in the same period of 2016...

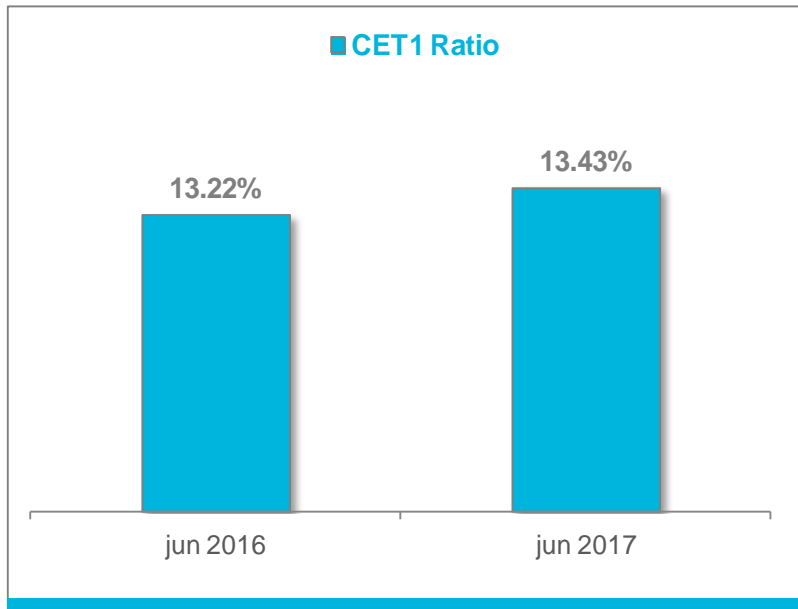
...due to the increase in attributable profit and despite the reinforcement of own funds.



The level of efficiency remains high, despite the increase of the ratio...

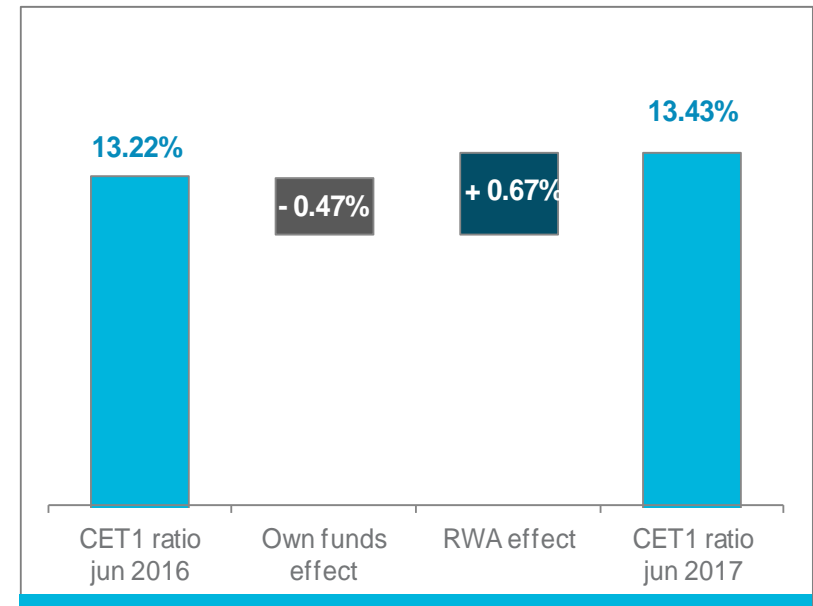
... which is combined with an improvement of the productivity level per employee.

## SOLVENCY



Should be noted the Sector solid solvency ratios...

... as CET1 ratio achieved 13.4% in June 2017, 20 basic point higher than one year before.



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

...the rise in CET1 comes from a higher increase in own funds than in RWAs.

