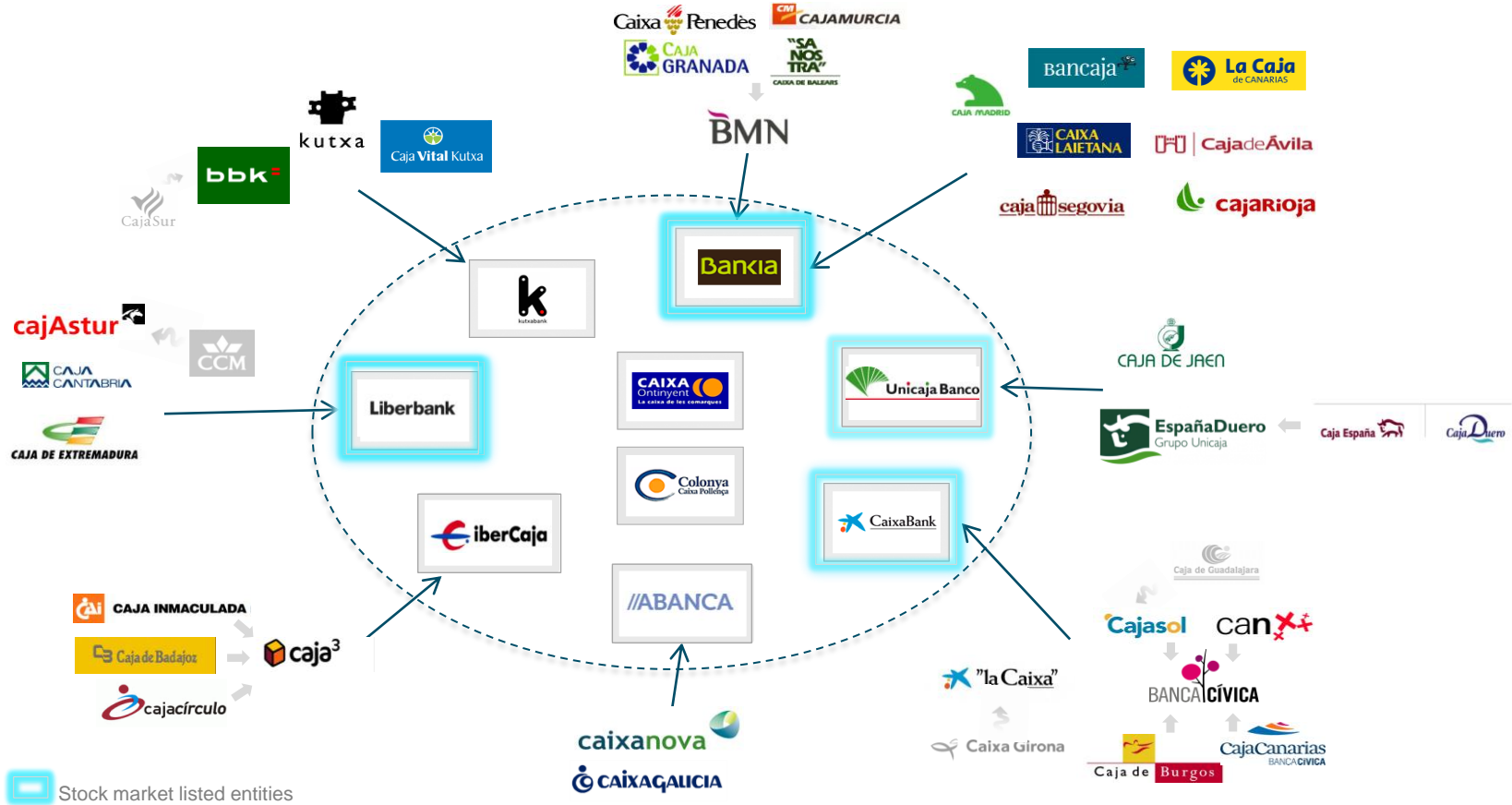


CECA Sector

Regulatory and financial outlook

March, 20th / 2018



BRANCHES	EMPLOYEES	DEPOSITS	CREDITS	TOTAL ASSETS	AVERAGE ENTITIES SIZE
12,246 45% of SFS	72,344 39% del SFS	520,775 EUR Mill. 39% del SFS	502,139 EUR Mill. 37% del SFS	789,483 EUR Mill. 32% del SFS	91,038 EUR Mill.

 Law 26/2013 on savings banks and banking foundationsReform 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.

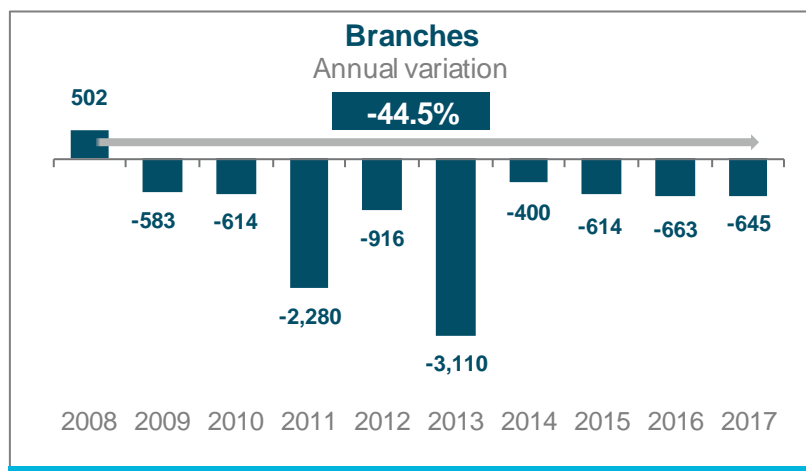
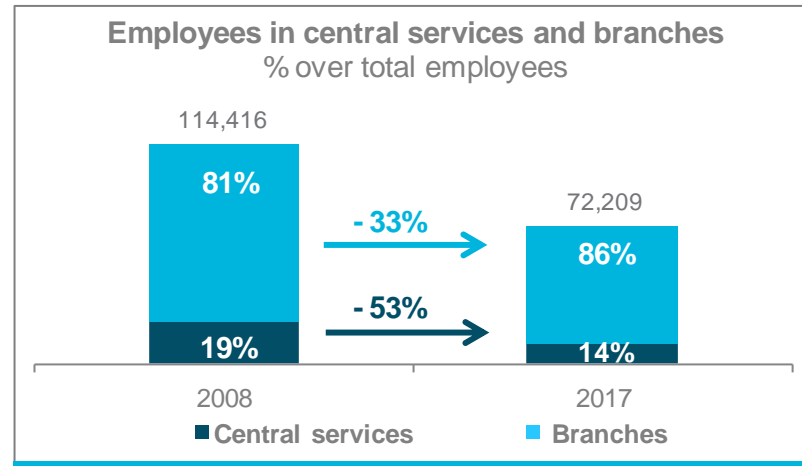
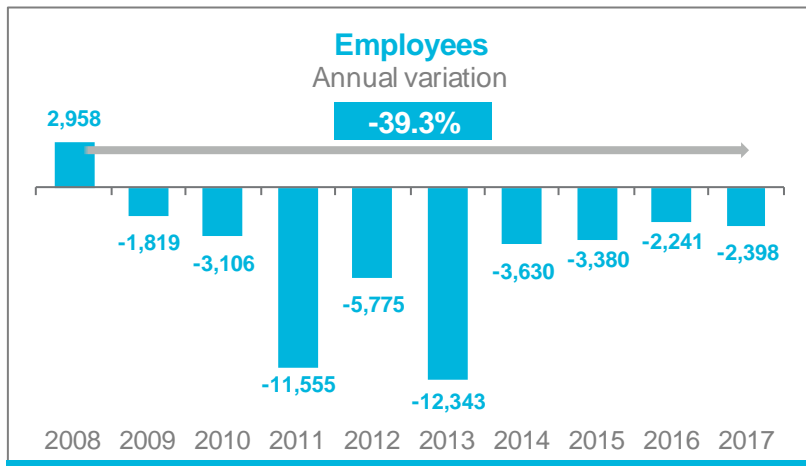
Royal Decree 536/2017 regulating the reserve fund of banking foundations

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



In 2017 branch network and employees have reduced at a similar rate as in the previous year...

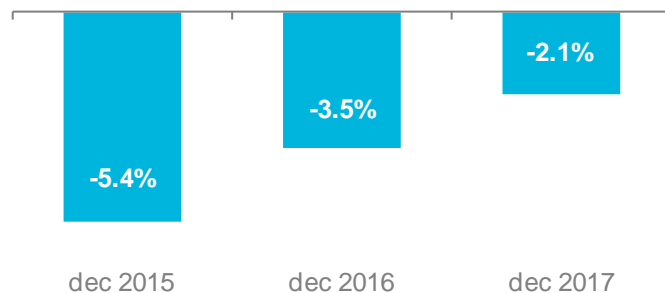
...with a more intense reduction in central services staff, which reached 53% since 2008.

The number of employees decreased by 2,398 and the number of branches by 645 in 2017.

BUSINESS ACTIVITY

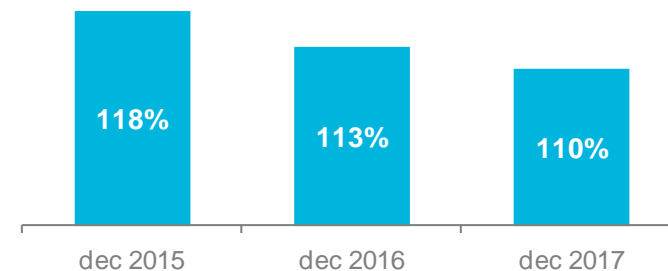
Credit to non financial corporations and households

Annual variation



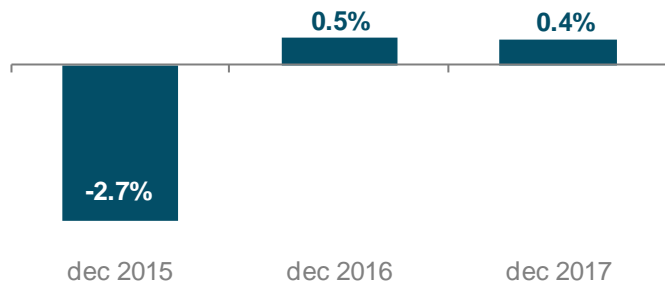
Loan to deposit ratio

Annual variation



Deposits from non financial corporations and households

Annual variation

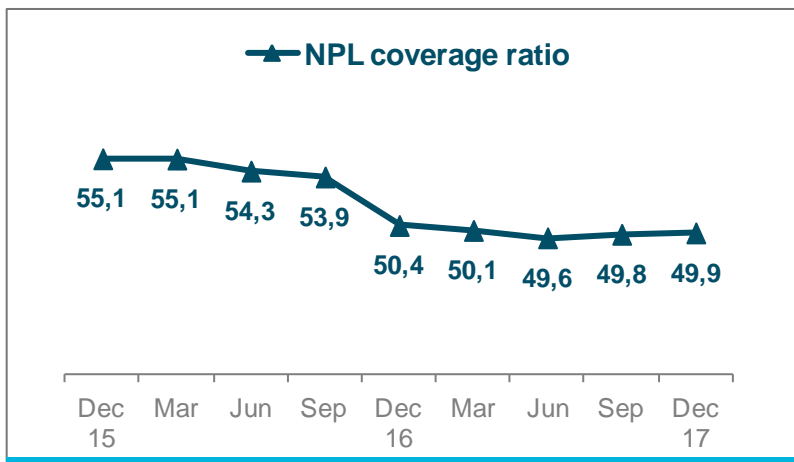
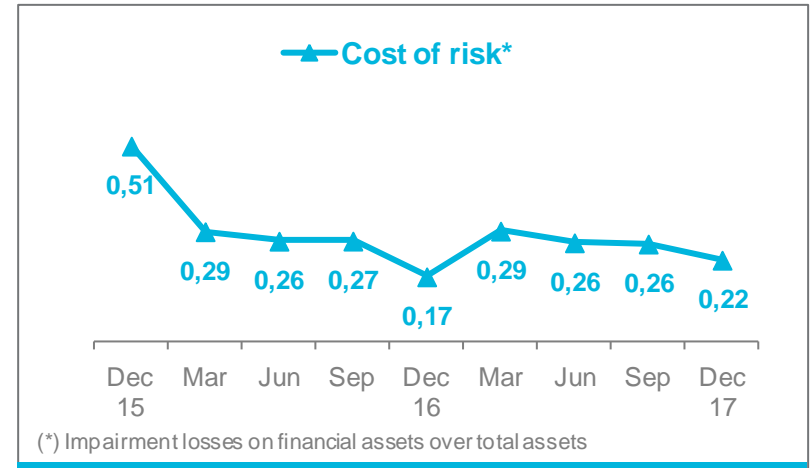
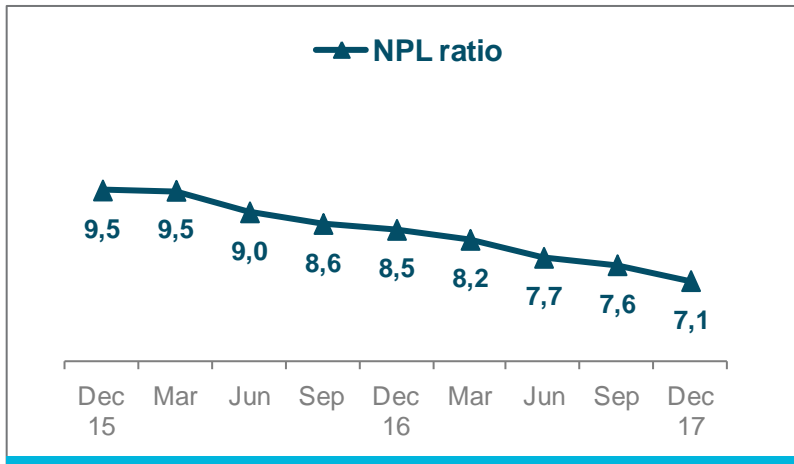


The declining trend in lending is more moderate, especially in case of non financial corporations.

In 2017 retail deposits have grown 0.4%, fostered by non financial corporates deposits.

As a result, the loan to deposit ratio dropped to 110%.

CREDIT RISK



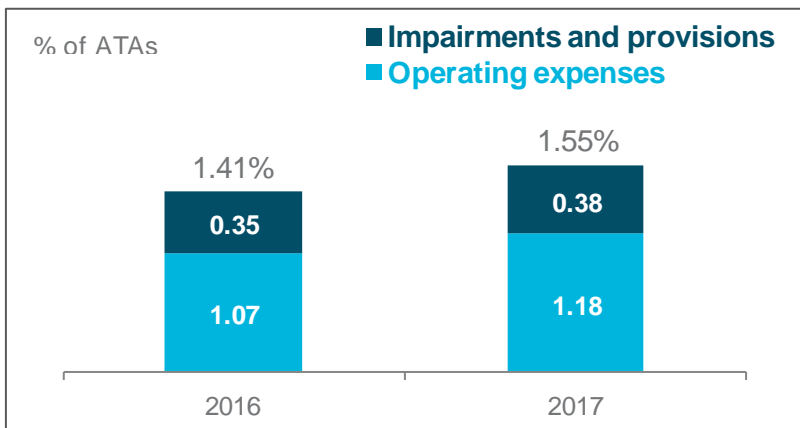
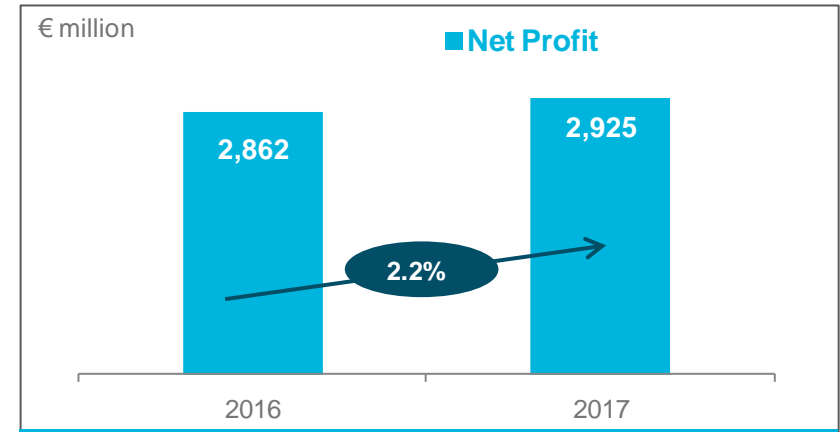
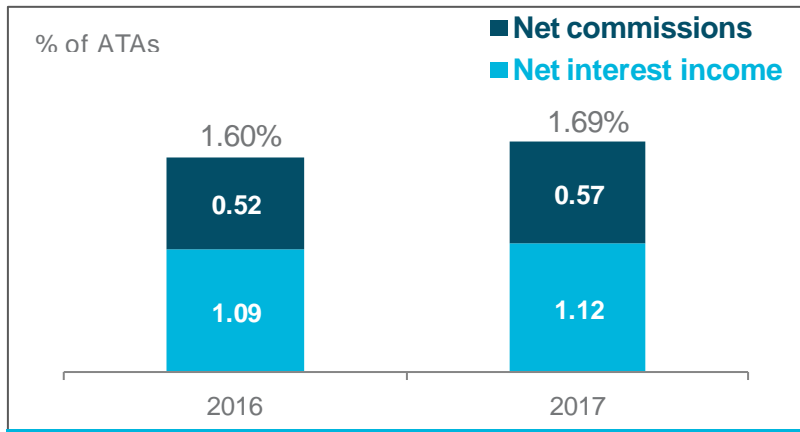
The decreasing trend in the non-performing loan ratio has been maintained in 2017...

...while the level of the coverage ratio remains stable around 50%...

...and the cost of risk stands at 0.22% at the end of the year.



RESULTS

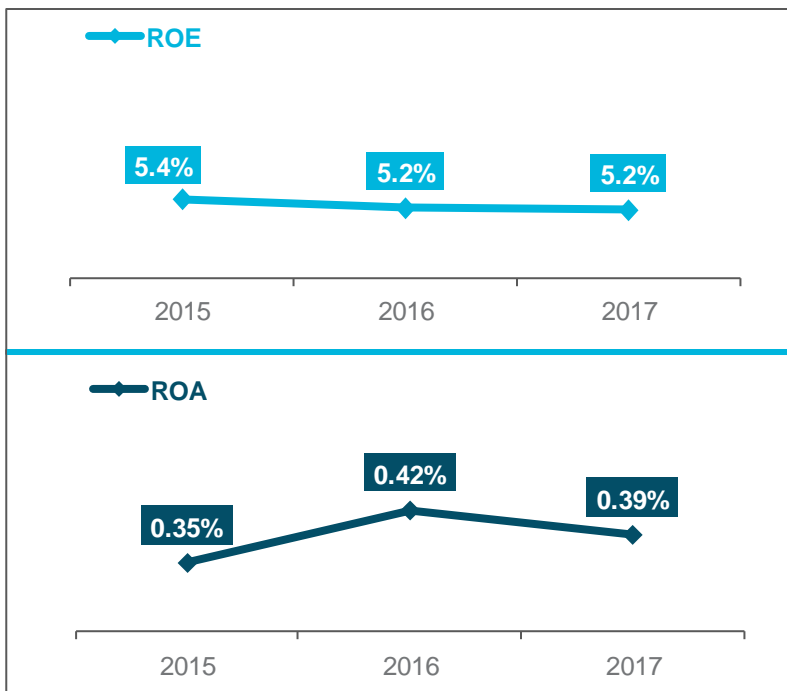


Recurrent revenue has increased in 2017, such as net interest income and net commissions.

Operating expenses rise due to extraordinary costs...

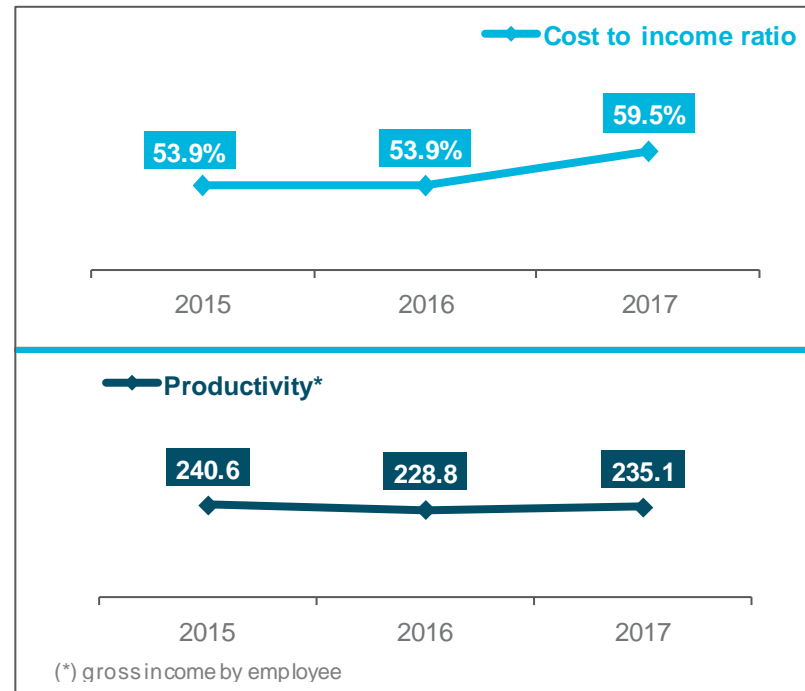
...allowing a consolidated net profit growth of 2.2%.

FINANCIAL RATIOS



Return on equity remains at 5.2% in 2017, the same level as in 2016.

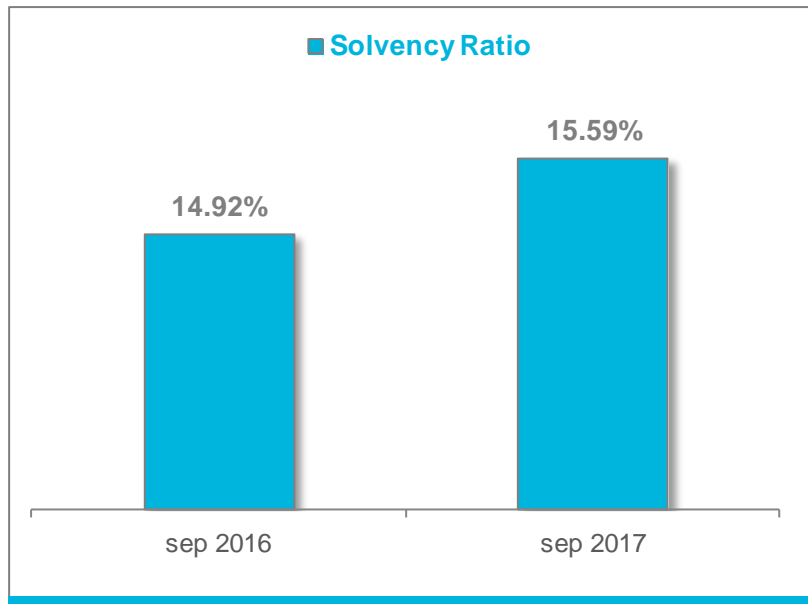
Return on assets stands at 0.39%, 3 basic points lower than in the same period of 2016.



Because of extraordinary costs, the cost to income ratio is higher than last year...

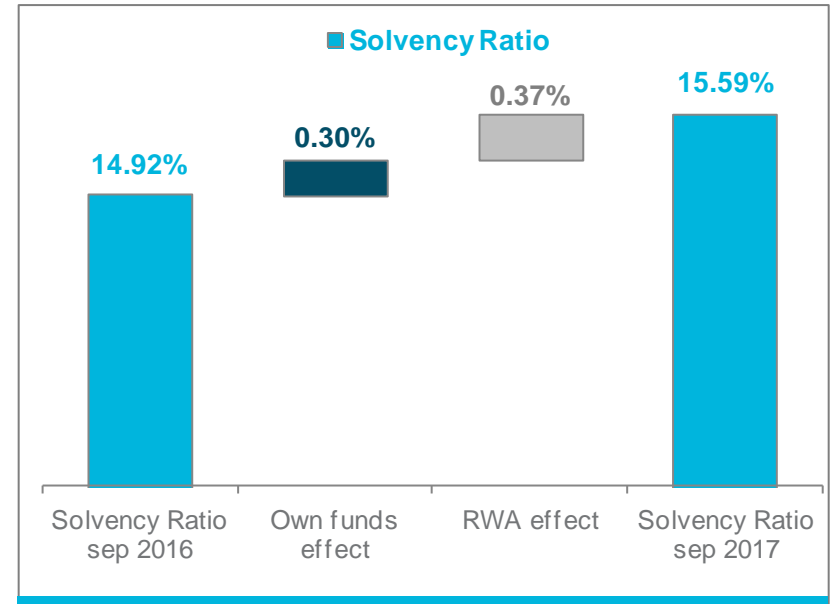
...while the productivity by employee improves.

SOLVENCY



The strengthening of solvency ratios continues in 2017...

...as the solvency ratio reaches 15.6%, 67 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 30 b.p. and the RWAs effect is 37 b.p.

