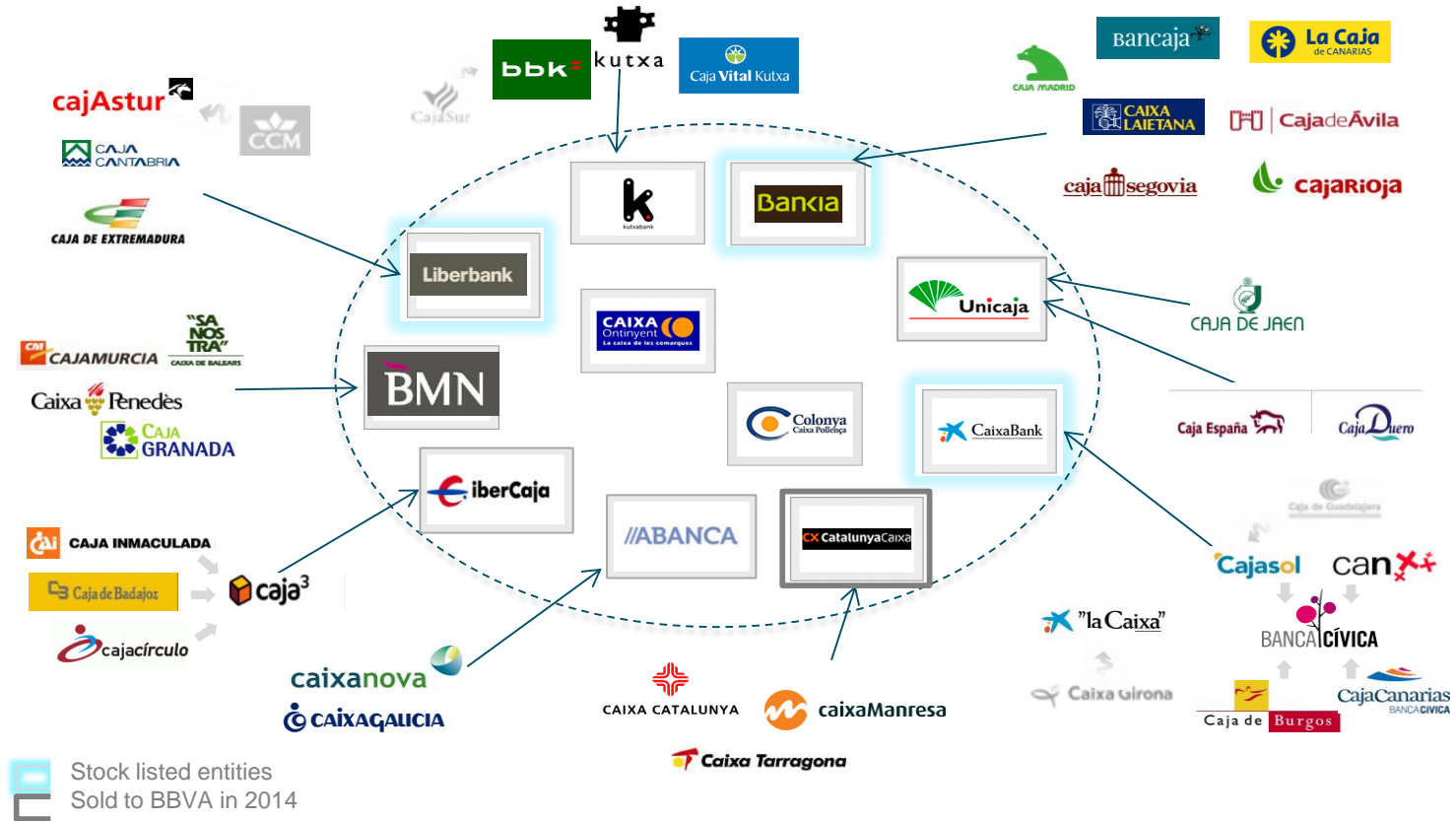


# CECA Sector

Regulatory and financial outlook

March, 22<sup>nd</sup> / 2016



BRANCHES	EMPLOYEES	DEPOSITS	CREDITS	TOTAL ASSETS	AVERAGE TOTAL ASSETS
14,443 46% of SFS	82,422 41% of SFS	570,374 EUR Mill. 42% of SFS	567,329 EUR Mill. 39% of SFS	910,347 EUR Mill. 35% of SFS	92,354 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 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.

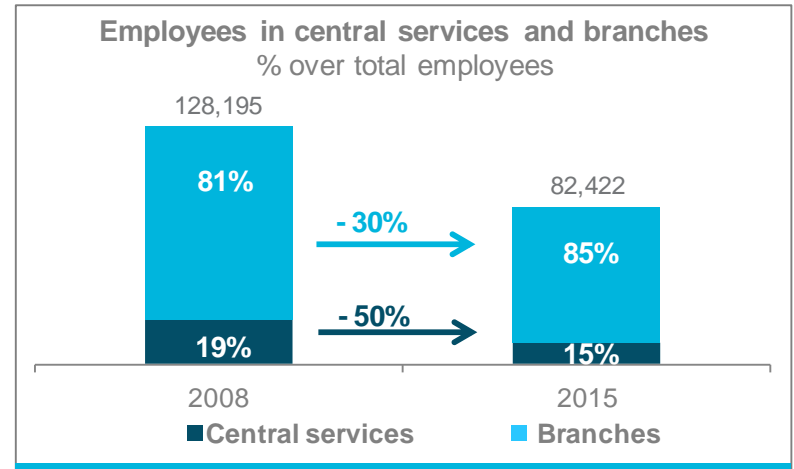
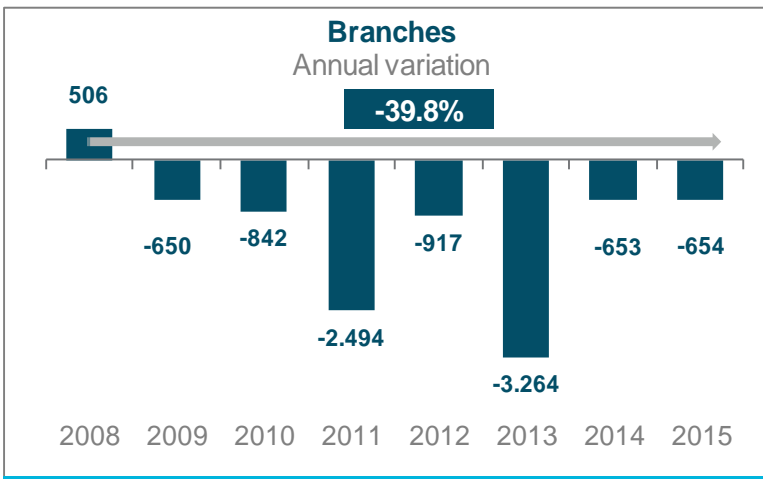
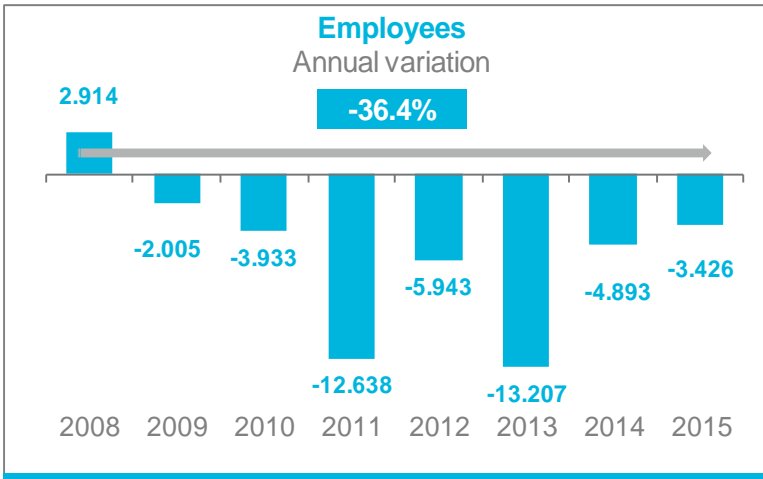
#### Draft Circular Bank of Spain amending Annex IX of Accounting Circular

- It incorporates the latest regulatory developments to Accounting Circular to prepare for IFRS 9.
- The **main changes** refer: (i) the new accounting policy for 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.
- In relation to the new **Annex IX**, it includes the following: (i) estimation of generic and specific provisions based on an expected loss approach, (ii) the substandard category is eliminated and a new risk subcategory, “special surveillance”, is added within the normal risks category, (iii) practical solutions for the estimation of the specific coverage for non-performing risks and generic coverage for normal risks, (iv) criteria to estimate the adjusted appraised value of real estate assets foreclosed or received in payment of debts.

#### Draft Circular CNMV on depositaries

- 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.
- 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.

## CAPACITY ADJUSTMENT



Process of capacity adjustment continued in 2015

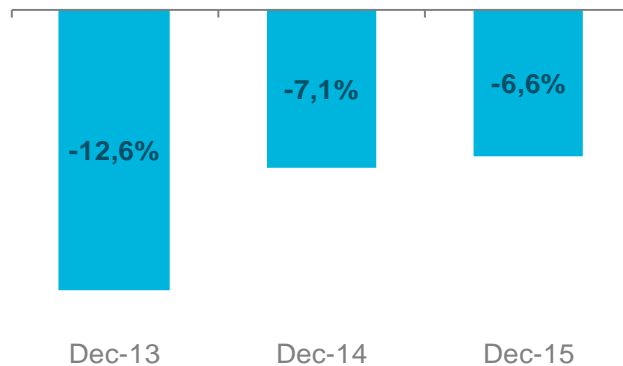
While the number of branches has fallen at the same pace as in 2014 ...

... the reduction in the number of employees has become less intense than in previous years

## BUSINESS ACTIVITY

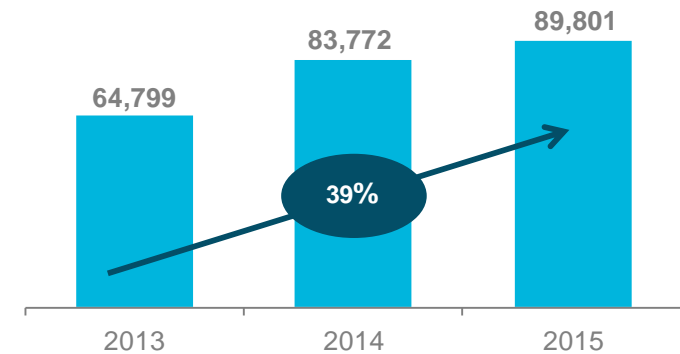
## Credit to non financial corporations and households

Annual variation



The process of credit deleveraging continues but at a more moderated rate

Slower contraction occurs both in households and non financial corporations

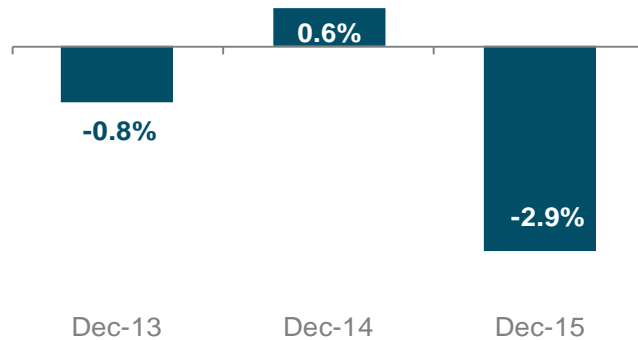
New credits  
(€ million)

The volume of new credits granted has continued increasing...

... with a more active production of loans to households

## BUSINESS ACTIVITY

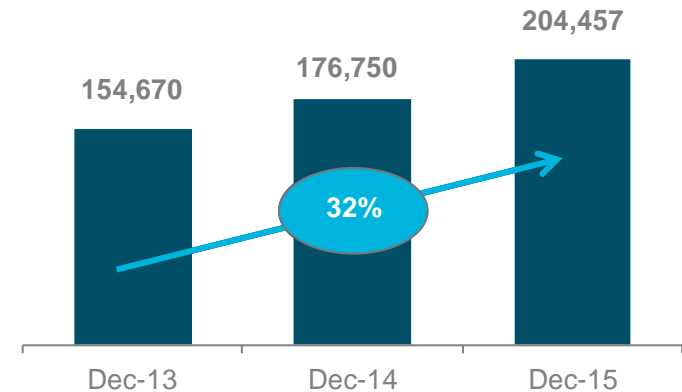
**Deposits from non financial corporations and households**  
Annual variation



The context of historically low interest rates makes deposits less attractive ...

...resulting in a shift from long term deposits to current deposits and other products

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

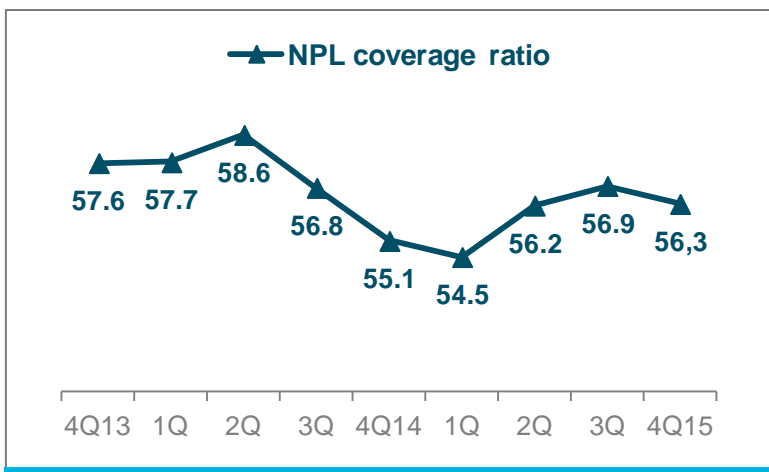
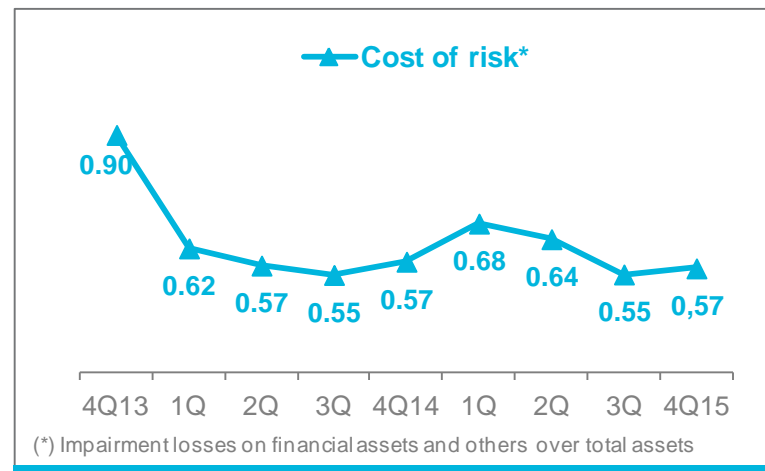
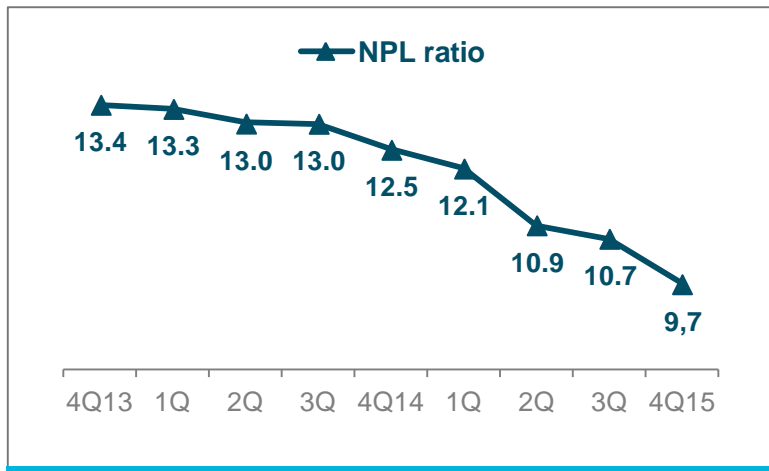


The off-balance-sheet customer funds expansion continues...

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



### CREDIT RISK

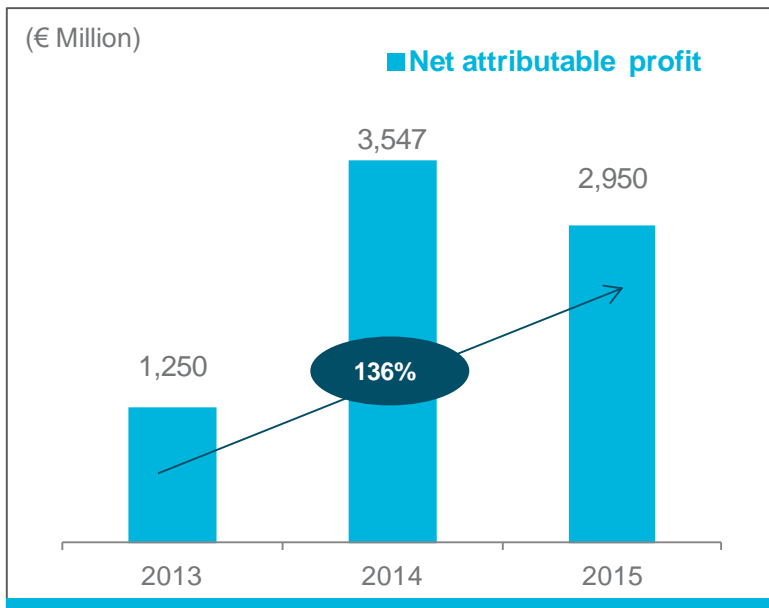


The pace of contraction of NPL ratio is faster in 2015, due to the stronger decline of non performing loans...

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

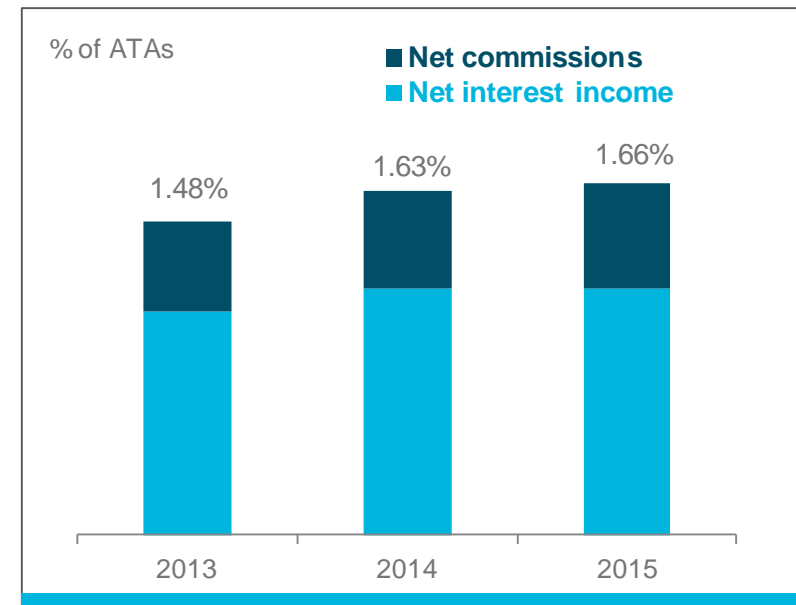
The cost of risk remains at a similar level to the previous year

## RESULTS



The strength of net attributable profit in 2015 ...

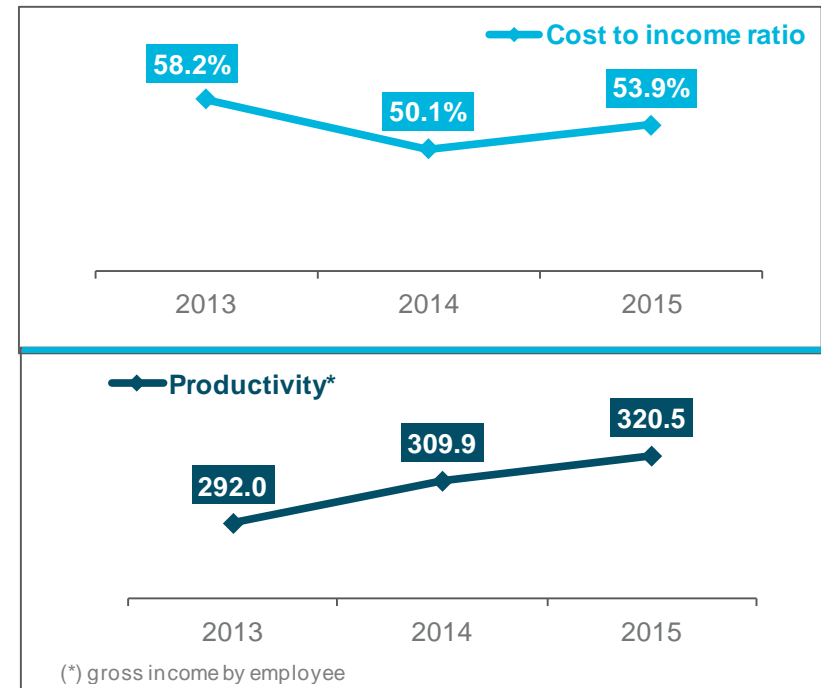
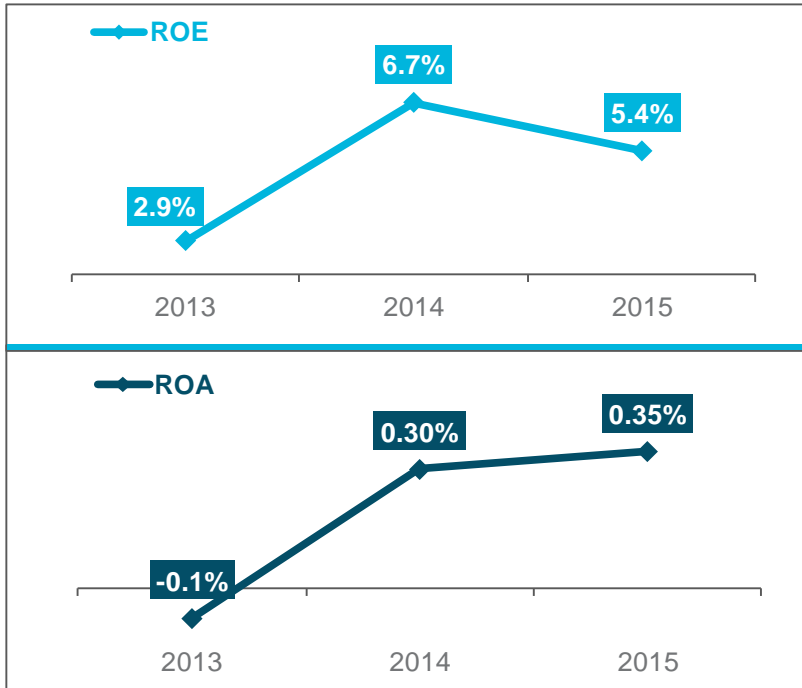
... is mainly supported by recurring business



Positive performance of net recurring income (up to 18 b.p. over 2013) ...

...with a further increase of commissions than net interest margin during the last year

## FINANCIAL RATIOS



Resilience of ROE in 2015 despite the negative scenario of low interest rates

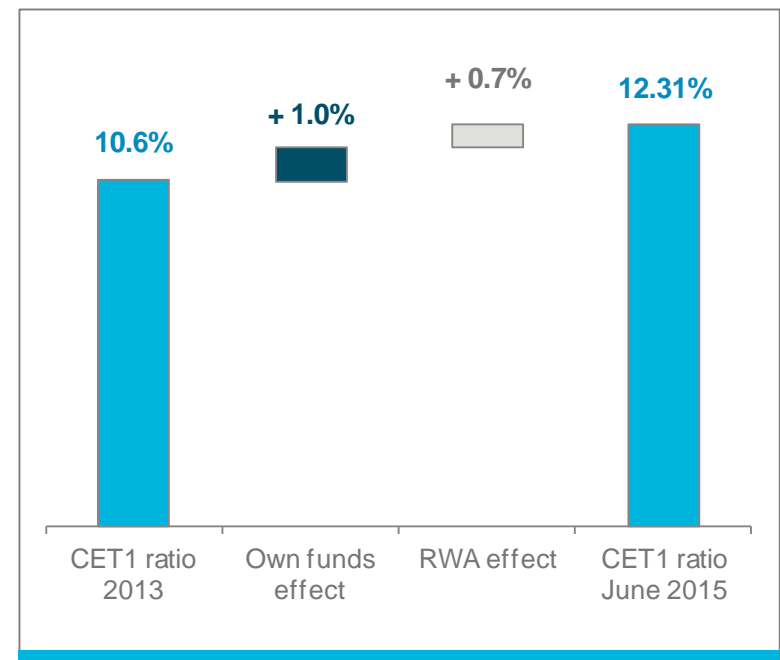
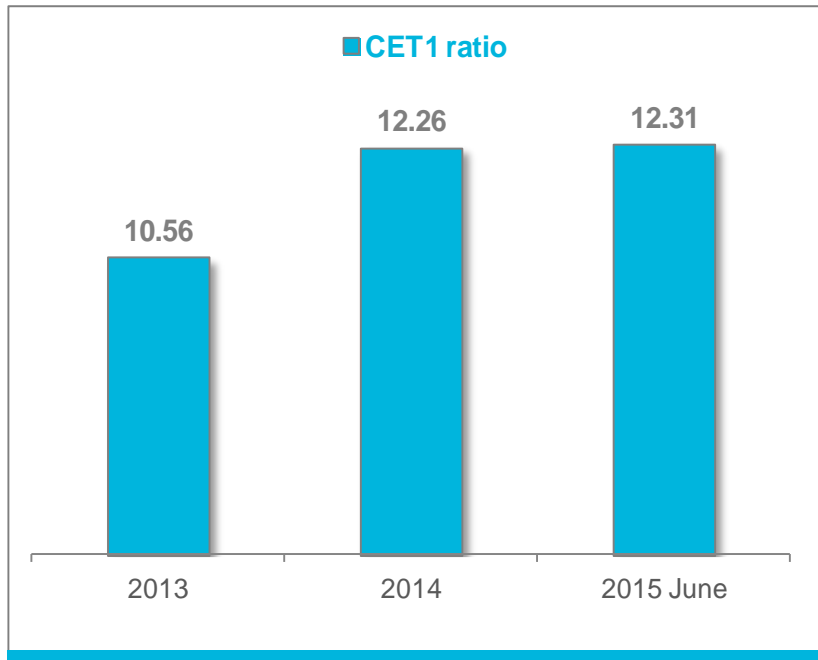
The return on assets was 0.35% in 2015

Cost to income ratio improvement from 2013, standing at 53.9% in 2015, ...

... is based on the progressive increase of productivity level per employee



SOLVENCY



Reinforcement of the higher quality solvency ratio ...

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

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

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

