

CECA Sector: regulatory and financial outlook

26 March 2019





Restructuring process

Restructuring process

Branches

11,557
44% of SFS

Employees

70,109
39% of SFS

Deposits

520,747 Mill. €
38% of SFS

Credits

488,298 Mill. €
36% of SFS

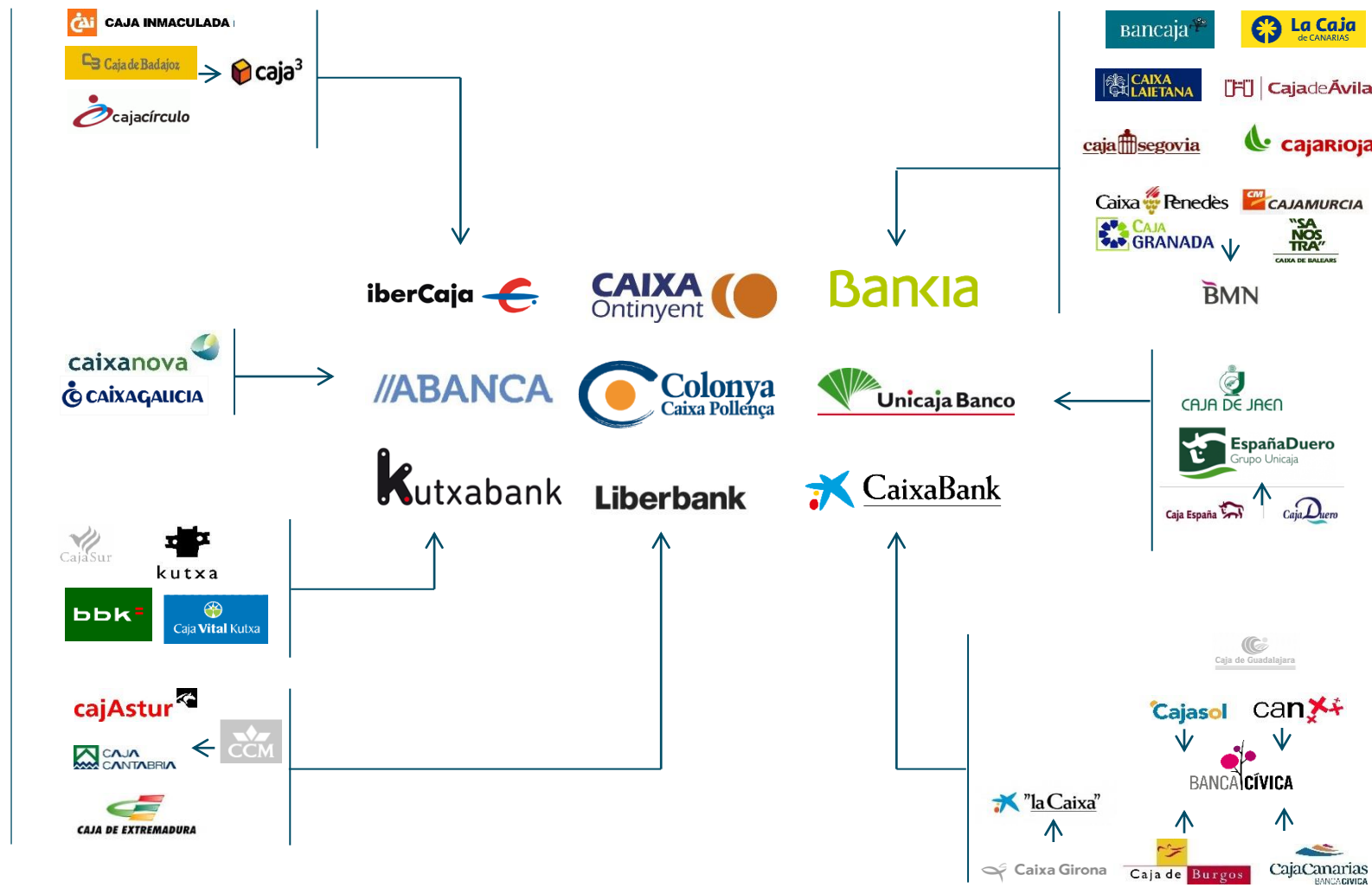
Total Assets

778,448 Mill. €
32% of SFS

Average entities size

94,897 Mill. €

Data as of Dec. 2018





Regulation

Regulation (I)

1

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 foundation

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.

2

Royal Decree 877/2015 on reserve fund

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**.

Regulation (II)

3

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.

4

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.

5

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.

6

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%.

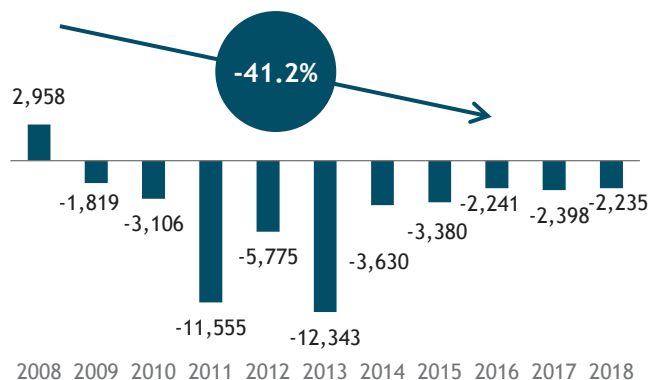
Banking foundations can update their financial plan in three months.



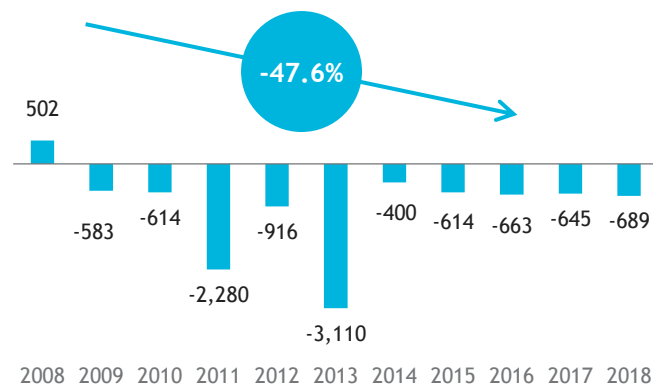
Financial data

Financial data. Capacity adjustment

Employees
Annual variation



Branches
Annual variation

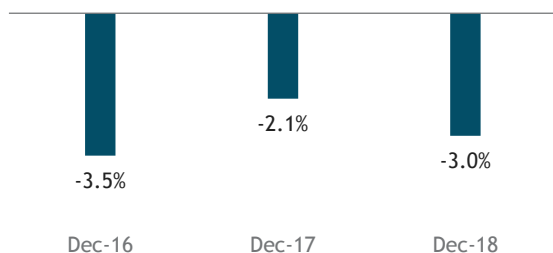


	Annual variation	Variation since 2008
Employees	-2,235 → -3.1%	-41.2%
Branches	-689 → -5.6%	-47.6%

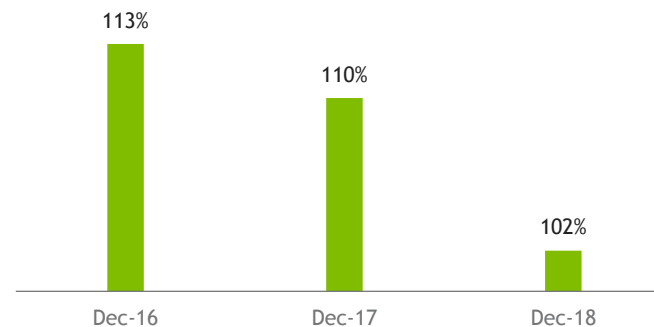
Financial data. Business activity

Credit to non financial corporations and households

Annual variation

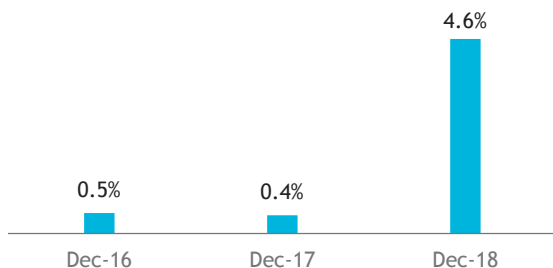


Loan to deposit ratio (%)



Deposits from non financial corporations and households

Annual variation



The increasing sale of damaged assets has led to a more intense credit decline.



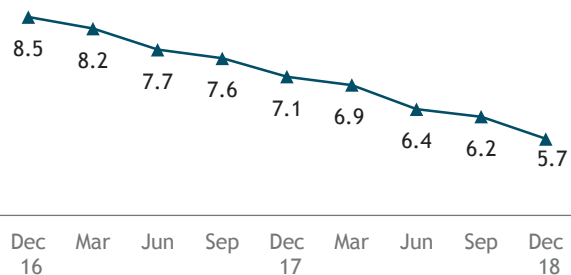
Meanwhile, business and household deposits are increasing at a higher rate, fostered by sight deposits.



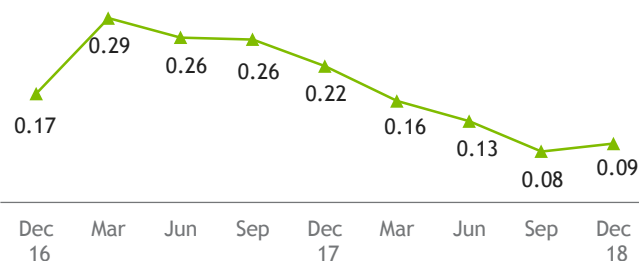
As a result, the loan to deposit ratio drops to 102%.

Financial data. Credit risk

NPL ratio (%)

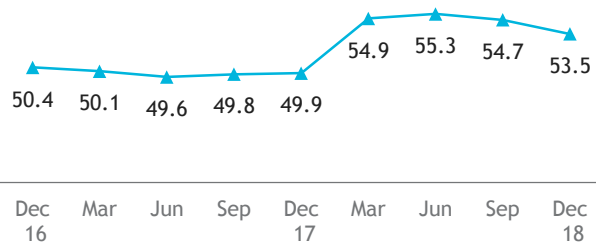


Cost of risk (%)



Cost of risk: Impairment losses on financial assets over total assets

NPL coverage ratio (%)



The continuous decline in doubtful assets is reflected in a decreasing trend in the non performing loan ratio, by

5.7%

At the same time the NPL coverage ratio increases 3.6 p.p. from December 2017, to

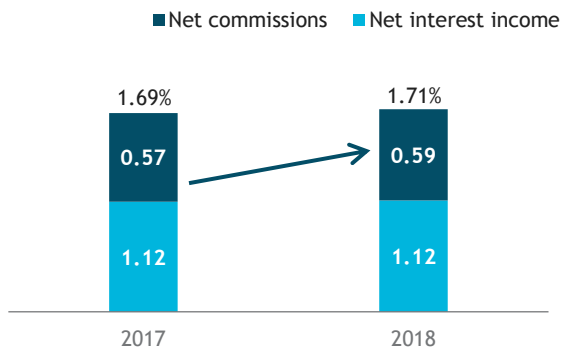
53.5%

The cost of risk decreases 13 b.p. from December 2017, to

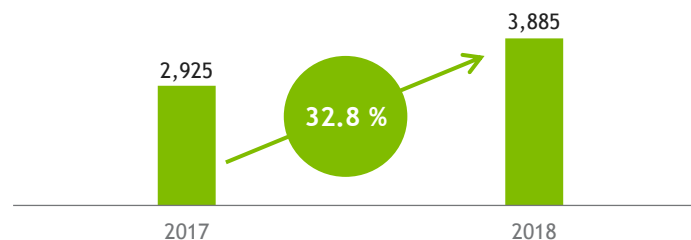
0.09%

Financial data. Results

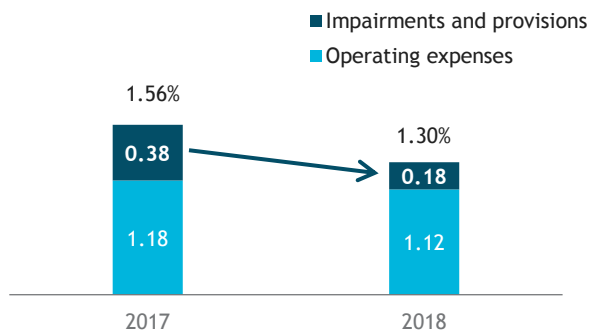
Net interest income and commissions % of ATAs



Net profit € million



Operating costs and impairments % of ATAs



Recurrent revenues increase slightly as a percentage of total assets, driven by net commissions.



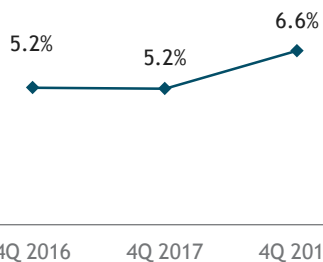
While impairments and provisions reduce their ratio over total assets by 20 b.p. and operating expenses by 6 b.p.



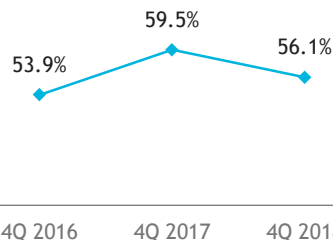
As a result, net profit annual growth reached 32.8% in 2018.

Financial data. Financial ratios

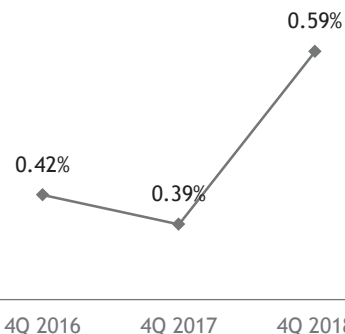
ROE



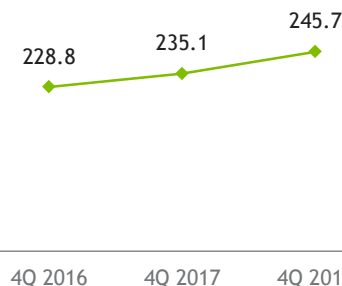
Cost to income ratio



ROA



Productivity



Productivity= gross income by employee



Relevant increase of the return on equity in 2018, to 6.6%.



The cost to income ratio improved by 3.4 p.p. from 2017, to 56.1%.



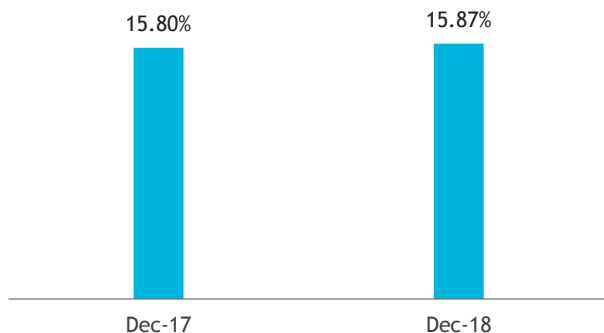
The improvement of net profits leads to an increase of the return of assets.



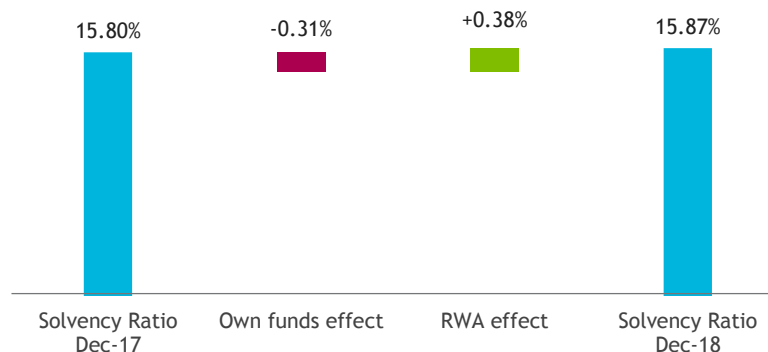
At the same time that productivity per employee keeps its increasing trend.

Financial data. Solvency

Total capital ratio as % of RWA



Breakdown of Total capital ratio as % of RWA



The strengthening of solvency ratios continues in 2018 in Ceca entities.

Total capital ratio increased by 7 b.p. from 2017 and reaches 15.87% in December 2018.

The raise of the solvency ratio in 2018 is due to a decrease in RWAs that compensates the fall in own funds during this period.

