

CECA Sector: regulatory and financial outlook

21 September 2021





Composition of the Ceca Sector

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Credit institutions



 Listed companies

Credit institutions data

| Branches | Employees | Total Assets |
|-----------------|-----------------|-----------------|
| 9,689 | 67,519 | 894,726 Mill. € |
| 44% of SFS | 39% of SFS | 32% of SFS |
| Retail credit | Retail deposits | |
| 432,324 Mill. € | 489,712 Mill. € | |
| 37% of SFS | 39% of SFS | |

Data as of June 2021

Banking foundations



Foundations





Regulation

Specific regulation of the Ceca Sector

1

Law 26/2013 on savings banks and banking foundations

Reform of the Savings Banks Regime

- Delimitation of the activity.
- Stricter incompatibility regime.
- Transformation from savings banks into banking foundations.

3

Order 2575/2015 on Annual Corporate Governance Report and banking foundation accounting obligations

It details the content and structure of the Annual Corporate Governance Report of banking foundations, and its reporting and disclosure requirements. Rules and financial information templates applicable to banking foundations are established. Bank of Spain is authorized to develop them.

6

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

- It extends the maximum period to reach the target amount of the reserve fund.
- It reduces the minimum percentage of the amounts received from credit institutions as dividends to be allocated to the reserve fund.

New figure: banking foundation

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.

4

Circular Bank of Spain 6/2015 on Annual Corporate Governance Report and Annual Remuneration Report of savings banks and banking foundation obligations

It develops (i) 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, and (ii) the content of the reports which some banking foundations have to develop.

7

Royal Decree-law 11/2020 of complementary urgent measures in the social and economic field to deal with COVID-19

Banking foundations that have a divestment program within their diversification plan may choose to extend the term to meet the divestment objective. In this case, the banking foundation must establish a reserve fund.

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 consolidated group or subgroup whose parent company is the credit institution.

5

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

- 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.

8

Royal Decree-law 19/2020 of complementary measures (...) to mitigate the effects of COVID-19

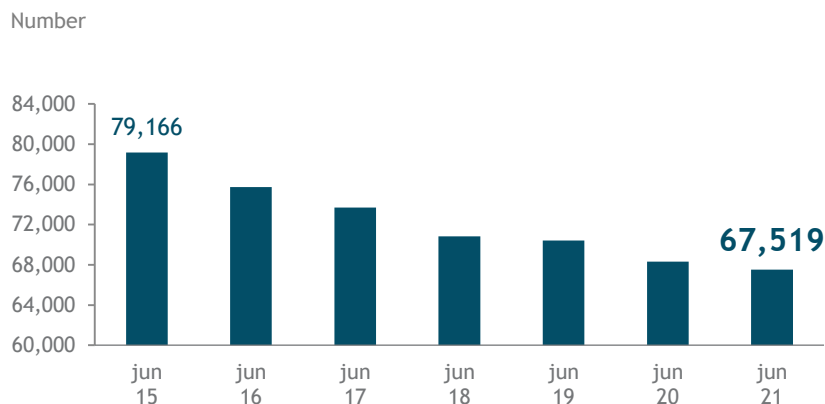
Banking foundations will not be obliged to make allocations to the reserve fund during 2020. This suspension of the contribution will not be compensated in the contribution of the following year. The remaining contributions until the target amount is reached will be distributed linearly over time.



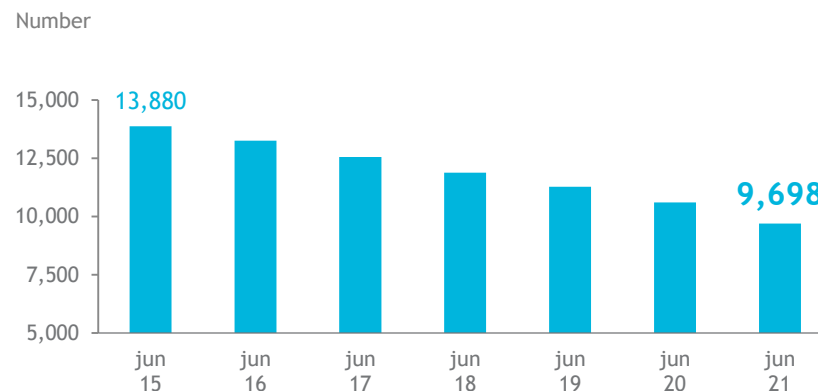
Financial data

Financial data. Employees and branches

Employees



Branches



Annual variation

| | | | |
|-----------|-------------|---|--------------|
| Employees | -798 | → | -1.2% |
| Branches | -915 | → | -8.6% |

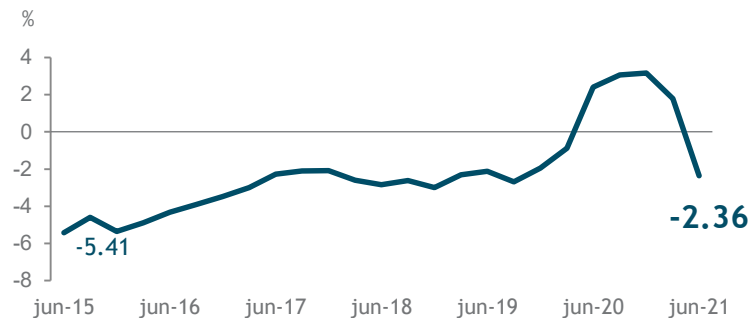
↓ The reduction in the number of employees continues in 2Q 2021, registering a year-on-year drop of 1.2% (798 employees).

↓ Similarly, the number of branches decreases, registering in this case a more intense year-on-year drop of 8.6%.

Financial data. Business activity

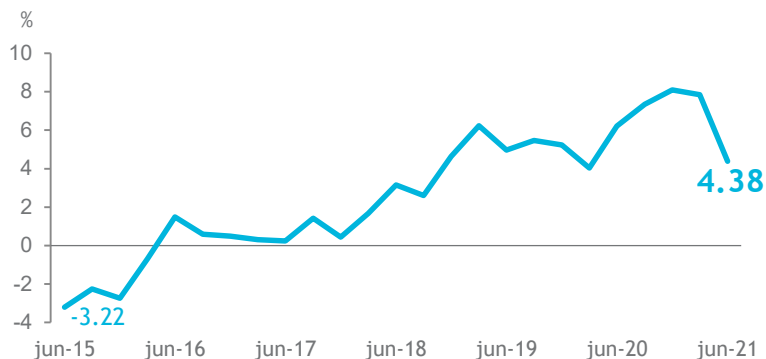
Credit to non financial corporations and households

Annual variation



Deposits from non financial corporations and households

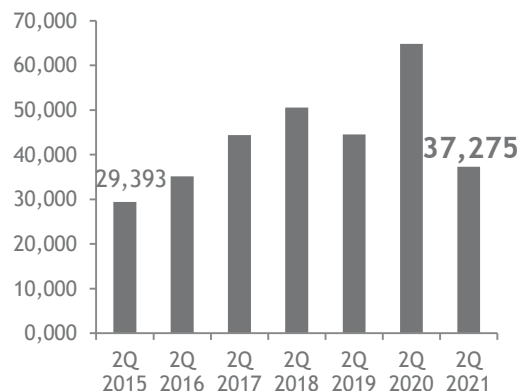
Annual variation



New credits

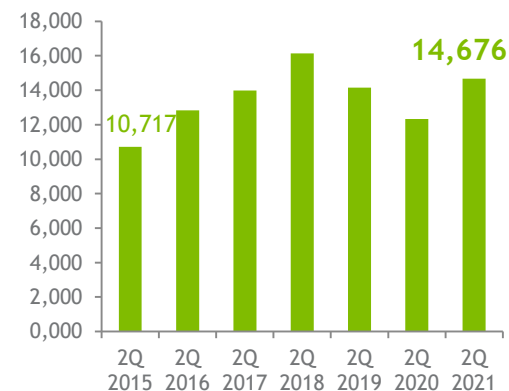
Non financial corporations

€ million



Households

€ million



Credit to the private sector fell in June at a rate of **-2.36%**, after the strong rise in credit guaranteed to companies in 2020.



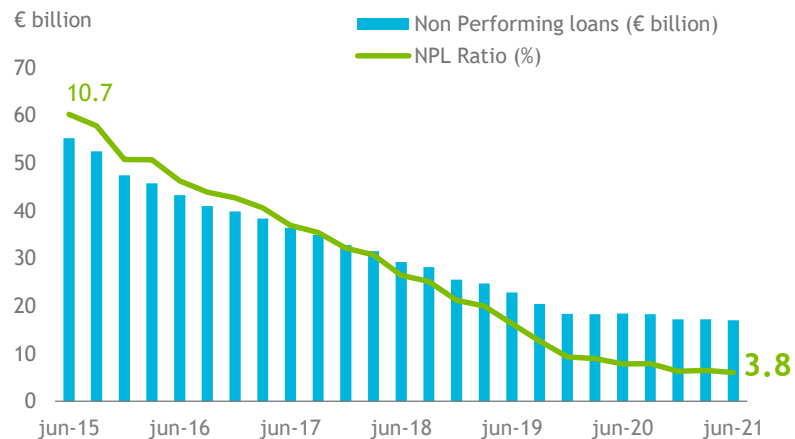
Thus, a decrease in new financing to companies is observed in the second quarter of 2021, accumulating a balance of € 37.2 billion, while new loans to households increased compared to the same quarter of 2020, to € 14.6 billion.



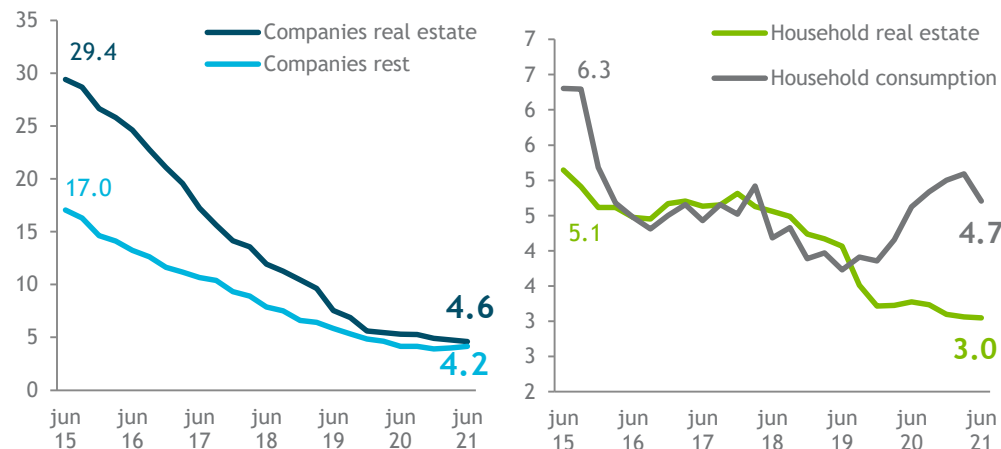
Business and household deposits slowed their year-on-year growth rate to **4.38%** in June 2021.

Financial data. Credit risk

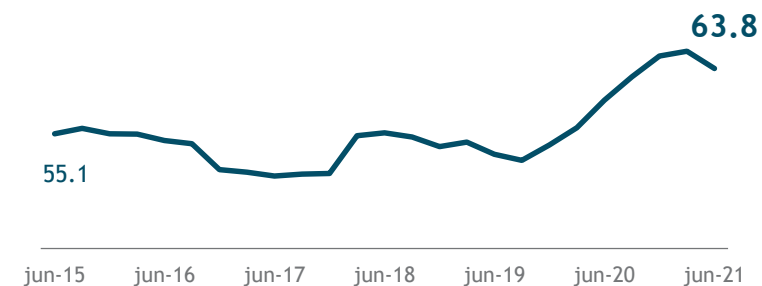
NPL ratio (%)






NPL ratio by sector (%)



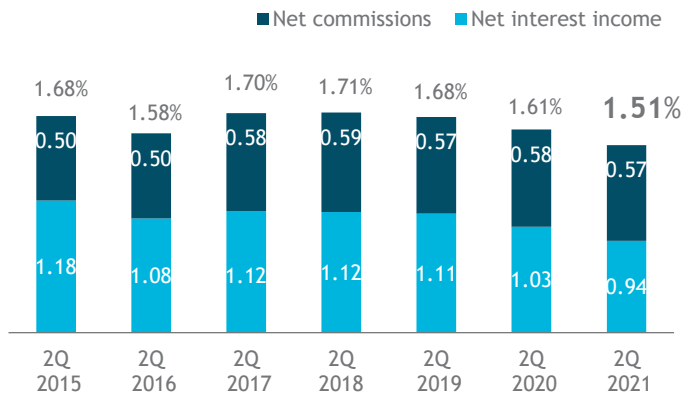
NPL coverage ratio (%)



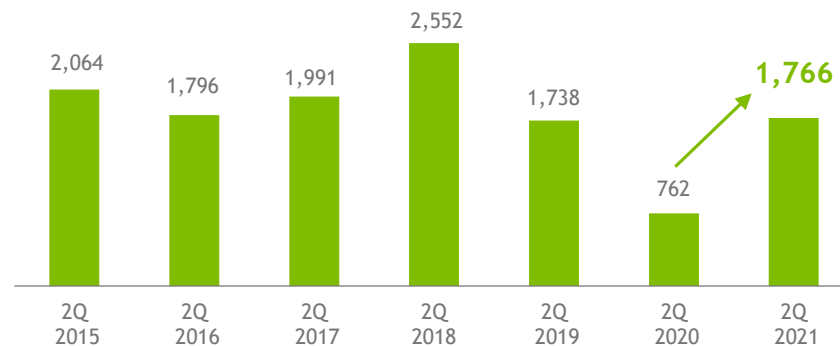
-  In June, the NPL ratio dropped 23 bp. compared to a year earlier, to **3.8%**, thanks to the economic policy measures adopted to mitigate the negative effects of the pandemic.
-  In household consumption, the doubtful debt rate rises compared to December 2019 and moderates in 2Q 2021. In non-real estate companies, the rate increases slightly in the first half of 2021.
-  The coverage ratio increases 4.2 p.p. compared to June 2020, although it fell slightly in the second quarter, to **63.8%** in June.

Financial data. Results

Net interest income and commissions % of ATAs

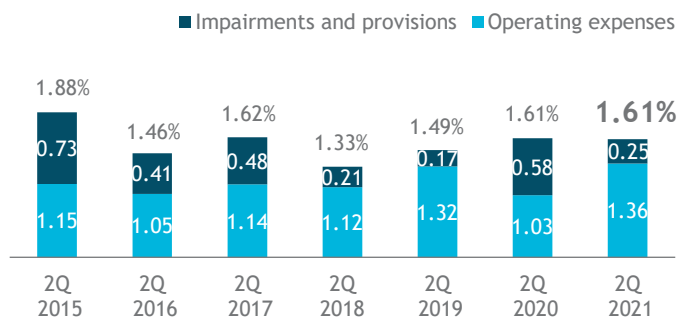


Net profit € million



Net profit exclude the extraordinary income due to a merger process.

Operating costs and impairments % of ATAs



Recurring revenues decreased in 2Q 2021 compared to 2Q 2020, due to the drop in the interest income and commissions.

1.51%



The ratio of impairments is reduced compared to 2Q 2020 when extraordinary provisions were made to cover the impact of Covid-19.

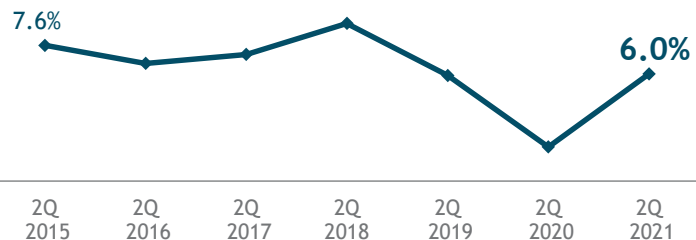
0.25%



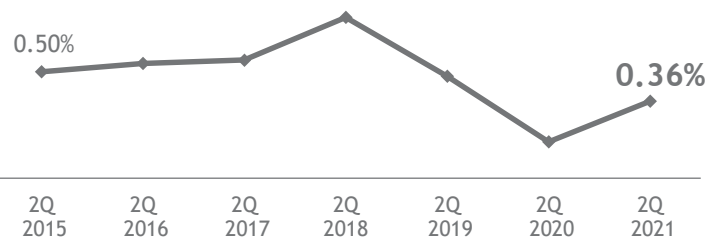
As a result, the consolidated profit increases to 1,766 million euros in 1Q 2021.

Financial data. Financial ratios

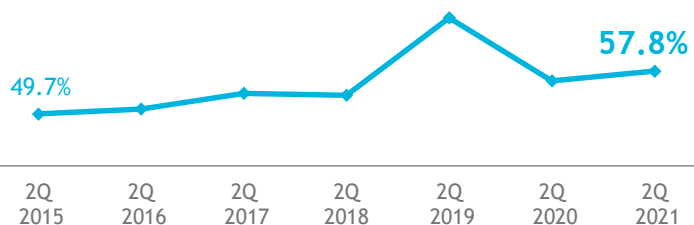
ROE



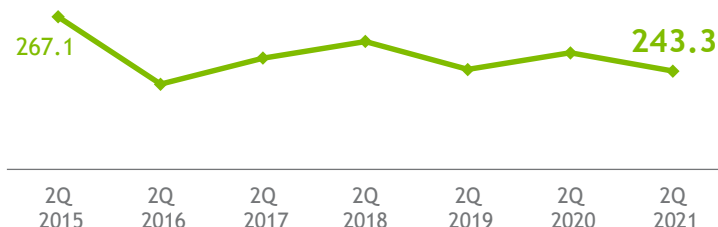
ROA



Cost to income ratio



Productivity (€ thousand)



ROE, ROA and Cost to income ratio exclude the extraordinary income due to a merger process.

Productivity = gross income by employee



Return on equity (ROE) increased in 2Q 2021, to 6%, due to lower impairments and provisions.



The efficiency ratio worsens to 57.8%, due to the drop in gross income and the increase in operating expenses.



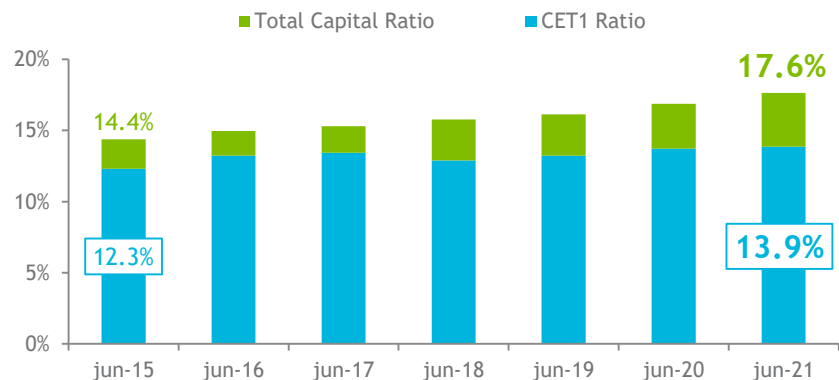
Return on asset stands at 0.36%, 20 b.p. above the rate registered in the same period of 2020.



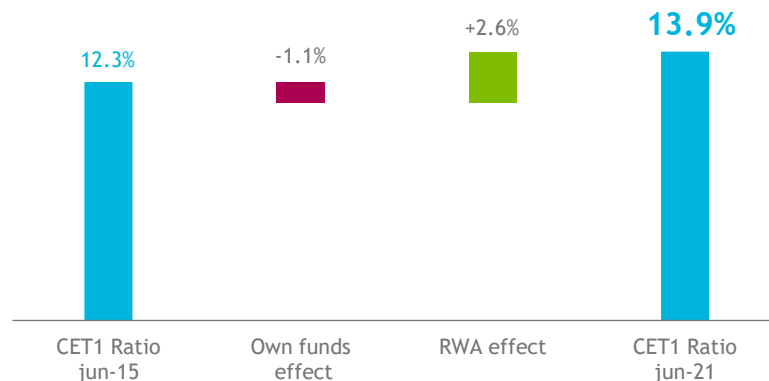
Productivity per employee decreased slightly compared to June 2020, reaching € 243.3 thousand.

Financial data. Solvency

Solvency ratios as % of RWA



Breakdown of CET1 ratio as % of RWA



In the 2Q of 2021, CECA entities continue to strengthen their solvency ratios.

Total capital ratio increases by 80 b.p. compared to the same period of 2020, and reaches **17.6%** in June 2021, as well as the CET1 ratio, that increases slightly to **13.9%**.

The causal analysis reflects that the raise of the CET1 ratio since June 2015 comes from a decrease in RWAs, in a context of strong deleveraging of banking activity (+2.6 p.p.), which has offset a slight decrease in own funds (-1.1 p.p.).

