

CECA Sector: regulatory and financial outlook

7 March 2023





Composition of the Ceca Sector

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Credit institutions



 Listed companies

Credit institutions data

Branches	Employees	Total Assets
7,630	58,590	805,845 Mill. €
42% of SFS	37% of SFS	28% of SFS

Retail credit	Retail deposits
416,454 Mill. €	511,375 Mill. €
36% of SFS	39% of SFS

Data as of December 2022

Banking foundations



Ordinary foundations





Regulation

Regulatory highlights: September 2022 - March 2023

European Regulation

Regulation (EU) 2022/2554 (DORA)

It establishes requirements applicable to financial institutions regarding management, information and response to information and communication technology (ICT) risks with the aim of achieving a high level of digital operational resilience. It will be applicable from January 17, 2025.

Directive (EU) 2022/2464 (CSRD)

It regulates the inclusion in the management report of information on sustainability by all large companies and all medium-sized and small companies, with the exception of micro-enterprises, whose securities are admitted to trading on a regulated market in the EU, as well as insurance companies and credit institutions that are public interest entities.

Regulation (EU) 2022/1925 (DMA)

It establishes harmonised rules ensuring contestability and fairness of markets in the digital sector in general, to the benefit of business users and end users of core platform services provided by gatekeepers (undertakings providing a core platform service, which have a significant impact on the internal market and enjoy an entrenched position in its operations, for example Google or Amazon), irrespective of the place of establishment or residence of the gatekeepers and irrespective of the law otherwise applicable to the provision of service.

ESMA Guidelines on Incorporating Sustainability Preferences into MiFID II Eligibility Requirements

It incorporates new obligations on customer sustainability preferences in the suitability assessment.

Spanish Regulation

Law 38/2022, of December 27

It regulates the tax on banks and determines that those obliged to pay are credit institutions and EFCs that obtained income from interest and commissions corresponding to the year 2019 for an amount equal to or greater than 800 million euros. The amount to be paid will result from applying the percentage of 4.8% to the calculated amount. It is a transitory and exceptional tax, whose payment obligation is born on January 1, 2023 and 2024.

Royal Decree-law 19/2022, of November 22

- It regulates the new Code of Good Practices for mortgage debtors at risk of vulnerability, which is transitory and circumstantial, and lasts for 2 years. Those holders of loans or credits guaranteed with a real estate mortgage on the habitual residence of the debtor or the non-debtor mortgager, whose acquisition price does not exceed 300,000 euros, constituted until December 31, 2022, may benefit from this Code.
- It modifies the Code for the viable restructuring of debts with a mortgage guarantee on the habitual residence included in Royal Decree-law 6/2012, where it proposes measures such as the reduction of the interest rate applicable during the grace period in the amortization of capital, the reduction of the grace period to 2 years, the extension of the amortization period of up to 7 years, the possibility of requesting a second restructuring plan, the extension of the terms to benefit from the dation in payment or the rental request in the event of foreclosure, among other.

CNMV Circular 3/2022, of July 21

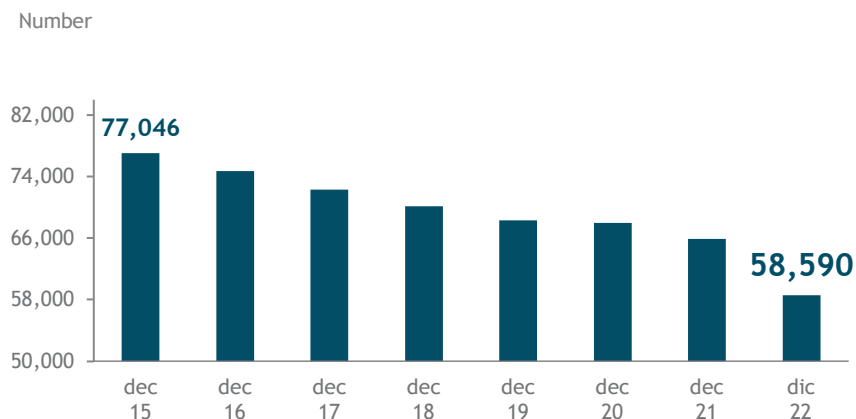
It adapts the prospectus of collective investment institutions and the registration of the Key Investor Information Document (KIID) to the European Regulations (PRIIPs and UCITS).



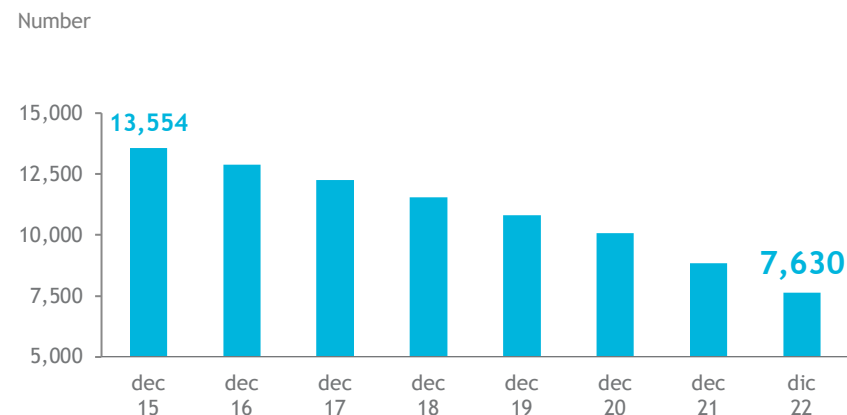
Financial data

Financial data. Employees and branches

Employees



Branches



Annual variation

Employees **-7,307** → **-11.1%**

Branches **-1,212** → **-13.7%**

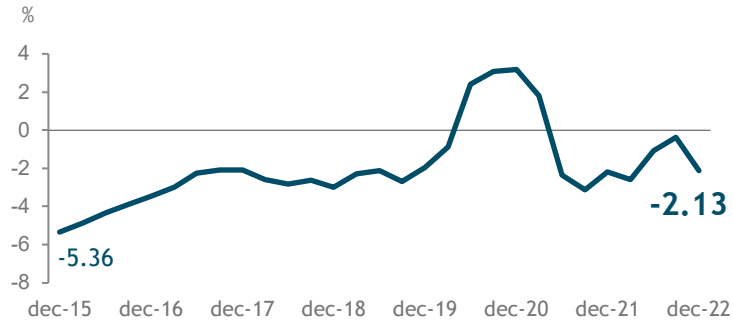
↓ The reduction in the number of employees intensifies in 2022 Q4, registering a year-on-year drop of 11.1% (7,307 employees).

↓ Similarly, the number of branches decreases, registering in this case a year-on-year drop of 13.7%.

Financial data. Business activity

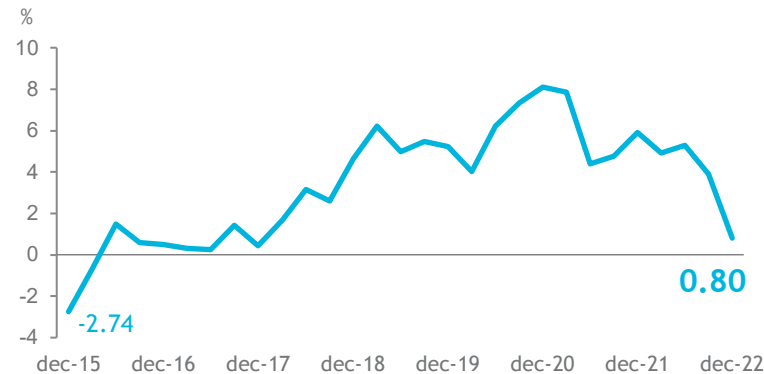
Credit to non financial corporations and households

Annual variation



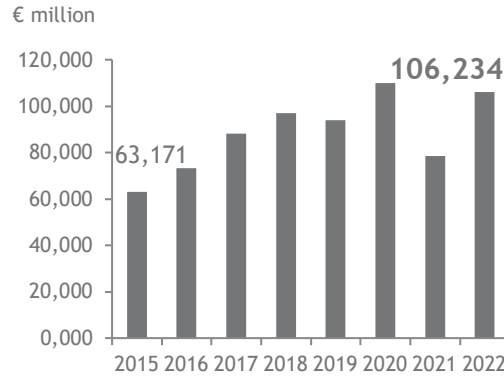
Deposits from non financial corporations and households

Annual variation

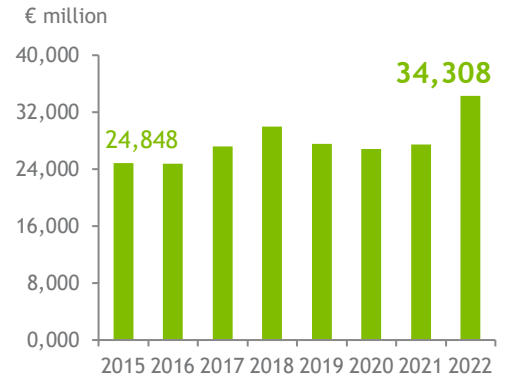


New credits

Non financial corporations



Households



Accumulated volumes from January to December



Credit to the private sector intensifies its year-on-year fall in December 2022 to -2.13%, compared to -0.38% registered in September 2022.



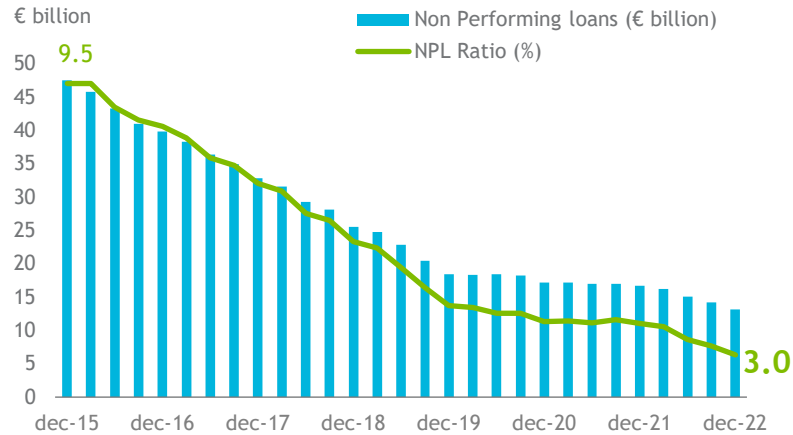
New financing to companies and households increases in 2022 compared to the previous year, reaching a balance of € 106 billion and € 34 billion, respectively.



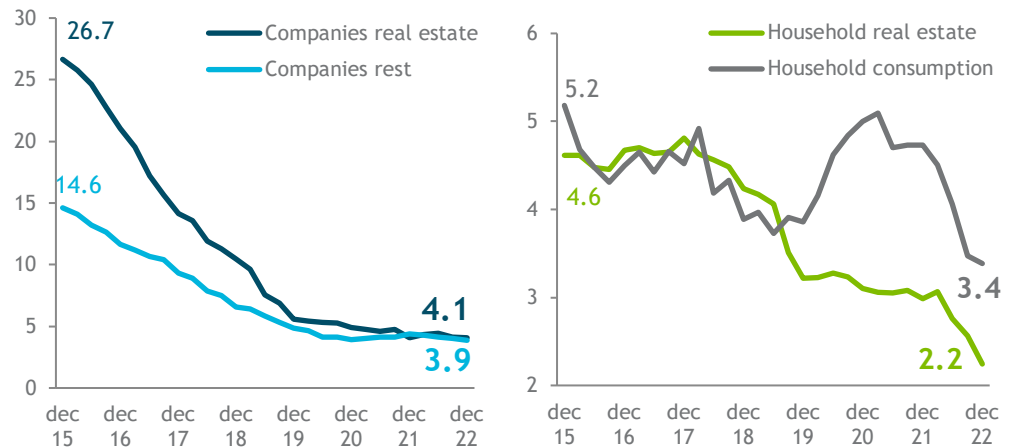
Business and household deposits grew by 0,8% in December, moderating its year-on-year growth from September 2022 (3.89%).

Financial data. Credit risk

NPL ratio (%)





NPL ratio by sector (%)




NPL coverage ratio (%)



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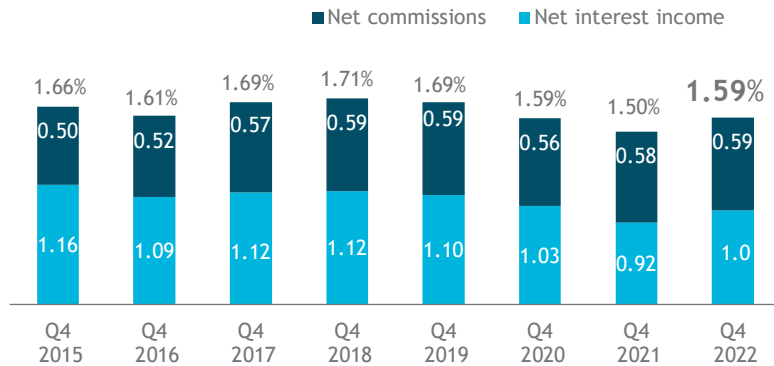
The NPL ratio continues to decline. In December 2022, the rate decreases 76 b.p. compared to December 2021, to 3%.
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The NPL ratio decreases slightly in all sectors, and particularly in “Household real estate” that decreases by 1.3 p.p. compared to December 2021.
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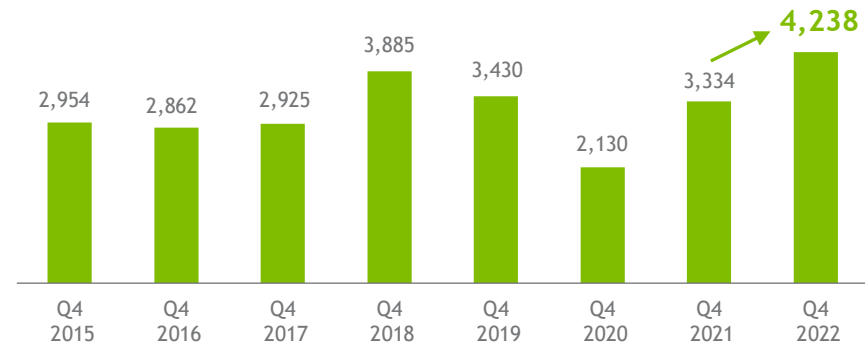
In December 2022, the coverage ratio increases by 3 p.p. compared to December 2021, and 2 p.p. compared to September 2022, to 43.7%.

Financial data. Results

Net interest income and commissions % of ATAs

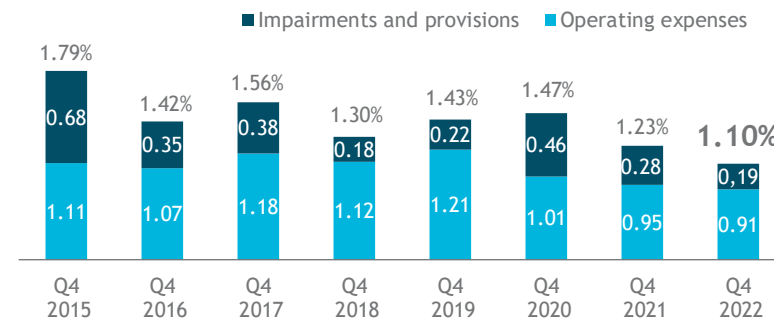


Net profit € million






Note: Net profit Q4 2021 exclude the extraordinary costs and income due to merger processes.

Operating costs and impairments % of ATAs

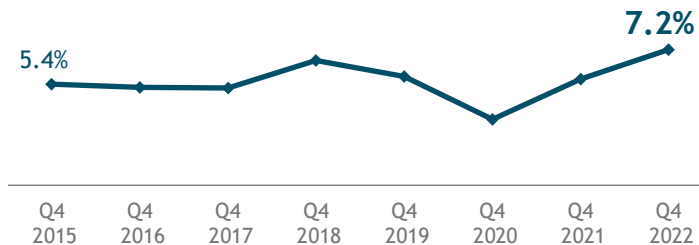


Note: Operating expenses in Q4 2021 excludes extraordinary costs due to merger processes.

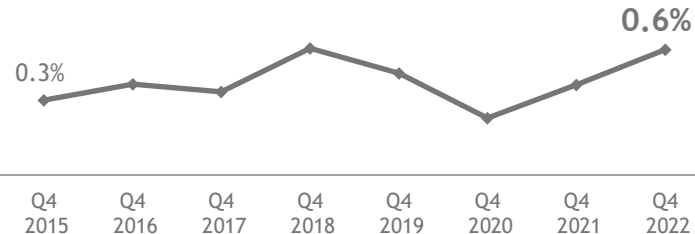
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Recurring revenues increase in Q4 2022 compared to Q4 2021, driven by interest income.
1.59%
- 
Operating expenses decreased by 4 b.p. in the year as a result of synergies obtained through merger processes.
0.91%
- 
Cost reduction contributed to an increase of the consolidated profit, to € 4,238 million in the Q4 2022.

Financial data. Financial ratios

ROE



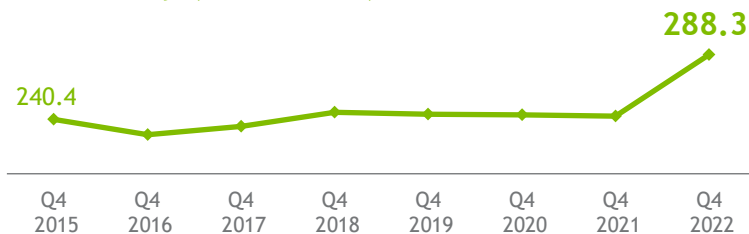
ROA



Cost to income ratio



Productivity (€ thousand)



ROE, ROA and Cost to income ratio exclude the extraordinary income and costs due to a merger processes in Q4 2021.

Productivity = gross income by employee

↑ Return on equity (ROE) increases in Q4 2022, to 7.2%, due to the rebound in consolidated profit.

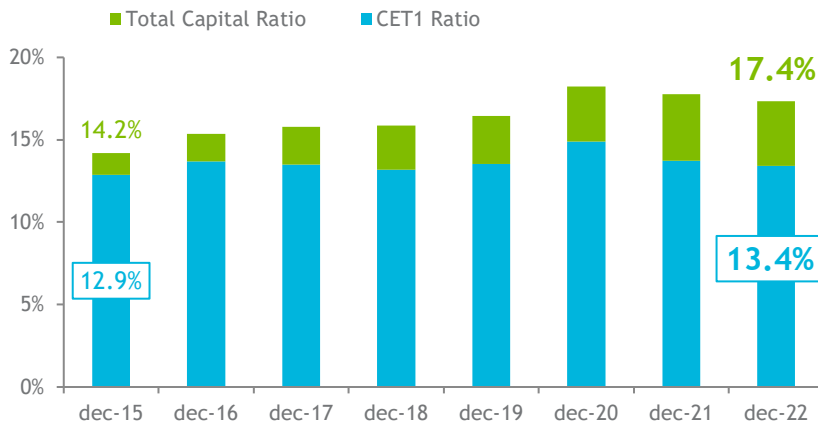
↑ The efficiency ratio improves to 54%, due to the increase in operating margin and the decrease in operating expenses.

↑ Return on asset stands at 0.60%, 17 b.p. above the rate registered in the same period of 2021.

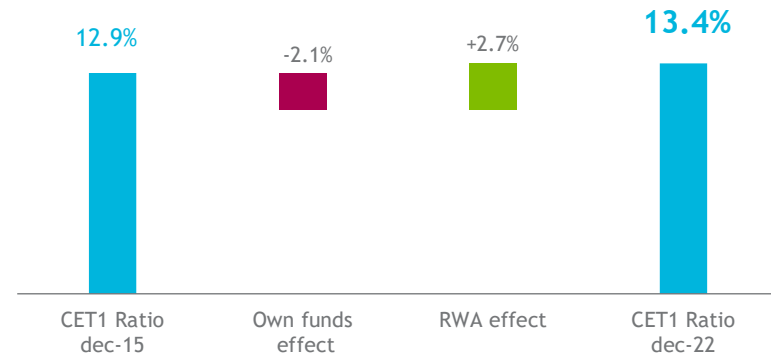
↑ Productivity per employee increases compared to December 2021, to € 288 thousand due to the reduction in employees.

Financial data. Solvency

Solvency ratios as % of RWA



Breakdown of CET1 ratio as % of RWA



In the Q4 of 2022, total capital ratio decreased by 39 b.p. compared to the same period in 2021 and stood at 17.4% in December 2022.

In parallel, CET1 ratio fell to 13.4%, which means less than 31 b.p. compared to the same period of 2021, standing at a similar level to that prior to the Covid crisis (December 2019).

The causal analysis reflects that the raise of the CET1 ratio since December 2015 comes from a decrease in RWAs, in a context of strong deleveraging of banking activity (+2.7 p.p.), which has offset a slight decrease in own funds (-2.1 p.p.).

