Finanzgruppe
Deutscher Sparkassen- und Giroverband

INTERNATIONAL SAVINGS BANKS

21 July 2020

The Savings Banks Organisation in Spain

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Since the end of the 1980s, when the regional principle was abolished in Spain, cooperation between savings banks has been abandoned in favour of growth of the institutions. Since then, the number of savings banks in Spain has fallen sharply. In return, the market share of savings banks in the lending business has increased from approx. 28% to approx. 35%.

A law inacted in July 2010 allowed the separation of public interest orientation from the banking business. The tasks oriented towards the common good (in Spain: "obra social") remained in the responsible public body (Trägersparkasse), which was managed as a foundation under private law. The banking business was outsourced to a (listed) bank with the aim of raising equity capital on the market. While the sponsoring foundations continued to exist for the most part, the bank holding companies experienced two waves of mergers by 2012, which resulted in a complete restructuring of the sector by 2014.

Today there are only nine savings banks left. Two savings banks remained in their old form. The other seven are credit institutions derived from savings banks. These are supported by 14 bank foundations (former Cajas). The average balance sheet total of these hold-ings is approximately EUR 97.4 billion.

The Spanish banking market

In macroeconomic terms, the banking sector in Spain is of above-average importance compared with other European countries. In 2019, the balance sheet total of all banks was about three times as large as the country's overall economic output. By comparison, the European average was 2.4 times the GDP. With 1,955 inhabitants per branch office, the bank branch network in Spain is strongly above average. By comparison, the European average is 3,145 inhabitants per branch (see charts 1 and 2).

In 2019, the portfolio of loans at risk of default at Spanish banks fell to 3.2%, slightly above the European average of 2.7%. The cost-income ratio of Spanish banks rose slightly in 2019, but at 53.51% was well below the European average. Profitability, measured by return on equity, fell by 1.4% in 2019 compared with the previous year, but according to the EBA remained above the level of other competitors in Europe (see charts 3 and 4).

Since the end of the 1990s, Spain has experienced a construction boom fueled by low interest rates and rising incomes, which has been a driving force for sustained high economic growth. In 2008 the real estate bubble burst and the financial crisis quickly developed into a banking crisis, which led to the establishment of a state bank rescue fund (FROB) in 2009 and the decision to restructure and recapitalise the Spanish savings banks sector.

In January 2016, the European Commission concluded that the programme of financial assistance to banks had been successfully completed. The Commission underlined the success of the measures taken and the strong commitment of the Spanish authorities in their implementation. In the end, only EUR 40 billion of the EUR 100 billion made available was needed.

In the first months of 2019, the risks to the stability of the Spanish financial system increased slightly. In particular, the increasing macroeconomic risks, such as the trade dispute between China and the USA, play a major role in this regard, causing risk premiums and volatility on the markets to rise. In addition, the profitability[1] of Spanish banks is lower than in the previous year due to low interest rates and rising regulatory costs.

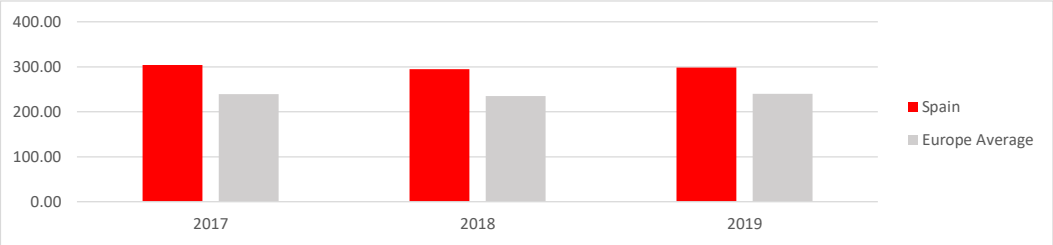
[1] The EBA looks at the cost-income ratio and return on equity

Table 1: The largest Spanish banks by total assets

Group	2019	2018	2017
Banco Santander	1,523	1,459	1,444
BBVA	699	677	690
CaixaBank	391	387	383
Banco de Sabadell	224	222	221
Bankia	208	205	214

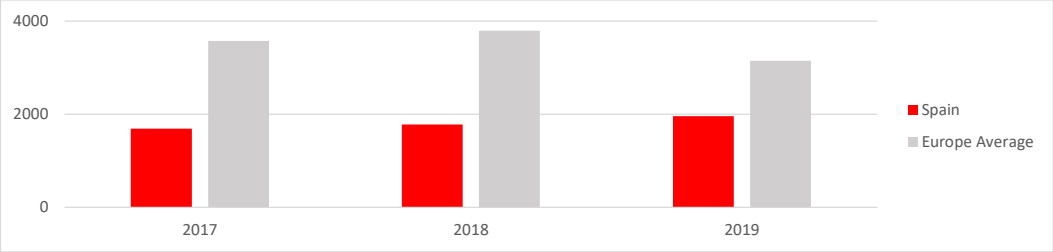
Source: Financial report 2019 of the respective group, in billion euros

Chart 1: Balance sheet total of banks as a percentage of GDP



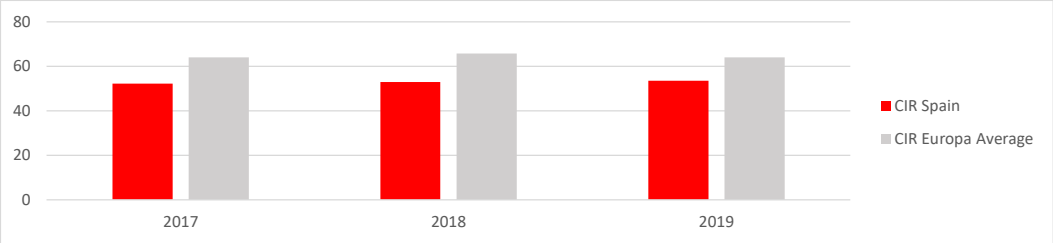
Source: European Central Bank 2020, own calculations

Figure 2: Inhabitants per branch office



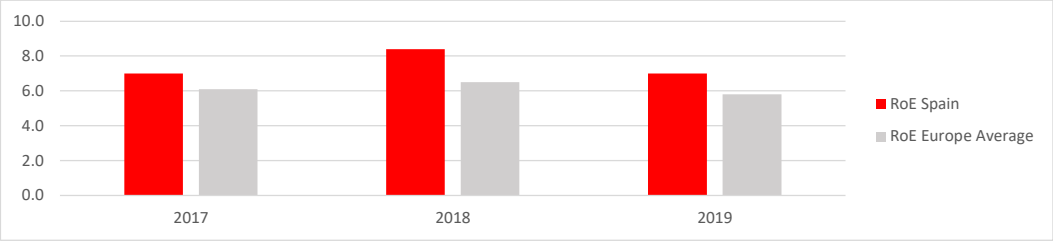
Source: European Central Bank, Eurostat 2020, own calculations

Figure 3: Cost-income ratio (CIR), in %



Source: European Central Bank, 2020

Figure 4: Return on equity (RoE), in %



Source: EBA Dashboard, 2019

The Spanish savings banks

The first Spanish Savings Bank (Caja de Ahorros) was founded in 1838 by private initiators. As in other countries, the primary aim was to promote saving as a means of improving the living conditions of the population.

The savings banks, which were managed in a non-ownership legal form, were declared charitable institutions and the management was transferred to a body with members appointed by the state. Their sphere of activity was limited to their respective home regions (regional principle). Even at the beginning of the reform of the Spanish Savings Bank System in 1977, when savings banks were placed on an equal footing with private banks with regard to permissible transactions, the state exerted massive influence on the activities of savings banks, including by imposing regulations on the use of profits and deposits. Transactions with companies were prohibited.

Since 2010, savings banks have had the option of outsourcing their banking business to a public limited company. This has been done for the majority of Cajas. In a second step, the banking business of several institutions was then merged (as a merger or Institutional Protection Scheme - IPS). The original Cajas remained in the background as supporting foundations. However, there are banks operating on the market that are still referred to as "savings banks" due to their historical origins. The Savings Banks Act of December 2013 set a growth ceiling for the "Cajas". With a balance sheet total of more than EUR 10 billion or a market share of more than 35% for deposits in their regional home market, the banking business must be outsourced to a separate credit institution.

However, this regulation essentially only reflects the reality that already exists today. For example, 43 of the former 45 Spanish Cajas have been consolidated into 7 large savings banks through mergers or contribution to an IPS. This has increased the average balance sheet total per institution from EUR 30 billion (December 2009) to EUR 97.4 billion (December 2019). Over the same period, the number of business outlets has decreased by 51% and the number of employees by 42.6%. Nevertheless, around one in two bank branches in Spain is still a savings bank. Only two Cajas, Caixa Ontinyent and Colonya Caixa Polença, still have their operational banking business in their own hands (see table 2 for more details).

Table 2: Consolidations in the Spanish savings banks sector

2009: 45 savings banks	2018: 9 savings banks
La Caixa, Caixa Girona, Cajasol, Caja de Guadalajara, Caja Navarra, Caja de Burgos, Caja Canarias	**Caixabank**
Caja Madrid, Banaja, La Caja de Canarias, Caixa Laietana, Caja de Ávila, Caja Segovia, Caja Roja, Caja Murcia, Caixa Penedès, Caja Granada, Sa Nostra	**Bankia**
Cajasur, BBK, Kutxa, Vital Kutxa	**Kutxabank**
Unicaja, Caja Jaén, Caja España, Caja Duero	**Unicaja Banco**
Caixa Galicia, Caixanova	**Abanca**
CCM, Cajastur, Caja de Extremadura, Caja Cantabria	**Liberbank**
Caja Immaculada de Aragón, Caja Circulo de Burgos, Caja de Badajoz, Ibercaja	**Ibercaja Banco**
Caixa Ontinyent	Caixa Ontinyent
Colonya Caixa Pollença	Colonya Caixa Polença

Source: ceca, 2019

Lending to households and businesses fell by 1.9% in 2019, after falling by 3% in 2018. In contrast, customer deposits rose by 5.2% in 2019 (2018: 4.6%). Due to higher extraordinary costs, depreciation and amortisation and, above all, operating expenses increased in 2019. By contrast, recurring income from assets declined slightly. As a result, consolidated profit fell by 12% year-on-year to EUR 3.43 billion.

The very rapid spread of the Corona virus has led Spain to impose strict and widespread movement restrictions, which will have a significant impact on the country's economy from 2020. The duration of the crisis and its impact on the Spanish economy and banking system will depend on containing the virus and a gradual recovery of economic activity.

In 2018,[2] the Spanish savings banks foundations spent a total of EUR 813 million on charitable purposes. This represents an increase of almost 2% compared to the previous year. The focus of funding was on social welfare, education and research as well as culture.

[2] No current data available for 2019

Table 3: Structural characteristics of Spanish savings banks

Legal form (of the Cajas or bank foundations)	Universal banks with foundation-like legal form without shareholders and without the intention of making profit. Since July 2010, it has been possible to spin off the banking business into an AG. If the minimum retention falls below 10%, the savings bank must be converted into a foundation without banking business. The same applies to the contribution of central areas to an IPS.
Public support and control	According to law, a maximum of 25% of the members of the General Assembly may be appointed by the public administration. Elected politicians are not allowed to peform office activities within bodies of the savings banks.
Business activities	In 1977, savings banks were put on an equal footing with private banks with regard to permissible transactions.
Regional principle	In 1988 the regional principle was completely abolished. The establishment of branches is also permitted abroad, as is paticipation in institutions abroad. The new Savings Banks Act of 2013 stipulates that savings banks may only operate in their own and neighbouring provinces, with a maximum limit of 10 provinces.
Common good-orientation	The savings banks allocate at least 50% of their profits after tax to reserves. The surplus is used for charitable purposes (Obra Social).

The umbrella organisation: CECA (Confederación Española de Cajas de Ahorros)

The National Association of Spanish Savings Banks was founded in 1928 and is a member of the European Savings Banks Group (ESBG) and the World Savings Banks Institute (WSBI).

Table 4: Structural characteristics of the Spanish Confederation of Savings Banks

Members	All Spanish savings banks, SIPs derived from savings banks, savings foundations and credit institutions operating under the guidelines of the savings banks system. Membership is voluntary and permanent, each savings bank has a right of termination.
Purpose	• Representation of the members at national and international level. Especially on international level, Representation of savings banks in the World Savings Banks Institute and the European Savings Banks Association. • Preparing statistical analyses and providing administrative services for the cooperatives as well as advisory support in tax, ordinance law, economic, marketing and advertising surveys. • Study and training centre for all areas relating to the financial markets.

Table 5: Key figures of the CECA member institutions

	2019	2018
Cost-income ratio	64%	56%
Market share of Ceca Institute for loans	35%	36%
Market share of Ceca Institute for deposits	38%	38%
Average total assets (in billions of €)	97,4	94,9
Offices	10.804	11.557

Source: CECA, 2020

Cecabank

In 2012, the management of CECA decided to outsource the financial operations of the association in a bank to be created specifically for this purpose. On November 12 2012, Cecabank was founded and all the association's claims and liabilities were transferred to it. After this spin-off, the association is responsible for the representation of interests and communication between the savings banks, while Ceca-bank acts as a financial service provider for the savings banks (e.g. in securities business).

Table 6: Structural characteristics of Cecabank

Legal form	Public limited company
Shareholders	CECA: 89,08%; savings banks and their successor institutions: 10.92
Purpose	Financial service providers of savings banks (international business, securities and issuing business, central giro office) Services in the field of consulting, technology and administration for public and private entities

Table 7: Key figures of Cecabank

	2019	2018
Total assets	11,720	9,649
Equity	1,107	1,073
Profit from operations	62	63.5
CET1 ratio	35.2%	35.8%

Source: Cecabank financial report, 2019, in million euros

Imprint

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