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Comparative analysis of financial structures of the most important banks in Spain (Banco Santander, BBVA and CaixaBank)

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Abstract.

Along this paper, the analysis of the financial accounts for the three biggest Spanish banks will be held. In order to be able to do so in the most appropriate method, the calculation of the capital, financial leverage, profitability, and loan loss coverage ratios will be calculated for every bank for the years 2016 and 2017, for latter compare these results between each banks, other national banks or banks from countries members of the Eurozone, in order to get the most accurate vision of the financial structures of these banks analysed.

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1. Introduction.

The aim of this paper is to study, analyse and compare the financial structures of the three most important banks in Spain, being these banks Banco Santander, BBVA and CaixaBank.

In order to make a proper analysis of these financial structures, the years to be analysed and compare are going to be 2017 and 2016, as these are the latest financial results provided by the companies, with the auditing supervisors have given their opinions and the banks have publicly published these results.

For the analysis of the accounts, the elaboration of the most relevant financial ratios will be held, as for financial institutions, the best image of their activities is given by those ratios. With those ratios, a comparison of the three banks will take place, so a clear image of the activities of the three banks can be achieved, to be able to understand how the banks have done during the years analysed, in terms of growth and profitability.

The importance of this paper is not just to evaluate how the balance sheets of the companies are structured, and to see the growth percentages on their accounts year to year, instead, it is to understand the evaluation of the activity volume from a bank, as their financial accounts are completely different from non-financial firms, and whether an investment in a bank form the group have been more or less profitable than an investment in the others.

2. Description of the industry and companies (Banco Santander, BBVA, CaixaBank).

2.1 The banking industry in Spain.

The financial crisis that took place in Spain from 2006 until 2015, when experts consider that it was over, as the economy faced growth rates of 3%, unemployment stop growing, meaning that new work places were being created, and the restructuration of the financial institutions stopped having impact on the deficit. *(Linde, 2017)*

This crisis changed severely the banking industry in Spain, as financial institutions were facing the consequences of it. Since 2008, the government created mechanisms that supported the liquidity of these financial institutions. Between 2009 and 2011, a new strategy was followed, as the banking industry continued facing several difficulties, that needed to be solved a soon as possible, to avoid the worst-case scenario. The strategy was based on facilitate voluntary mergers and the decision of resolve those banks less feasible. *(Linde, 2017)*

The solvency of the companies needed changes as well. The strategy followed for the solvency of the companies was to reinforce it, with the restructuration of the Saving banks. With this process, the solvency coefficient needed for a company changed, from 10.6%, up to 12.2%. *(Linde, 2017)*

In 2012, when the crisis aggravated, the Spanish government, as long with the European Commission, decided to inject resources to the Spanish banks, with a quantity that amounted to 41,000 million €. *(Linde, 2017)*

During this process of restructuration, the number of Saving banks in Spain has decreased considerably, from been 45 before the crisis, to only two the ones that keep running after it, as the rest of them merger and ended up being eight traditional banks. *(Climent Serrano, 2013)*

This process of restructuration, besides all the challenges and complications faced, could be considered a success, as banks are now better capitalized, as the global solvency ratio went from 10.6% at the last quarter 0f 2007, up to 14.5 at the ending of 2015. *(Linde, 2017)*

2.2 Banco Santander.

Banco Santander´s history begins on the 15th of May, 1857, when Queen Isabel II authorised the founding of the bank. Since the beginning of their activities, it has been operating in foreign countries, as it started as a link on the activities of trading between the north of Spain and Latin America. *(Santander.com, 2019)*
At the beginning of the 20th century, Banco Santander doubled the size of their balance sheet, increased their capital up to 10M of pesetas, around 60,101M €, and reported a revenue during this period of time of around halve a million of pesetas, 3, 005€. Banco Santander merged during this years with banks founded at this period of time, such as Banco Hispanoamericano, Español de Crédito and Central. *(Santander.com, 2019)*
In 1950, Emilio Botín Sanz de Sautuola y López was appointed as the chairman of Banco Santander, starting an era where the bank expanded their activity to the rest of Spain, acquiring local banks. *(Santander.com, 2019)*
In 1947, Banco Santander opened their first offices outside the Spanish territory, in Cuba and in London. *(Santander.com, 2019)*
In 1977, Emilio Botín Sanz de Sautuola y García de los Ríos was named the CEO of Banco Santander, after the bank acquire the first subsidiary in Latin America, in Argentina, Banco del Hogar Argentino, and the creation of Bankinter. *(Santander.com, 2019)*
In 1985, Banco Santander started the investment banking activity, with the creation of Banco Santander de Negocios. During the late 80´s, Emilio Botín Sanz de Sautuola y García de los Ríos was named the new CEO, as his father retired from the bank after 36 years. During this period of time, Banco Santander continued with the expansion in Europe, with the acquisition of CC-Bank in Germany, and the Banco de Comercio e Industria in Portugal. After the acquisition of Banesto, in 1994, Banco Santander became the leader bank in the Spanish system. *(Santander.com, 2019)*
The taking of 19.8% of the stake from Sovereing Bancorp was the first investment made by the bank in the U.S. *(Santander.com, 2019)*
2006 was a great year for Banco Santander, as they made record profits for any financial institution ever in Spain, with profits of 7,569M€. *(Santander.com, 2019)*

In 2012, 25% of Santander México was listed on the Mexican stock market, becoming this operation the largest of the year in Latin America. Ana Botín was named Executive Chairman of Banco Santander in September, after the death of her father, Emilio. *(Santander.com, 2019)*
The past four years, from 2015 until today, Banco Santander has maintained as the leader bank in Spain and Portugal, with a capital increase in 2015 of 7.5 billion €, in order to take advantage of opportunities for organic growth, and to increase the credit and market share of the bank. In 2017, Banco Santander acquired Banco Popular, which will add value for the business and for the stakeholders. *(Santander.com, 2019)*

2.3 BBVA

BBVA history starts when in 1857 in Bilbao, when the Board of Commerce encourage the creation of Banco Bilbao, as an issuance and discount bank, because of the economic growth the north of Spain was facing at those days, specially with the English miners working there. *(News BBVA, 2019)*
Banco de Vizcaya was founder in 1901, making the first transactions of the company in Bilbao, but started expanding their activity to other parts of the county. While this was happening, Banco de Bilbao lost the right to issue banknotes, so it changed their main activity to loans and discounts. Furthermore, Banco de Bilbao and Banco de Comercio merged in 1902. *(News BBVA, 2019)*
Banco de Bilbao and Banco de Vizcaya, along with other members of a consortium of bankers created Banco de Crédito Industrial. *(News BBVA, 2019)*
During the 1960´s, Banco de Bilbao kept growing, with the acquisition of national banks, creating a financial group. Banco de Vizcaya did likewise keep growing, and stablishing themselves as one of the most important financial groups of the country, and as a commercial bank, because of the opening of offices around the country. *(News BBVA, 2019)*
The decade of the 1980´s, both banks continue their expansion. Banco de Vizcaya acquiring banks facing difficulties economically, being the Banca Catalana, acquired in 1984, the most important transaction. Meanwhile, Banco de Bilbao reached a size where they would be able to access the financial

businesses emerging in the national and international markets. However, the most important activity for both banks was the agreement reached in 1988, when both banks decided to merge and create BBV. *(News BBVA, 2019)*
In 1999, BBV and Argentaria decided to merge, creating BBVA, a new bank with strong solvency, and most important, diversification of their business geography and risks, stablishing themselves as the second largest bank in Spain. *(News BBVA, 2019)*
As BBVA, the bank is the largest financial institution in Mexico, and in South America has leader franchises, as well as in USA. In Turkey, BBVA is the major stakeholder of Garanti, the biggest bank in the country for market capitalization. *(News BBVA, 2019)*

2.4 CaixaBank.

CaixaBank is today what is used to be known as La Caixa, a bank founded in 1904, as a Saving bank, with the purpose of stimulating their clients to save their money and for their previsions. The bank was founded by Frances Moragas Barret, with the support of the Catalan society and other various financial entities, and his first idea for the business was to create a new private institution that could offer to the workers of the region and the business men to be able to have a good retirement or a disability-caused retirement in economic terms. *(Finanzas.com, 2019)*
It was in 1989, when La Caixa faced the major period of expansion since the creation of it, as a change in the law gave the savings banks the ability to open new offices in other territories besides the one their headquarters are.
La Caixa IPO process took part in 2007, and in 2011, when they faced a restructuring process of their shares, CaixaBank was created.
Nowadays, CaixaBank is considered as one of the leaders on retail banking in Spain and Portugal, specially after the acquisition of BCI; and one of the most important banks of Spain, with Banco Santander and BBVA. *(CaixaBank, 2019)*

3. Ratios to be analysed.

As the aim of this paper is to analyse and compare the financial structures of Banco Santander, BBVA and CaixaBank, the most accurate method to do so is by obtaining and comparing their most important financial ratios.

The ratios that are going to be analysed are solvency, liquidity ratios, leverage, profitability ratios, loan loss provision coverage ratio.

When analysing a non-financial firm, the activity volume of it can be measured with the sales or the profits the company makes in a financial year. However, in the case of financial institutions, the volume of the business of the company is measured on the balance sheet and the income statement of the company, which makes the study and analysis of the financial ratios obtained from those accounts an important method to analyse the company.

3.1 Capital ratio

The capital ratio of a company measures the financial health from a bank. This ratio relates the funds the company owns, that could be used in case the company must face contingencies, with the risk taken by the company through the assets. In order to show the solvency of the company, the financial institutions must maintain a percentage of the capital related with the risk weighted assets. *(BBVA NOTICIAS, 2019)*

$$\text{Capital ratio} = \frac{\text{CET1}}{\text{Risk Weighted Assets}}$$

or

$$\text{Capital ratio} = \frac{\text{Tier1}}{\text{Risk Weighted Assets}}$$

or

$$\text{Capital ratio} = \frac{\text{Total Capital}}{\text{Risk Weighted Assets}}$$

The capital of a company can be classified in order, from better quality capital, to the less quality capital.

The higher quality capital is formed by those assets with a higher capacity to absorb any losses the company might have during the financial year. For every type of capital he company has, there is a different capital ratio. This types of capital, ordered from better to worst quality are, CET1, Tier1 and Total Capital.

Tier 1 is formed by Ordinary Capital Level 1 (CET1), that is formed by shares of the company + reserves, and the minimum requirement is 4.5% for all the European banks.

As mentioned before, these different types of capital where stablished with Basel II, and then with Basel III, the regulations and obligations increased due to the "banking panic" that was facing the European banking system.

The capital ratio is considered as a method to analyse the solvency of the company. Solvency is the minimum capital required to the banks. It is applicable to the companies in order to generate confidence for the financial system.

The main objective of the solvency analysis is the capacity of the company to attend the financial commitments in the long-term with the stakeholders. The solvency analysis is essential for the shareholders of the company, as well as for creditors, as they will demand compensatory balances along with the risk levels of the company.

Risk Weighted Assets (RWA) are compounded by adjusting each asset class for risk, to determine what is the real exposure of a bank to any potential losses they could face. Regulators use RWA to be able to calculate how much capital for absorb losses the financial institution needs in case they are going through a difficult time. *(Lexicon.ft.com, 2019)*

Under Basel III the requirements with the solvency of any financial company has increased progressively. Additionally, a capital buffer has been included, of 2.5%. This buffer has the function to be used as a provision for the banks, as long as they face losses, and it is composed by the capital conservation buffer, for all entities; anticyclical capital buffer, for those entities determined by the ECB; and capital buffer for systemic entities.

3.2 Financial leverage.

When a company operates with external resources, it can be considered that the company is leveraged, or that it appeals to the leverage in order to get the financing necessary to operate correctly.

The benefits that a company might experience with the leverage is that the debt cost runs independently from the financial result; and that the debt interests are reducible when its determined the tax base that levy benefits. *(Muñoz Merchante, 2011)*

The financial leverage ratio implies that, being higher than one, the use of external resources had a positive impact on the profitability of the own resources of the company, which means that the net cost of the borrowings was lower than the efficiency obtained from the investment.

$$\text{Financial Leverage ratio} = \frac{\text{Financial Profitability}}{\text{Economic Profitability}}$$

In the case that the ratio is exactly one, means that the use of the borrowings is economically indifferent. In the other hand, if the leverage is lower than one, this implies that the use of external sources of funds reduces the profitability of the company.

3.3 Profitability ratios.

The concept of profitability is used to measure the efficiency obtained by the bank, with the capital invested during the year. Because of this, the profitability ratios are calculated with entries for the income statement.

The profitability of the company is calculated comparing the profits obtained with the investments made in order to obtain such benefit.

$$Profitability = \frac{Profits}{Investments}$$

However, to calculate the profitability of the company in the most accurate method possible, the profitability can be classified in economic profitability or financial profitability. *(Muñoz Merchante, 2011)*

3.3.1 Economic profitability.

The economic profitability is also known as assets profitability, or investments profitability, or Return on Assets, and it is defined as the relationship between the financial result before interest and taxes and the assets (EBIT).
Return on assets (ROA) determines how much profits a company make for every euro they have spent on generating those profits.

$$\text{Economic profitability} = \frac{\text{EBIT}}{\text{Total assets}}$$

The ideal results for this ratio is obvious that the higher, the better will be for the company. Nonetheless, the ratio must be high enough, so the company can cover the borrowings with this result, and to pay the dividends due to shareholders, meaning that a positive economic profitability, does not necessarily implies that the company will obtain profits. *(Muñoz Merchante, 2011)*

3.3.2 Financial profitability.

Seen that the economic profitability oversaw compensating borrowers and shareholders, the financial profitability ratio only considers the profitability remaining for the shareholders.
The financial profitability ratio could be calculated in two different ways, depending on when it is calculated, before or after the company pays the taxes.
The financial profitability is also known as Return on Equity (ROE), which is defined as the amount of money a shareholder will get in return on the money invested at the beginning of the year. *(Garrido and Íñiguez, 2015)*

$$\text{Financial profitability} = \frac{\text{Result before taxes}}{\text{Equity}}$$

or

$$\text{Financial profitability} = \frac{\text{Financial Result}}{\text{Equity}}$$

On this profitability measure, the funding of the company does take place, as in the numerator of the financial result option, the borrowing interest have already been subtracted, been the shareholders left to be remunerated.
Another ration to analyse the financial profitability of the company is with the Return on tangible equity (ROTE) that is defined as the net profit as the percentage of the tangible equity or shareholders´ funds.

$$\text{ROTE} = \frac{\text{Net Income}}{\text{Tangible Equity}} \text{ x } 100$$

3.4. Loan loss provision coverage ratio

The loan loss provision coverage ratio indicates how a bank is covered itself in case they face a loss financial year. If the ratio is high, means that the bank will be able to withstand future losses in the best possible way, including those losses that were completely unexpected at the moment when the forecast of the next year. *(Smallbusiness.chron.com, 2019)*

$$\text{Loan loss provision coverage ratio} = \frac{\text{Earnings before tax} + \text{Loan loss provision}}{\text{Charge} - \text{offs}}$$

Loan loss provisions coverage ratio is very important for banks; however, it is also for the banking system. This is because, the better the provision the banks have, if the banking system experiences a new crisis period, as it happened from 2006 until 2015, the harm of the losses will be the less as possible.

3.5 Stress tests.

The methodology used by banks and the European Banking Authority (EBA) to know the solvency and liquidity situation of the company is by the stress tests.
These are test made by the financial institutions, to evaluate the possible impact of an event or an important change over the asset´s quality, profitability, capital or other financial variables of the firm. The main objective of the stress test is to identify any exposure of the company in any risky situation, and are a hey instrument for the company in an expansionary period.
For financial institutions, stress tests consist on simulations done with the objective to determine the capacity of the banks of facing another crisis. For these simulations, increase of unemployment, credit default or devaluation of their investments are considered.
In the liquidity case, the liquidity coverage ratio (LCR) is analysed. This consists on measuring the capacity of the bank to resists on the short-term a liquidity risk, where the banks must ensure the disposure of enough high-quality liquid assets (HQLA) to withstand a stress situation for a 30-day period.
Due to the lack of information provided by the three banks during the time they are been analysed for stress test results for LCR, a complete analysis cannot be made. However, BBVA has published the results of this test for the financial year of 2017.

	31.12.2018
HQLA	91.004
Total Cash Outflows	96.328
Total Cash Inflows	22.955
Liquidity Buffer	91.004
Total Outflows	73.373
LCR	124

Table 1: Disclosure Liquidity Coverage Ratio, 2017

Source: BBVA Pillar III 2017

As it is observable, the LCR for the year 2017 for BBVA is much higher that 100%, meaning this that in the case of a liquidity problem faced by the company in a 30-day period, there will be no problem. *(EBA, 2018)*

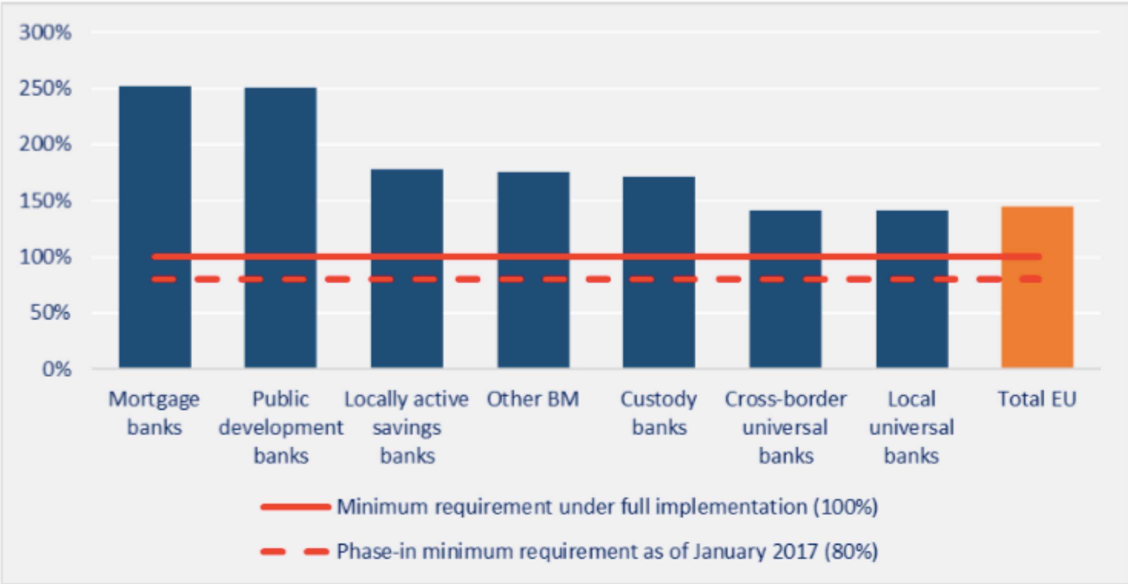

Figure 1: LCR across business models.
Source: EBA

Figure shows the changes on the LCR under different business models. BBVA´s LCR, situated on 124%, is above the minimum requirement, but is below the average of all the other banks in the EU. However, it is not situated far from other banks of its category, local universal banks, having their LCR situated on 141%.

4. Analysis of the financial accounts from the past two years.

In order to make a proper analysis of the financial structure of the three banks, Banco Santander, BBVA and CaixaBank, a study of their financial accounts will be held for the years 2017 and 2016. The past financial year, 2018, could not been analysed at the time the study is been made, as the financial accounts have not been published yet.

For the analysis of the financial accounts, the ratios from the previous section will be calculated for the three companies, and the study of what these results imply will also be made.

All the information calculated are obtained from the annual or quarterly reports published from the banks. (Appendix)

4.1 Banco Santander

4.1.1 Capital ratio.

*In Million €	31.12.17	31.12.16
Capital and Reserves	111.362	101.437
Attributable Profit	6.619	6.204
Dividends	- 2.998	- 2.469
Other Retained Earnings	- 23.108	- 16.116
Minority Interests	7.228	6.784
Goodwill and Intangibles	- 28.537	- 28.405
Other Deductions	- 5.004	- 5.368
Core CET1	**65.563**	**62.068**
Preferents and Other Computables	7.730	5.767
Tier1	**73.293**	**67.834**
Generic Insolvency Funds and T2 Instruments	14.295	13.749
Computable Equity	**87.588**	**81.584**
Risk Weighted Assets	605.064	588.088
CET1 Capital Ratio	**10,84**	**10,55**
T1 Capital Ratio	**12,11**	**11,53**
Total Capital Ratio	**14,48**	**13,87**

Table 2: Capital ratio 2016-2017

Source: Banco Santander´s Annual Report 2017

The table above shows the different capital ratios form Banco Santander during the last two financial years with public information available. What is observable form the ratio is that it has increased last year, and, this is because Banco Santander has increased profits from one year to another, as well as the management of the Risk Weighted Assets. It is also needed to be mention, that for the results of the financial year of 2017, Banco Popular is included on the financial results of Banco Santander.
From the results of the ratios itself, it can be determined that Banco Santander can be consider as a “healthy” bank, in terms of that they could cover unexpected losses with either the different qualities of the capital. This can be considered suitable, due to the business model, the structure of the balance sheet, and the risk profile of the company.

4.1.2 Financial leverage.

Although the financial leverage ratio can be calculated by dividing economic profitability by economic profitability, Banco Santander provide the ratio on the annual financial accounts.

	31.12.17	31.12.16
Financial leverage	5,02	4,98

Table 3: Financial leverage 2016-2017
Source: Banco Santander´s Annual Report 2017.

The leverage has not faced an important change from 2016 to 2017, due to the movement experienced on the balance sheet, with the inclusion of Banco Popular, and because of the evolution of the exchange rates.
Looking only at the result of the ratio, it can be concluded that Banco Santander is obtaining a high profitability from their borrowings, having a positive impact on the investments made by the bank on those financial years. This can be seen as the results of the ratio in both years has been far from one.

4.1.3 Profitability ratios.

Economic profitability.

	2017	2016
ROA	0,58	0,56

Table 4: Economic Profitability 2016-2017

Source: Banco Santander´s Annual Report 2017

The economic profitability of Banco Santander has increased, in a minimum amount, been almost the same from one year to the next, meaning that the profitability obtained from the assets from the bank, without taking into consideration the method of financing these, has also increased in the same conditions.

These results are important for investors and shareholders, as they get an idea of how their investments made at the bank have been used during these activity years. However, the results do not necessary imply that these external participants are going to obtain benefit, or either the company, as the ratio is not taking into account the loans or losses the company needs to payback or cover, for which this profitability will be used for it. Nonetheless, Banco Santander has not been facing losses during the past years, instead, they have accumulated past years´ profits, meaning that the economic profitability of the bank is positive for the company, as well as for the external creditors.

Financial profitability.

	2017	2016
ROE	7,14	6,99

Table 5: Financial Profitability 2016-2017

Source: Banco Santander´s Annual Report 2017

With the financial profitability ratios obtained from Banco Santander of the financial years of 2016 and 2017 it can be seen that it has increased year to year, meaning that the profitability investors will receive back from the firm for their investments there will be higher than the year before. This increase in the profitability it important for present shareholders, as they will receive a higher dividend at the moment of the distribution, or in the case there is a capital increase, this shareholders will highly consider purchase more shares form the bank, due to the increase of the profitability; and also for future shareholders, as if they analyse this profitability before investing on the bank, the will see an increase year after year, which will encourage them to invest on the bank.

	2017	2016
ROTE	10,41	10,38
Ordinary ROTE	11,82	11,08

Table 6: Financial Profitability, Return on Tangible Equity 2016-2017
Source: Banco Santander´s Annual Report 2017

The Return on Tangible Equity is another measure of the financial profitability of any financial institution, and the one obtained from Banco Santander indicates that the company´s financial profitability increases, as mention with the ROE. This return is one of the highest from all the financial institutions of the world.

4.1.4 Loan loss provision coverage ratio.

	2017	2016
Default Risk	28.104	33.643
Default ratio	3,38	3,93
Constituted Funds	19.906	24.835
Coverage	70,8	73,8
Credit cost	1,12	1,18

Table 7: Loan loss provisions coverage ratio 2016-2017
Source: Banco Santander´s Annual Report 2017

In order for Banco Santander to calculate their loan loss provision coverage ratio, before there is the need to know the default risk form their clients and creditors. The default risk on Table 6 only provides this risk for Banco Santander, not including Banco Popular. The default risk for Banco Popular is 3.36%, meaning that is the fourth consecutive year for the bank decreasing it.

To be able to face these defaults in case they happen, on the balance sheet, Banco Santander has included an account of constituted funds for 19,906 million €, meaning that the loan loss coverage ratio for the year 2017 is 70.8%.

4.2 BBVA

4.2.1 Capital ratio.

	31.12.17	31.12.16
Core CET1	**40.061**	**42.398**
Tier1	**46.316**	**48.459**
Computable Equity	**55.207**	**57.198**
Risk Weighted Assets	361.686	388.951
CET1 Capital Ratio	**11,10**	**10,90**
T1 Capital Ratio	**12,80**	**12,50**
Total Capital Ratio	**15,30**	**14,70**

Table 8: Capital ratio 2016-2017
Source: BBVA´s Quarterly Report 2017

From the capital ratios obtained from BBVA, it can be highlighted the healthiness of the company for the last years, which has increased during those years, while there has been a reduction of all kinds of capital of the company. This means that, even though the bank has less capital, they have made a reallocation of the assets to use in case the company faces unexpected losses.

4.2.2 Financial leverage.

	31.12.17	31.12.16
Financial leverage	**6,53**	**6,49**

Table 9: Financial Leverage 2016-2017
Source: BBVA´s Quarterly Report 2017

The financial leverage ratio of BBVA increased form one year to another, being this increase minimal, nonetheless meaning that the bank has invested the money borrowed from external lenders in a more profitable way.

In both financial years, BBVA has obtained a favourable profitability from investing this money. This implies that BBVA is very conscious about the money borrowed for the exercise, as is will need to return this in the future, plus the interests accorded with the lender.

4.2.3 Profitability ratios.

Economic profitability.

	2017	2016
ROA	0,68	0,64

Table 10: Economic Profitability 2016-2017
Source: BBVA´s Quarterly Report 2017

The economic profitability of BBVA has increased in a minimum amount from the 2016 exercise to the 2017 one.

Shareholders will give a big importance to this results, as it this ratio will give, in numbers, what BBVA has done during the financial exercise with their investments. And because it has increased from one year to another, shareholders and investors might feel that their investments were in good hands. However, this increase, or the positive result, does not necessarily mean that the financial result has increase as well. This was not the case in BBVA as the financial result from the income statement has increased indeed.

Financial profitability.

	2017	2016
ROE	6,40	6,70

Table 11: Financial Profitability 2016-2017
Source: BBVA´s Quarterly Report 2017

The financial profitability of BBVA has faced a decrease from 2016 to 2017. This implies that investors will receive a lower return form their investments. This decrease could be due to a decrease in equity, the financial result of a deduction in both. In the case of BBVA, the equity amount of 2016 was higher than the one in 2017.
This decrease of the financial profitability could have a negative impact on BBVA, as current shareholders might sell their shares, as they are not receiving back from the bank as many profitability as they thought they would be getting at the moment of the purchase; and for possible future shareholders, as there will reconsider purchasing BBVA´s assets, as the can easily observe with this ratio, that the profitability of the assets have decreased with an increase of the price of the share.

	2017	2016
ROTE	7,7	8,2

Table 12: Financial Profitability, Return on Tangible Equity 2016-2017
Source: BBVA´s Quarterly Report 2017

As seen with the ROE, the return on tangible equity has also fallen. This was expected, as if one decreases, the other will do so. ROTE is higher as for the calculation of the ratio, there a less accounts from the equity side of the balance sheet taken into account.

4.2.4 Loan loss provision coverage ratio.

	2017	2016
Default ratio	4,4	4,9
Coverage ratio	65	70
Credit cost	0,87	0,84

Table 13: Loan Loss Provisions Coverage Ratio 2016-2017
Source: BBVA´s Quarterly Report 2017

On 2017, BBVA´s default ratio decreased for the third consecutive year. In order to face any default the bank might face, they have destined a 65% of coverage ratio to it.

As mention on the previous section, this decrease on both default and coverage ratio, are important good news for the bank, as the bank has less doubtful credits; and is also important for the banking industry of Spain and the Eurozone, has the bank is less likely to have unexpected losses that could finish with the activity of such an important bank as BBVA.

4.3 CaixaBank

4.3.1 Capital ratio.

	31.12.17	31.12.16
Core CET1	17.426	16.723
Tier1	18.320	17.263
Computable Equity	23.384	21.713
Risk Weighted Assets	148.940	134.864
CET1 Capital Ratio	**11,70**	**12,40**
T1 Capital Ratio	**12,30**	**12,80**
Total Capital Ratio	**15,70**	**16,10**

Table 14: Capital Ratio 2016-2017
Source: CaixaBank Annual Report 2017

CaixaBank´s capital ratio experiences an unusual change from the financial year of 2016 to the 2017 one, as although the three types of capital increased, the ratios decreased.
The main reason to the decrease of these ratios is because during the first term of 2017, CaixaBank acquired 100% of the shares from the Portuguese Bank BPI. This activity made the capital ratios decrease, as the integration of the bank meant the implementation of their assets on their balance sheet, without a capital increase of CaixaBank as a group.
Nonetheless, CaixaBank can be consider as a bank with a positive asset health, as with those, they could still face unexpected losses.

4.3.2 Financial leverage.

	31.12.17	31.12.16
Financial leverage	5,50	5,70

Table 15: Financial Leverage 2016-2017
Source: CaixaBank Annual Report 2017

CaixaBank´s financial leverage has faced the same evolution from 2016 to 2017 as the capital ratio. It faced a reduction, mainly because the acquisition of BPI, as for the purchase of that number of shares could not only be done with internal funds, they have required to external parties in order to have the money necessary for the acquisition. This implies that on the year 2017, the benefits obtained from external lenders are not as high as other years, but in the medium-short-term will return to the positive trend.

4.3.3 Profitability ratios.

Economic Profitability.

	2017	2016
ROA	0,50	0,30

Table 16: Economic Profitability 2016-2017
Source: CaixaBank Annual Report 2017

The economic profitability of CaixaBank has increased considerably from one year to another. The main reason behind this increase is because the number of assets of the company have increased, because the integration of BPI, while the results from the year have also increased.

Financial Profitability.

	2017	2016
ROE	6,90	4,50

Table 17: Financial Profitability 2016-2017
Source: CaixaBank Annual Report 2017

As all the other ratios analysed before for CaixaBank, the ROE has experienced an important growth on the financial year 2017.
This increase will be beneficial for the company, as these results might help those who were doubtful about purchasing CaixaBank´s share to make the decision of buying those; and for the current shareholders, as they will receive a much higher dividend than the ones received on previous years.

	2017	2016
ROTE	8,4	5,6

Table 18: Financial Profitability, Return on Tangible Equity 2016-2017
Source: CaixaBank Annual Report 2017

The return on tangible equity of the bank will face such a big increase as well, positioning this return among the highest from other banks in the European Union.

4.3.4 Loan loss provision coverage ratio.

	2017	2016
Default risk	14.305	14.754
Default ratio	6	6,9
Coverage ratio	50	47
Credit cost	0,34	0,46

Table 19: Loan Loss Provision Coverage Ratio 2016-2017
Source: CaixaBank Annual Report 2017

Even though the default risk and ratio from CaixaBank´s clients have decreased, the bank stipulate that they should take more into account these clients, increasing the coverage ratio.
This increase on the coverage ratio implies that those credits of default, even if they are than in previous exercises, are considered more likely of not being paid back. To have their backs covered in case these clients omit their payment-back, CaixaBank has increased the coverage ratio, meaning that the bank is allocating more possible resources to cover this possible loss.

5. Comparison of the ratios.

The aim of this section on the analysis of the financial structures from Banco Santander, BBVA and CaixaBank is to compared the results obtained from the ratio calculated on the previous sector, and further with other financial institutions, industries or countries from the European Union.

5.1 Comparison between the companies.

In absolute terms, Banco Santander is the biggest company of the three compared. This can be concluded because of their financial structure and quantities obtained from the balance sheet.

*In Milion €		
Banco Santander	31.12.2017	31.12.2016
Total Assets	1.444.405	1.339.125
Equity	106.833	102.699
Liabilities	1.337.572	1.236.426
*In Milion €		
BBVA	31.12.2017	31.12.2016
Total Assets	690.059	731.856
Equity	53.323	55.428
Liabilities	636.736	676.428
*In Milion €		
CaixaBank	31.12.2017	31.12.2016
Total Assets	383.186	347.927
Equity	24.683	23.555
Liabilities	358.503	324.372

Table 20: Reduced Balance Sheet 2016-2017

Source: All Banks Annual Report 2017

Banco Santander´s total assets in 2017 where more than twice the size of BBVA´s, and almost four times bigger than CaixaBank´s. This is because Banco Santander operates in more countries than the others, making their activity volume much higher.

However, CaixaBank´s balance sheet faced the highest growth of all three banks, increasing their total assets in a 10.13%, while Banco Santander did it in a 7.86%.

This increase was caused, as seen before by the integration of BPI on CaixaBank´s financial structure. Nonetheless, the equity growth of CaixaBank was not as high as the assets growth, being this 4.79%. But comparing this growth to Banco Santander (4,03%), CaixaBank still had a higher growth

BBVA case is a completely different case. During the time the companies were studies, their balance sheet decreased notoriously, facing a 5.71% decrease in their total assets.

While BBVA was the only bank from the three that faced a reduction of the balance sheet, at the end of 2017, it kept his position as the second biggest bank of Spain.

This changes on the balance sheet go hand-to-hand with the capital structure of the companies. In this case, the size order maintains the same, having Banco Santander the higher levels of all types of capital, CET1, Tier1 and total capital, as well as RWA. However, CaixaBank has higher capital ratios, all three, for both financial years, meaning that they can be considered a the "healthiest" bank of all three as CaixaBank as allocated their assets with a system that they could face unexpected contingencies in a better way than BBVA or Banco Santander.

In terms of the profitability obtained by the banks from borrowing they have obtained, the financial leverage, BBVA obtains the higher profitability from those. This is related to the contraction of their balance sheet, as with lower own resources available for the financial activities, BBVA needed to reach for external funds to keep running a similar activity from previous years.

In profitability terms, BBVA had the highest economic profitability overall among the three, and the highest growth on it from 2016 to 2017. As mention before, this ratio can mislead the actual profitability of the company for the investors, as this is a profitability that engages shareholders and the company, which implies that if the company faced a recession of their balance sheet, being BBVA the case, this profitability could be invested back in the company.

However, on the financial profitability, which is the ones that matters for the shareholders and investors, Banco Santander had the highest ratios, and CaixaBank, as it has been the case for the other ratios analysed, had the highest growth on financial profitability terms, for both return on equity, and return on tangible equity, with growths of 53.33% and 50% respectively.

Even though, Banco Santander did not have such a positive increase on their financial profitability, they faced a growth as well, with a growth of 2.15% on the ROE, and of 0.29% on ROTE. This means, that even the growth is minimal, shareholders from Banco Santander will receive a higher profitability for their investments on the bank.
On default terms, all three banks reduced the amount of default ratio. Banco Santander reduced the risk of default considerably, on more than a 16%, while CaixaBank has lowered this risk, for around 3%. The levels of default risk form BBVA cannot be determined, as the bank does not provide this information, neither on their financial accounts or shareholders´ quarterly informational reports.
With the decreases on the default ratio and risk, Banco Santander and BBVA allocate less resources from one year to another to cover their selves in case these defaults finally happen. On the other hand, CaixaBank has increased their coverage ratio, even though the default risk and ratio have lowered. The increase on this ratio might be because the increase on the clients of the bank from one year to another, that they have not qualified those in terms of risky borrowers, as there is no previous information of them, so in case there is a higher default ratio than expected, they are still covered.

5.2 Banco Santander, BBVA and CaixaBank vs others.

On figure 2, it can be seen what are the levels of the leverage ratio predicted for banks on the different countries from the EU. The Spain levels of leverage for 2020 are situated on 4.51%. This means that if the three banks, Banco Santander, BBVA and CaixaBank maintain their level of growth on their leverage ratios, as it happened on 2017, these banks are going to be crucial for the Spanish banks to reach such a level, as nowadays these banks, are the ones with a higher weight on the total leverage ratio of the Spanish financial institutions. However, taking into account Banco Sabadell, on 2018, the average leverage ratio of the Spanish banks was 4.17%, which proves that is all four banks keep their increasing levels on this ratio, the forecast of the EBA for 2020 will be achieved.

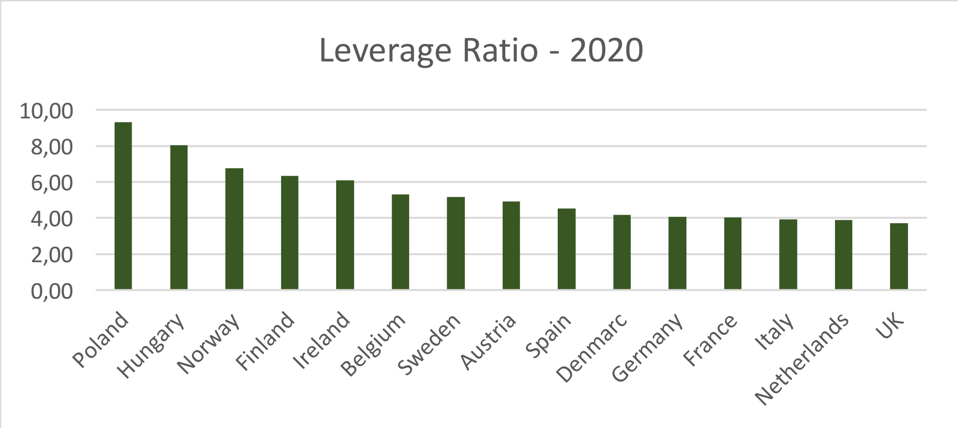

Figure 2.

Source: EBA

Figure 3 shows the evolution of the average capital ratios levels, CET1 and total capital, of the banking institutions of Spain for three years.

What is remarkable from this figure is that for the years analysed, 2016 and 2017, all three banks have a higher capital ratios than the average in Spain.

However, from 2016, both levels of capital have increase on 72 basic points, because the increase on the capital conservation buffer (Figure 4), which added 62 basic points, that is, due to the annual increase forecast, subject to the adaptation period for the banks stablished on the Basel III agreement.

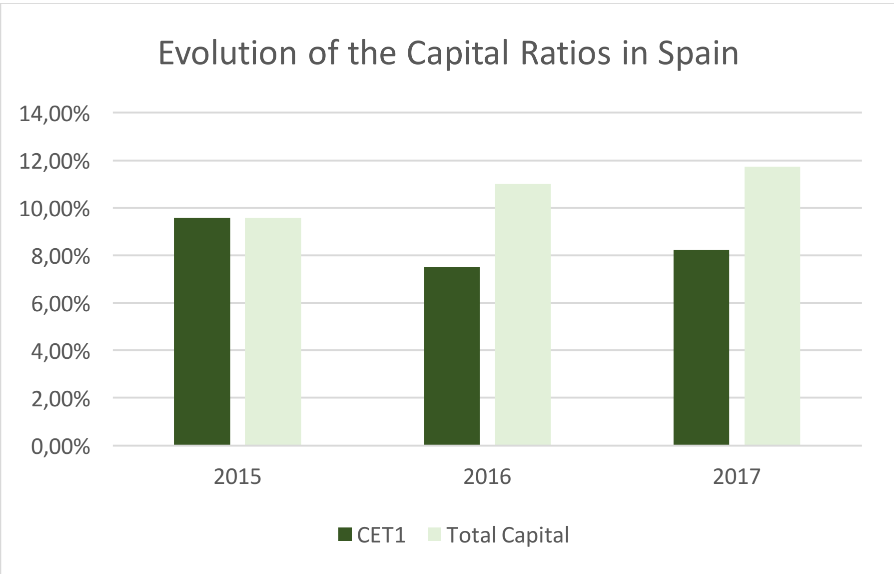

Figure 3. (*) Mean Calculated from banks with higher assets in Spain: Banco Santander, BBVA, CaixaBank, Bankia, Sabadell, Bankinter, Kutxabank, Abanca, Ibercaja and Cajamar.

Source: SSM and PwC.

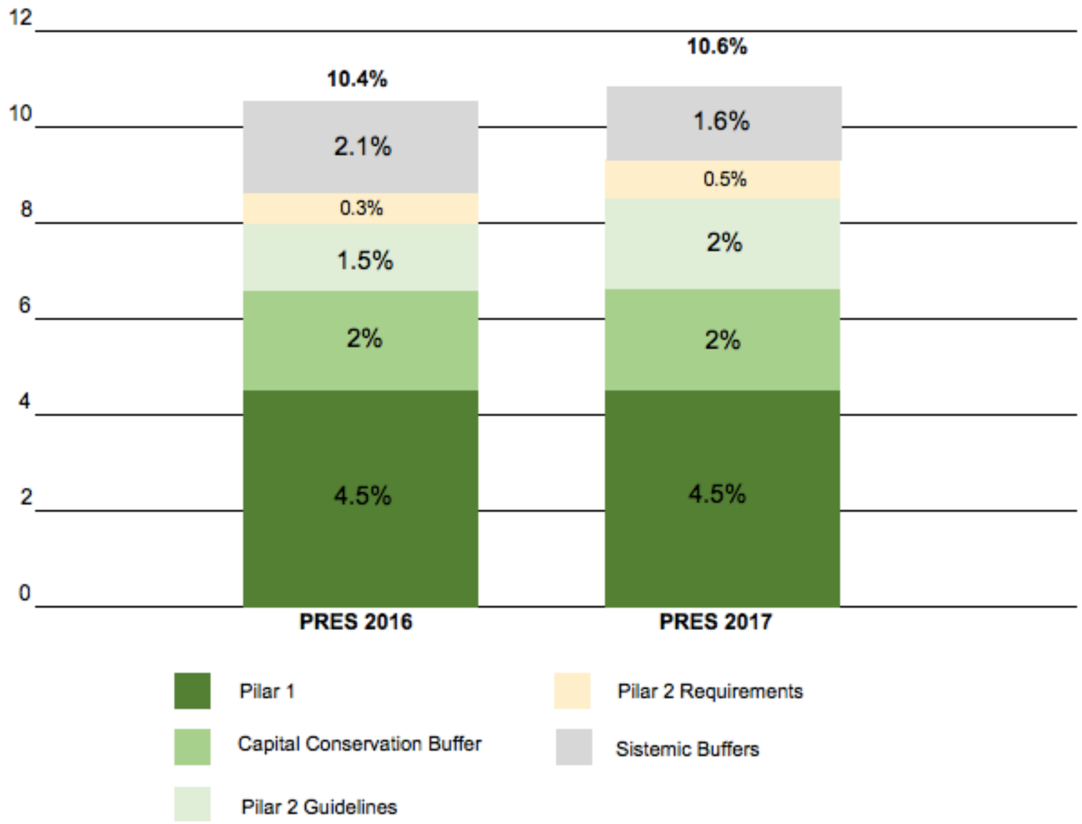

Figure 4. CET1 Requirement.

Source: SSM

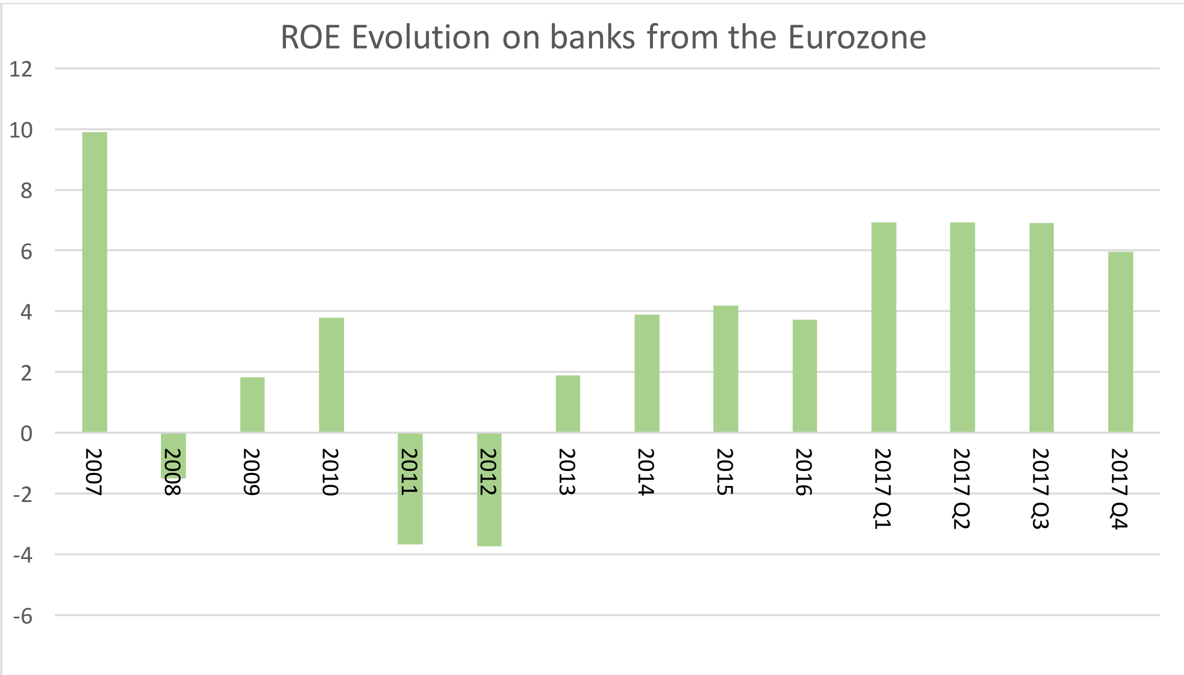

Figure 5.

Source: PwC.

The evolution on the financial profitability on banks form the Eurozone, shows that during the worst years of the financial crisis, 2008, 2011 and 2012, shown on Figure 4, this profitability was negative, meaning that during those years, banks faced negative results, which could have shocking consequences on those banks, as it could have limited the external resourcing of the companies.

During the years analysed for Banco Santander, BBVA and CaixaBank, their return on equity was much higher than the average for the banks of the Eurozone.

The message coming from the Single Supervisory Mechanism (SSM), is pessimistic, as the changes on the scenario, the risk profile form the banks and the capitalization of those will not get the ROE back to similar levels that those experienced before the crisis.

These results conclude that the profitability of and business models of the banks are still under pressure, with the suggestion of the SSM that banks have more branch offices and employees than needed; the situation and the answers from the banks of the Eurozone are variable, with the SSM pointing that there are no behavioural patterns that show the increase or decrease of the financial profitability; that the profitability strategy has not been well determined, as many companies have difficulties to follow a plan to obtain higher profitability; and that the supervisory priority will depend on the strategy follow by every bank, related to their objectives and tools to achieve those objective. (PwC, 2019)

6. Conclusion from the comparison.

From the analysis and comparison of the financial structures of Banco Santander, BBVA and CaixaBank for the financial exercises of 2016 and 2017, it can be concluded that Banco Santander is the biggest bank in Spain, in terms of the size of the balance sheet, however, CaixaBank is the most financially profitable among this group, and the bank that has had the most growth in all terms.

Even though, BBVA´s 2017 faced a regression on their financial activities, it remains as the second most important of the country, since their balance sheet size remains higher than CaixaBank´s.

If an investor has been thinking whether to purchase shares of any of the banks analysed, the recommendation given to him after the study of their activities during the past two years, would have been to invest in CaixaBank, as their financial profitability has increased the most, and with the inclusion of BPI, the Portuguese bank acquired by CaixaBank in 2017, the return in equity will keep growing, and because the financial leverage of the bank is far away from one, meaning that they get high profit abilities from external sources of financing.

For a non-Spanish investor, these banks are considered as a favourable investment, as the return on equity in these banks are growing more than the ones from other banks from countries members of the Eurozone, nevertheless, this levels of return will not be ever like the ones obtained before the economic recession period; and because their leverage ratio, even though they are one of the lowest from the European Union, their levels are still above the average of these banks, and individually, every bank is situated on similar levels that other countries.

To sum up, Banco Santander, BBVA and CaixaBank remain as the three most important banks in Spain, as they keep increasing their balance sheets; are considered as healthy banks, due to their levels of capital ratios, their borrowings are profitable used along the financial year; CaixaBank´s profitability incremented the most, with Banco Santander and, specially BBVA, not being able to compete with these levels of growth; can cover unexpected losses, and made the Spanish banking system to be trustable again because of the levels of their coverage ratios; and compared to other banks from the European Union, their activity volume can be considered as one of the most profitable, and that can be thought as an investment opportunity for investors form those countries, as well as they are fulfilling the requirements of capital and solvency levels adapted on the Basel III committee.

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8. Appendix.

Appendix 1: Banco Santander Annual Accounts for the years 2017 and 2016.

Balance Sheet. (In millions of euros)

Assets	2017	2016
Cash, cash balances at central banks and other deposits on demand	**110.995**	**76.454**
Financial assets held to negotiate	**125.458**	**148.187**
Derivatives	57.243	72.043
Equity instruments	21.353	14.497
Debt securities	36.351	48.922
Loans and advances	10.511	12.725
Central banks	-	-
Credit institutions	1.696	3.221
Customers	8.815	9.504
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	50.891	38.145
Financial assets designated at fair value through profit or loss	**34.782**	**31.609**
Equity instruments	933	546
Debt securities	3.485	3.398
Loans and advances	30.364	27.655
Central banks	-	-
Credit institutions	9.889	10.069
Customers	20.475	17.596
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	5.766	2.025
Financial assets available for sale	**133.271**	**116.774**
Equity instruments	4.790	5.478
Debt instruments	128.481	111.287
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	43.079	23.980
Loans and receivables	**903.013**	**840.004**
Debt instruments	17.543	13.237

Loans and receivables	885.470	826.767
Central banks	26.278	27.973
Credit institutions	39.567	35.424
Customers	819.625	763.370
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	8.147	7.994
Investments held to maturity	**13.491**	**14.468**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	6.996	2.489
Hedging derivatives	**8.537**	**10.377**
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**1.287**	**1.481**
Investments	**6.184**	**4.836**
Join ventures entities	1.987	1.594
Associate companies	4.197	3.242
Reinsurance assets	**341**	**331**
Tangible assets	**22.974**	**23.286**
Property, plant and equipment	20.650	20.770
Investment property	2.324	2.516
Memorandum items: acquired in financial lease	96	115
Intangible assets	**28.683**	**29.421**
Goodwill	25.769	26.724
Other intangible assets	2.914	2.697
Tax assets	**30.243**	**27.678**
Current tax assets	7.033	6.416
Deferred tax assets	23.210	21.264
Other assets	**9.766**	**8.447**
Insurance contracts linked to pensions	239	269
Inventories	1.964	1.116
Others	7.563	7.062
Non-Current assets held for sale	**15.280**	**5.722**
TOTAL ASSETS	**1.444.350**	**1.339.125**

Liabilities and Equity	**2017**	**2016**
Financial liabilities held for trading	**107.624**	**108.765**
Derivatives	57.892	74.369
Short positions	20.979	23.005

Deposits	28.753	11.391
Central banks	282	1.351
Credit institutions	92	44
Customers	28.179	9.996
Marketable debt securities	-	-
Other financial liabilities	-	-
Financial liabilities designated at fair value through profit or loss	**59.616**	**40.263**
Deposits	55.971	37.472
Central banks	8.860	9.112
Credit institutions	18.166	5.015
Customers	28.945	23.345
Marketable debt securities	3.056	2.791
Other financial liabilities	589	-
Memorandum items: subordinated liabilities	-	-
Financial liabilities at amortised cost	**1.126.069**	**1.044.240**
Deposits	883.320	791.646
Central banks	71.414	44.112
Credit institutions	91.300	89.764
Customers	720.606	657.770
Marketable debt securities	214.910	226.078
Other financial liabilities	27.839	26.516
Memorandum items: subordinated liabilities	21.510	19.902
Hedging derivatives	**8.044**	**8.156**
Changes in the fair value of hedge items in portfolio hedges of interest risk rates	**330**	**448**
Liabilities under insurance contracts	**1.117**	**652**
Provisions	**14.489**	**14.459**
Tax liabilities	**7.592**	**8.373**
Current tax liabilities	2.755	2.679
Deferred tax liabilities	4.837	5.694
Other liabilities	**12.591**	**11.070**
Liabilities associated with non-current assets held for sale	**-**	**-**
TOTAL LIABILITIES	**1.337.472**	**1.236.426**
Shareholders´ Equity	**116.265**	**105.977**
Capital	**8.068**	**7.291**

Called up paid capital	8.068	7.291
Unpaid capital which has been called up	-	-
Memorandum items: uncalled up capital	-	-
Share premium	**51.053**	**44.912**
Equity instruments issued other than capital	**525**	**-**
Equity component of compound financial instruments	-	-
Other equity instruments	525	-
Other equity	**216**	**240**
Accumulated retained earnings	**53.437**	**49.953**
Revaluation reserves	**-**	**-**
Other reserves	**-1.602**	**-949**
Reserves or accumulated losses in joint ventures investments	724	466
Others	-2.326	-1.415
(-) Own shares	**-22**	**-7**
Profit attributable to shareholders of the parent	**6.619**	**6.204**
(-) Dividends	**-2.029**	**-1.667**
Other comprehensive income	**-21.776**	**-15.039**
Items not reclassified to profit or loss	**-4.034**	**-3.933**
Items that may be reclassified to profit or loss	**-17.742**	**-11.106**
Non-controlling interest	**12.344**	**11.761**
Other comprehensive income	-1.436	-853
Other items	13.780	12.614
EQUITY	**106.833**	**102.699**
TOTAL LIABILITIES AND EQUITY	**1.444.305**	**1.339.125**

Income Statement. (In millions of euros)

	2017	2016
Interest income	56.041	55.156
Interest expense	-21.745	-24.067
Net interest income	**34.296**	**31.089**
Dividend income	384	413
Share of results of entities accounted for using the equity method	704	444
Commission income	14.579	12.943
Commission expense	-2.982	-2.763
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	404	869
Gains or losses on financial assets and liabilities held for trading, net	1.252	2.456
Gains or losses on financial assets and liabilities measured at fair value through profit or loss, net	-85	426
Gains or losses from hedge accounting, net	-11	-23
Exchange differences, net	105	-1.627
Other operating income	1.618	1.919
Other operating expense	-1.966	-1.977
Income from assets under insurance and reinsurance contracts	2.546	1.900
Expenses from liabilities under insurance and reinsurance contracts	-2.489	-1.873
Total income	**48.355**	**44.232**
Administration expense	-20.400	-18.737
Depreciation and amortisation cost	-2.593	-2.364
Provisions or reversal of provisions	-3.058	-2.508
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, net	-9.259	-9.626
Profit from operations	**13.045**	**10.997**
Impairment of investments in subsidiaries, joint ventures and associates, net	-13	-17
Impairment on non-financial assets, net	-1.260	-123
Gains or losses on non-financial assets and investments, net	522	30

Negative goodwill recognised in results	-	22
Gains or losses on non-current assets held for sale nor classified as discounted operations	-203	-141
Profit or loss before tax from continuing operations	**12.091**	**10.768**
Tax expense or income from continuous operations	-3.884	-3.282
Profit for the period from continuing operations	**8.207**	**7.486**
Profit or loss after tax from discounted operations	-	-
Profit for the period	**8.207**	**7.486**

Cash Flow Statement. (In millions of euros)

	2017	**2016**
Cash flows from operating activities	**40.188**	**21.823**
Consolidated profit for the year	8.207	7.486
Adjustments made to obtain the cash flow from operating activities	23.927	22.032
Net increase/(decrease) in operating assets	18.349	17.966
Net increase/(decrease) in operating liabilities	30.540	14.143
Income tax recovered/(paid)	-4.138	-2.872
Cash flows for investment activities	**-4.008**	**-13.746**
Payments	10.134	18.204
Proceeds	6.126	4.440
Cash flows from financial activities	**4.206**	**-5.745**
Payments	7.783	9.744
Proceeds	11.989	3.999
Effect of foreign exchange rate changes	**-5.845**	**-3.611**
Net increase/(decrease) in cash and cash equivalents	**34.541**	**-1.297**
Cash and cash equivalents at beginning of period	**76.454**	**77.751**
Cash and cash equivalents at end of period	**110.995**	**76.454**

Appendix 2: BBVA Annual Accounts for the years 2017 and 2016.

Balance Sheet. (In millions of euros)

Assets	2017	2016
Cash, cash balances at central banks and other deposits on demand	**42.680**	**40.039**
Financial assets held to negotiate	**64.695**	**74.950**
Financial assets designated at fair value through profit or loss	**2.709**	**2.062**
Financial assets available for sale	**69.476**	**79.221**
Loans and receivables	**431.521**	**465.977**
Debt instruments	10.339	11.209
Central banks and credit institutions	33.561	40.268
Customers	387.621	414.500
Investments held to maturity	**13.754**	**17.696**
Investments in joint ventures and associate companies	**1.588**	**765**
Tangible assets	**7.191**	**8.941**
Intangible assets	**8.464**	**9.786**
Other assets	**47.981**	**32.418**
TOTAL ASSETS	690.059	731.856

Liabilities and Equity	2.017	2.016
Financial liabilities held for trading	**46.182**	**54.675**
Financial liabilities designated at fair value through profit or loss	**2.222**	**2.338**
Financial liabilities at amortised cost	**543.713**	**589.210**
Central banks and credit institutions	91.570	98.241
Customers	376.379	401.465
Marketable debt securities	63.915	76.375
Other financial liabilities	11.850	13.129
Liabilities under insurance contracts	**9.223**	**9.139**
Other liabilities	**35.395**	**21.066**
TOTAL LIABILITIES	636.739	676.428
Minority interest	6.979	8.064
Retained earnings	-8.792	-5.458

Shareholders´ equity	55.136	52.821
EQUITY	**53.323**	**55.428**
TOTAL LIABILITIES AND EQUITY	**690.059**	**731.856**

Income Statement. (In millions of euros)

	2017	**2016**
Interest margin	**17.758**	**17.059**
Commissions	4.921	4.718
Results for financial operations	1.968	2.132
Dividends earnings	334	467
Result of entities valued by the participation method	4	25
Other products and exploitation costs	285	252
EBITDA	**25.270**	**24.653**
Operating expense	12.500	12.791
Personnel expense	6.571	6.722
Other administration expense	4.541	4.644
Amortisation	1.387	1.426
EBIT	**12.770**	**11.862**
Gains or losses on non-financial assets and investments, net	-4803	-3801
Provisions endowments	-754	-1186
Other results	-292	-482
EBT	**6.931**	**6.392**
Profit tax	-2.169	-1.699
Profit for the period	**4.762**	**4.693**

Cash Flow Statement. (In millions of euros)

	2017	**2016**
Cash flows from operating activities	**-20**	**6.281**
Consolidated profit for the year	2.083	1.662
Adjustments made to obtain the cash flow from operating activities	2.261	1.811

Net increase/(decrease) in operating assets	17.516	-16.227
Net increase/(decrease) in operating liabilities	-22.237	19.205
Income tax recovered/(paid)	357	-170
Cash flows for investment activities	**1.995**	**-1.048**
Payments	-2.118	-3.168
Proceeds	4.113	2.120
Cash flows from financial activities	**106**	**-501**
Payments	-4.090	-3.247
Proceeds	4.196	2.746
Effect of foreign exchange rate changes	**566**	**-67**
Net increase/(decrease) in cash and cash equivalents	**2.647**	**4.665**
Cash and cash equivalents at beginning of period	**15.856**	**11.191**
Cash and cash equivalents at end of period	**18.503**	**15.856**

Appendix 3: CaixaBank Annual Accounts for the years 2017 and 2016.

Balance Sheet (In thousands of euros)

Assets	2017	2016
Cash, cash balances at central banks and other deposits on demand	**20.155.318**	**13.259.957**
Financials assets held to negotiate	**10.596.684**	**11.667.687**
Derivatives	8.162.172	9.575.832
Equity instruments	402.714	294.923
Debt securities	2.031.798	1.796.932
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	1.052.526	1.796.932
Financial assets designated at fair value through profit or loss	**6.499.807**	**3.139.646**
Equity instruments	4.299.161	1.806.976
Debt securities	2.100.347	1.332.670
Loans and advances	100.299	-
Credit institutions	100.299	-
Financial assets available for sale	**65.554.707**	**65.076.973**
Equity instruments	2.882.849	2.946.030
Debt instruments	66.671.858	62.130.943
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	7.383.023	9.377.156
Loans and receivables	**226.272.499**	**207.640.937**
Debt instruments	2.575.603	561.139
Loans and receivables	223.696.896	207.079.798
Central banks	5.000	-
Credit institutions	7.374.035	6.741.354
Customers	216.317.861	200.338.444
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	103.154.984	80.981.698
Investments held to maturity	**11.084**	**8.305.902**
Memorandum items: lent or delivered as guarantee with disposal or pledge rights	3.600.019	2.875.627
Hedging derivatives	**2.596.939**	**3.090.475**

Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**10.847**	**134.586**
Investments	**6.224.425**	**6.420.710**
Join ventures entities	187.107	141.294
Associate companies	6.037.318	6.279.416
Reinsurance assets	**275.495**	**344.144**
Tangible assets	**6.480.434**	**6.436.908**
Property, plant and equipment	3.076.344	3.004.662
Investment property	3.404.090	3.432.246
Intangible assets	**3.804.983**	**3.687.352**
Goodwill	3.050.845	3.050.845
Other intangible assets	754.138	636.507
Tax assets	**11.054.984**	**10.521.402**
Current tax assets	800.143	868.739
Deferred tax assets	10.254.841	9.642.663
Other assets	**2.505.282**	**1.795.723**
Inventories	877.586	1.012.896
Others	1.627.696	782.827
Non-Current assets held for sale	**6.068.930**	**6.404.860**
TOTAL ASSETS	**383.186.163**	**347.927.262**

Liabilities and Equity	**2017**	**2016**
Financial liabilities held for trading	**8.604.930**	**10.292.298**
Derivatives	7.860.638	9.394.559
Short positions	744.292	897.739
Financial liabilities designated at fair value through profit or loss	**8.241.088**	**3.763.976**
Deposits	8.240.972	3.763.976
Customers	8.240.972	3.763.976
Other financial liabilities	116	-
Financial liabilities at amortised cost	**280.987.381**	**254.093.295**
Deposits	246.804.137	223.511.848
Central banks	31.804.137	30.029.382
Credit institutions	11.515.365	6.315.758
Customers	203.608.087	187.166.708
Marketable debt securities	29.918.503	27.708.015
Other financial liabilities	4.174.741	2.973.432

Memorandum items: subordinated liabilities	5.053.814	4.118.792
Hedging derivatives	**793.132**	**625.544**
Changes in the fair value of hedge items in portfolio hedges of interest risk rates	**1.409.702**	**1.984.854**
Liabilities under insurance contracts	**49.750.389**	**45.803.579**
Provisions	**5.000.941**	**4.730.271**
Tax liabilities	**1.388.070**	**1.186.209**
Current tax liabilities	193.944	218
Deferred tax liabilities	1.194.126	1.185.991
Other liabilities	**2.335.108**	**1.805.635**
Liabilities associated with non-current assets held for sale	**82.141**	**86.039**
TOTAL LIABILITIES	**358.502.882**	**324.371.700**
Shareholders´ Equity	**24.203.895**	**23.399.819**
Capital	**5.981.348**	**5.981.438**
Called up paid capital	5.981.428	5.981.438
Share premium	**12.032.802**	**12.032.802**
Other equity	**10.054**	**7.499**
Accumulated retained earnings	**5.553.704**	**5.239.487**
Other reserves	**-628.066**	**-716.893**
Accumulated other comprehensive income	**45.366**	**126.621**
Items that may be reclassified to profit or loss	45.366	126.621
Foreign currency exchange	74.199	2.332
Hedging derivatives	16.081	25.316
Available for sale financial assets	-16.370	-26.494
Share of other recognised income and expense of investment in joint ventures and associates	-28.544	125.467
Minority Interest	**434.020**	**29.112**
Accumulated other comprehensive income	25.760	50
Other items	408.260	29.072
EQUITY	**24.683.281**	**23.555.562**
TOTAL LIABILITIES AND EQUITY	**383.186.163**	**347.927.262**

Income Statement (In thousands of euros)

	2017	2016
Interest income	6.970.444	6.753.052
Interest expense	-2.224.911	-2.596.196
Net interest income	**4.745.533**	**4.156.856**
Dividend income	127.232	198.618
Share of results of entities accounted for using the equity method	526.153	628.518
Commission income	2.759.849	2.261.910
Commission expense	-261.180	-171.657
Gains or losses on financial assets and liabilities not measured at fair value through profit or loss, net	169.479	786.714
Gains or losses on financial assets and liabilities held for trading, net	46.876	21.176
Gains or losses from hedge accounting, net	-9.132	12.689
Exchange differences, net	75.620	28.562
Other operating income	697.875	588.419
Other operating expense	-1.128.043	-995.774
Income from assets under insurance and reinsurance contracts	823.140	803.630
Expenses from liabilities under insurance and reinsurance contracts	-351.515	-493.129
Total income	**8.221.887**	**7.826.532**
Administration expense	-4.150.279	-3.745.413
Depreciation and amortisation cost	-426.929	-370.202
Provisions or reversal of provisions	-761.648	-486.532
Impairment or reversal of impairment on financial assets not measured at fair value through profit or loss, net	-948.563	-580.077
Profit from operations	**1.934.468**	**2.642.308**
Impairment of investments in subsidiaries, joint ventures and associates, net	5.278	-3.986
Impairment on non-financial assets, net	-170.367	-228.413
Gains or losses on non-financial assets and investments, net	-114.770	-151.752
Negative goodwill recognised in results	441.555	66.925

Gains or losses on non-current assets held for sale nor classified as discounted operations	1.819	-787.020
Profit or loss before tax from continuing operations	**2.097.983**	**1.538.062**
Tax expense or income from continuous operations	-377.628	-482.183
Profit for the period from continuing operations	**1.720.355**	**1.055.879**
Profit or loss after tax from discounted operations	-1.727	-944
Profit for the period	**1.718.628**	**1.054.935**

Cash Flow Statement (In thousands of euros)

	2017	**2016**
Cash flows from operating activities	**6.554.404**	**14.145.969**
Consolidated profit for the year	1.718.628	1.054.935
Adjustments made to obtain the cash flow from operating activities	4.500.905	6.181.210
Net increase/(decrease) in operating assets	3.312.040	2.554.125
Net increase/(decrease) in operating liabilities	-3.131.442	4.254.551
Income tax recovered/(paid)	154.273	101.148
Cash flows for investment activities	**-1.377.922**	**-2.906.210**
Payments	-4.056.031	-4.910.698
Proceeds	2.678.109	2.004.488
Cash flows from financial activities	**17.211.975**	**-4.596.291**
Payments	-6.156.633	-7.406.883
Proceeds	7.877.828	2.810.592
Effect of foreign exchange rate changes	**-2.316**	**1.317**
Net increase/(decrease) in cash and cash equivalents	**6.895.361**	**6.644.785**
Cash and cash equivalents at beginning of period	**13.259.957**	**6.615.172**
Cash and cash equivalents at end of period	**20.155.318**	**13.259.957**