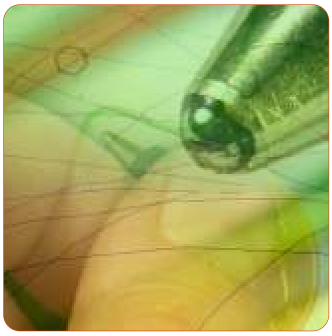

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Strategic Plan for financial institutions' associate companies

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Introduction

The changes taking place in the financial environment over the last decade have led to a significant increase in financial institutions' shareholdings in the business sector, in search of new sources of contribution to P&L.

The financial sector has invested heavily in associate companies as a means of offsetting the decline in the net interest margin. This strategy originated in the mid 1990s, and today has reached a stage of maturity.

Thus, the policy of company shareholdings has in a few years grown from a activity peripheral to the banking business to become one of the most profitable activities.

In this context, there is a need for a strategic review, measuring the sustainability, profitability and investment policies/criteria for the portfolio as a whole.

Who is this service for?

At financial institutions with portfolios of corporate shareholdings, either directly or through Corporations or similar vehicles.

Features of the service and methodology

The design of a Strategic Plan for associate companies entails a series of phases or blocks of work:

PHASE 1: Justification for the investment in associate companies

- Analysis of the associate companies business in the overall context of the Group.
- Compatibility of strategies: lending vs investment in the industrial portfolio. What is the objective of investment in associate companies? Is it to strengthen the margin, or to generate related business?
- Comparison of the investment in associate companies with the rest of the financial sector: proportion of balance sheet, contribution to results, sectoral distribution, etc.
- Quantification of the bank's “capacity” to invest in associate companies: in terms of the institution's solvency and liquidity (capacity to assume the risks of new investments). Analysis of the impact of Basel II.
- The role of associate company companies in the generation of parallel business: the sale of parafinancial products through channels complementary to the traditional network.
- Associate companies as generators of related business: in particular, the case of property developments as generators of future customers.

PHASE 2: Investment Policy

- Diagnosis of the composition of the portfolio: concentration in terms of sectors and the number of companies.
- Recommendations on the composition of the portfolio: in what sectors and types of companies should the bank invest?

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- Setting the selection criteria for investments: exclusionary criteria, priority criteria and complementary criteria.
- Growth policy: (i) target level of investment (absolute, relative and diversification) and; (ii) implications of new investments for capital consumption.
- Yield and P&L targets. Contribution to the institution.
- Preparation of financial projections: investment and P&L.

PHASE 3: Internal organization and resources

- Structuring the associate companies: location in the bank's general organisational chart and internal organisational structure.
- Management, administration and monitoring of the shareholdings. Identification of essential information for monitoring the associate company and the management of the portfolio.
- Channels for business origination and investment opportunities.
- Financial and ownership structure of the holding company.
- Optimization of the administration/governance bodies of the associate companies.

References

Clients who have benefited from this service include:

Caja de Ahorros del Mediterráneo
Sa Nostra
Corporación CAN
Kutxa
CCM Corporación
Cajamar
Caixa Galicia
Cajasol

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