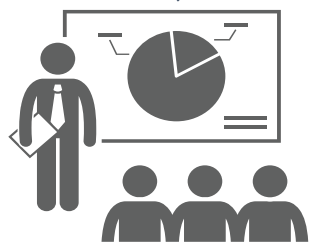


NPA Benchmark Analysis



0	Executive Summary	<ul style="list-style-type: none">• Highlights• NPA Overview• NPA Dashboard	<ul style="list-style-type: none">• A&M Scoring• Financial Impact
1	REO	<ul style="list-style-type: none">• Dashboard• Size & Quality• Profile & Evolution	
2	NPLs	<ul style="list-style-type: none">• Dashboard• Size & Quality• Profile & Evolution	
3	Appendix	<ul style="list-style-type: none">• NPL Transactions	

0 | Executive Summary

Key Messages

A&M
Scoring

1 Size

- **Total G-6 NPA Stock** (in Spain) of **€145bn**, as of December 2016
- **NPA Ratio at 14.3%** (reduced by 200bps since Dec. 2014) while NPL ratio is at 8%
- NPA Stock **ranges** from €15bn at Bankia to **€36.4bn at Popular, now €56.6bn after acquisition by Santander**

3

2 Quality

- NPA book comprised by **€70bn REOs & €75bn NPLs**, of which:
 - **REOs** concentrated in **land exposure (€26bn** or 37% of Stock), Finished assets (€17bn mainly CRE) and Residential assets (€15bn or 22% of Stock)
 - **NPLs** concentrate in **SMEs and Retail-Households (77%** of total)
- Total Spanish banks **Forborne loans** amount **€189bn** (or 8% Total Book) **of which 43%, or €81bn are Non Performing**, of which:
 - NPL forborne **SME of €34bn or 61%** ratio, Households of €26bn (26%) and Corporate of €20bn (53%)

3

3 Profile & Evolution

- **Stable NPA Coverage of 49%**, with provisions decreasing due to on-going NPA unwinding, of which:
 - **REO Coverage of 47%** (ranging from 35% at Bankia to 61% at BBVA)
 - **NPL Coverage of 52%** (ranging from 47% at Caixa to 54% at Popular & Bankia)
- **NPA Stock reduction of €21bn** over the last 2 Years, primarily **driven by a 21% NPL reduction** with **REO stock remaining constant**

2



0 | Executive Summary

Highlights

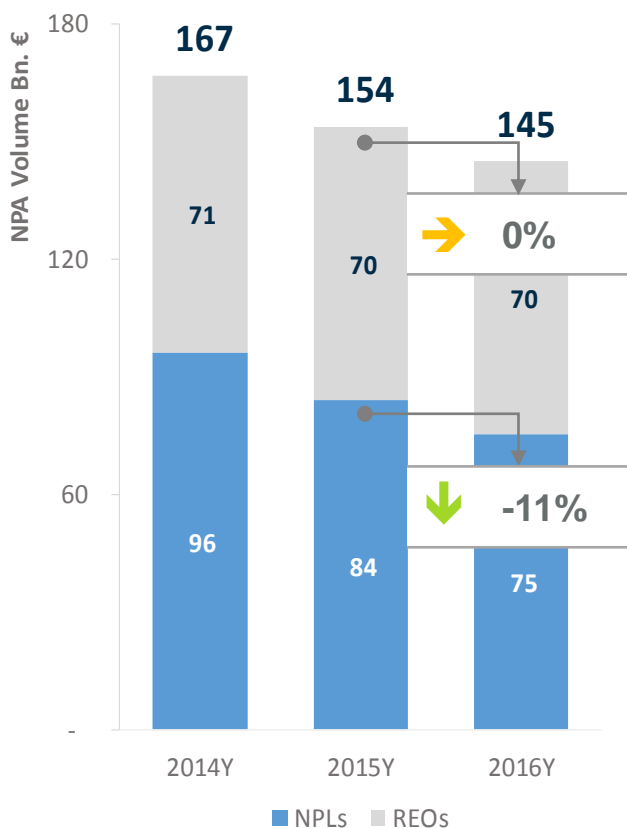
NPA Overview

NPA Dashboard

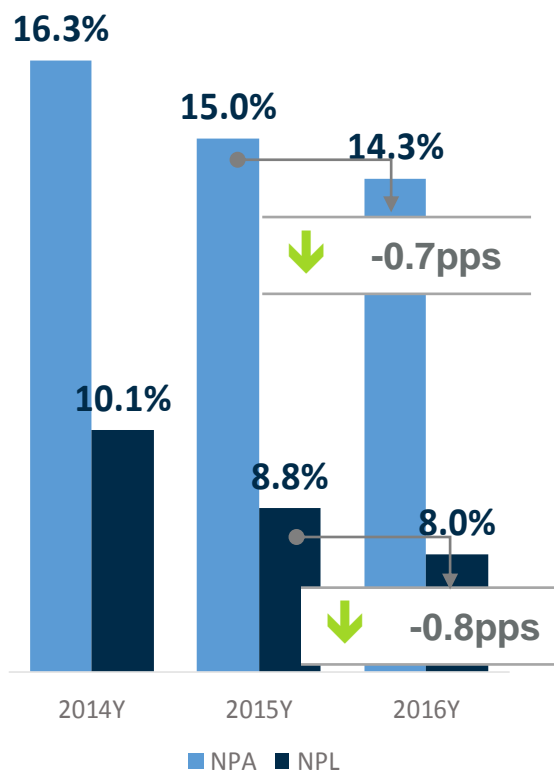
Scorecard

Financial Impact

NPA Stock Evolution by Asset Type



NPA & NPL Ratio %

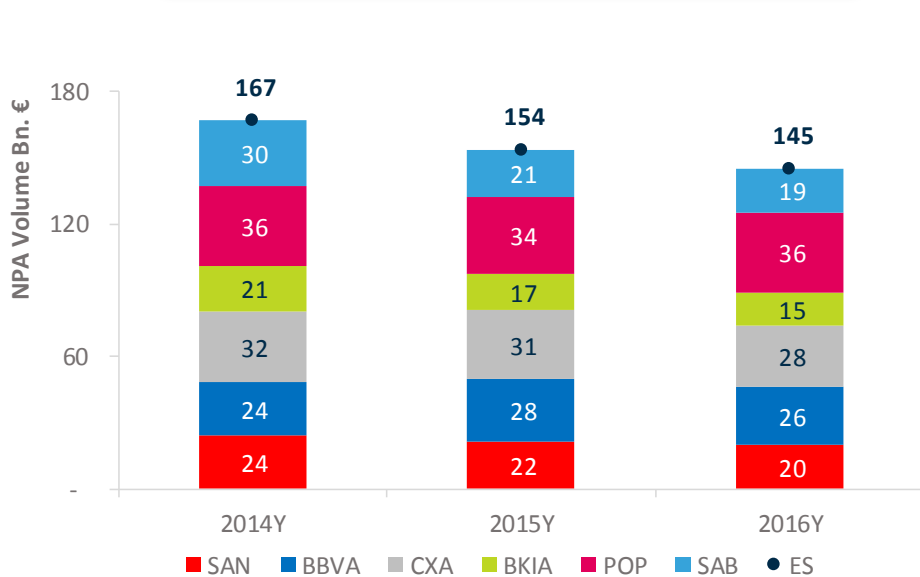


Key Highlights

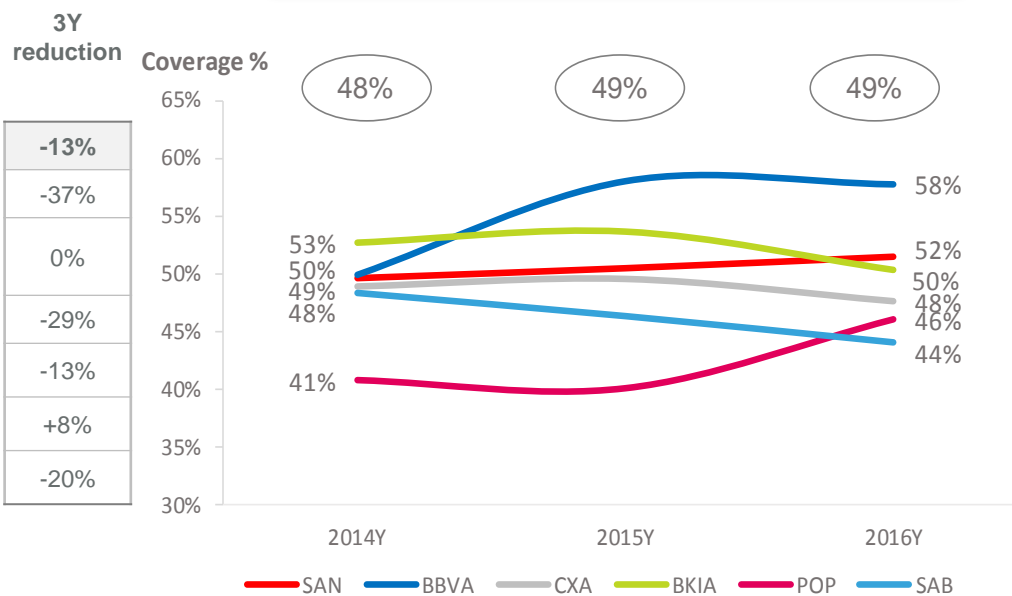
- Total G-6 NPA Stock (in Spain) amount stays at **€145bn** as of **December 2016**
- **NPA Ratio** has been **reduced by 200bps at 14%** from Dec 14 levels while **NPL Ratio** is at **8%**
- **NPA Stock reduction '16-15 of 6%** vs. reduction '15-14 of 7%. **REO stock** remains **constant** during '14-16

0 | Executive Summary

NPA Stock Evolution - Spain



NPA Coverage Evolution – By Bank



Key takeaways

- All banks except for Popular and BBVA (due to CX acquisition) have contributed with reductions, Sabadell reducing by c. €11bn over the last 2 Years or 37%
- Industry Coverage levels have remained stable at 49% with some banks reducing coverage as NPA unwinding has taken place

0 | Executive Summary

Highlights





NPA Overview

NPA Dashboard

Scorecard

Financial Impact

NPA Summary 2016 vs 2015 by Bank

€ Mn.	REOs	NPLs	NPAs	% NPA Gross Change		NPA Rate	NPA Provisions	% NPA Coverage		NPA Net Amount	% NPA Net Change	
	27,584 -	29,022 -	56,606	-	-	16.9%	31,215 -	55%	25,391	-	-	
	10,733 ↑	9,420 ↓	20,153	-7%	↓	10.9%	10,381 ↓	52%	9,772	-9%	↓	
	15,445 →	10,512 ↓	25,957	-8%	↓	13.2%	15,004 ↓	58%	10,953	-8%	↓	
	13,296 →	14,800 ↓	28,096	-9%	↓	12.3%	13,376 ↓	48%	14,720	-5%	↓	
	3,450 ↓	11,480 ↓	14,930	-12%	↓	12.4%	7,522 ↓	50%	7,408	-6%	↓	
	16,851 ↑	19,602 ↑	36,453	6%	↑	24.1%	16,789 ↑	46%	19,664	-5%	→	
	9,841 ↑	9,583 ↓	19,424	-9%	↓	14.5%	8,563 ↓	44%	10,861	-6%	↓	
G6 - Spain	69,617 →	75,397 ↓	145,013	-6%	↓	14.3%	71,635 ↓	49%	73,378	-6%	↓	

Variation compared to December 2015 Data

↑ Var. > 0% → 0% > Var. > -5% ↓ Var. < -5%

0 | Executive Summary

Highlights

NPA Overview

NPA Dashboard

Scorecard

Financial Impact

2016 NPA Scoring Results

									G6 - Spain
Size	NPA Ratio	17%	11%	13%	12%	12%	24%	14%	14%
	NPL Ratio	9%	5%	6%	7%	10%	15%	8%	8%
	Score	4	3	3	3	3	4	3	3
Quality	Illiquid REOs Density	61%	56%	55%	50%	20%	63%	47%	53%
	Corporate NPL Density	54%	54%	63%	61%	61%	88%	61%	63%
	NPL Forbearance	39%	39%	49%	37%	32%	56%	42%	42%
	Score	3	3	3	2	2	4	3	3
Profile	NPA Coverage	55%	52%	58%	48%	50%	46%	44%	49%
	NPA Net Flow	1%	-7%	-8%	-9%	-12%	6%	-9%	-6%
	Score	2	2	1	2	2	3	2	2
Total Score		3.1	2.5	2.6	2.7	2.7	3.6	2.8	2.8

Key Highlights

- Size score shows all banks with poor results due to high NPA ratios
- Quality score shows Caixa and Bankia better positioned due to a lower NPL Forbearance rate and low Illiquid REOs density
- Profile scoring shows BBVA as top performer and Popular as bottom performer (merger with Santander improves the overall figure)
- Overall, Santander stand-alone and BBVA present the best scores

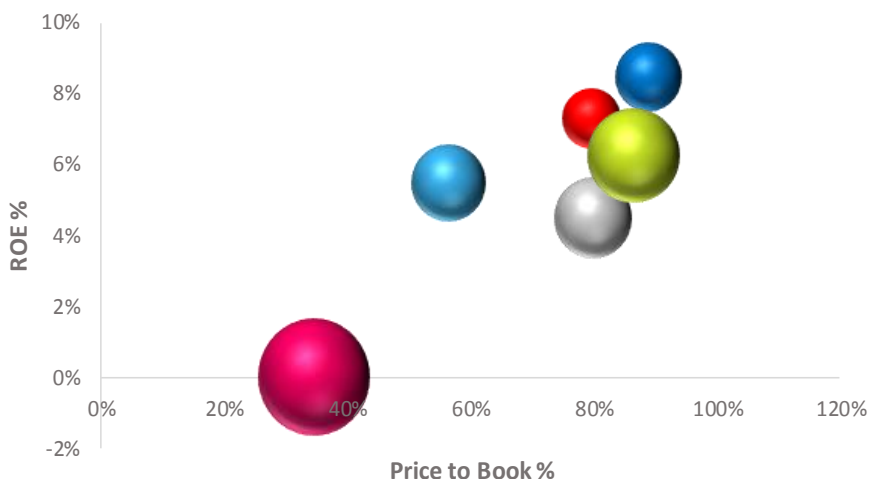
Note: Scoring range from 1 (Best) – 4 (Worst)

■ 1 ■ 3
■ 2 ■ 4



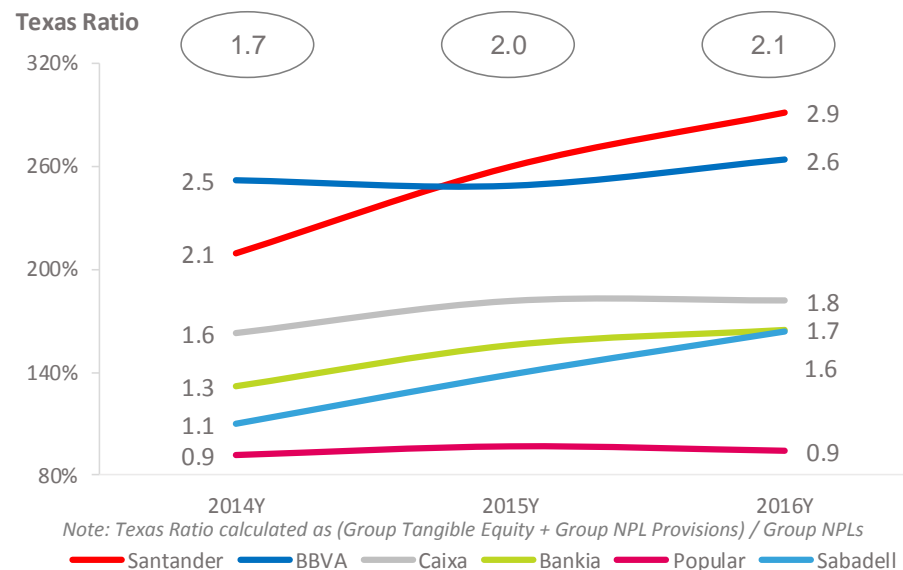
0 | Executive Summary

Price to Book vs ROE – By Bank '16



Note: (1) Popular real ROE at -33% (2) Bubble size as per Bank NPL Rate % (global rate)
 ● Santander ● BBVA ● Caixa ● Bankia ● Popular ● Sabadell

Texas Ratio Evolution – By Bank









Key takeaways

- Texas Ratio evolution supports results obtained in A&M Scorecard, showing Santander and BBVA as the healthiest entities by having lower NPL ratios than the rest of banks with higher provision coverage
- Price to Book and ROE positive correlation is consistent with A&M scorecard. It can be shown that entities with lower NPL ratios have better P/B

2016 NPA Financial Impact – By Bank

Key Highlights

- NPA CET1 drag of -340bps over the course of 3-year baseline conditions with ranges of -1,110bps for Popular and -140bps for BBVA
- NPA ROE drag of -10% annually over the course of 3-year baseline conditions with ranges of -31% for Popular and -4% for BBVA
- Average CET1 impact under the adverse scenario of 1,000bps

G-6 Banks	NPV Impact (bn€)		RWA Impact (bn€)			CET1 Impact (bps)		ROE Impact (%)	
	NPE	REOs	%RWA	NPE	REOs	NPE	REOs	NPE	REOs
 Santander	-12.3		0.1%	-0.1		-208		-6%	
 BBVA	-6.2		2.7%	-2.9		-140		-4%	
 CaixaBank	-8.3		2.3%	-3.5		-450		-14%	
 Bankia	-8.0		-0.3%	0.2		-954		-23%	
 Popular	-8.8		6.2%	-4.6		-1,110		-31%	
 Sabadell	-6.3		3.7%	-2.3		-693		-22%	
Total G6 - Spain	-49.9		2.2%	-13.3		- 340		-10%	

Methodology: EBA 2016 Stress test result disclosures (as of Dec. 2015) were used to evaluate the financial impact of the NPA using baseline scenario results. A&M approach is considering aggressive but realistic NPA reduction over 5-year horizon (including Stock and New Entries), up-to best practice market standard Coverage targets and full P&L impact (Opex, Funding & Capital Cost)










1 | REO – Spanish Banks G6

Dashboard

Size & Quality

Profile & Evolution




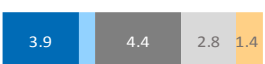



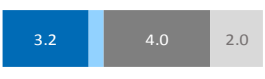

REO Summary Dec 2016 vs Dec 2015 – by Bank

€ Mn.	REOs	% REO Gross Change		REO Rate	REO Provisions	% REO Coverage		Coverage Change PPS	REO Net Amount	% REO Net Change	
	27,584	-	-	8.2%	16,422	-	60%	-	11,163	-	-
	10,733	+1%	↑	5.8%	5,831	↑	54%	+1.3%	4,902	-2%	→
	15,445	-4%	→	7.9%	9,433	↑	61%	+3.7%	6,012	-13%	↓
	13,296	-3%	→	5.8%	6,420	↑	48%	+6.3%	6,876	-14%	↓
	3,450	-14%	↓	2.9%	1,197	↓	35%	+1.4%	2,253	-16%	↓
	16,851	+4%	↑	11.2%	6,546	↑	39%	+1.6%	10,306	+2%	↑
	9,841	+7%	↑	7.3%	3,625	↑	37%	-0.5%	6,216	+8%	↑
G6 - Spain	69,617	-0%	→	6.9%	33,051	↑	47%	+2.5%	36,565	-5%	→

Variation compared to December 2015 Data

↑ Var. > 0%
 → 0% > Var. > -5%
 ↓ Var. < -5%

REOs by Volume and Asset Type (Million €)

G-6 Banks	REO type					Total REOs GBV	Total REOs GBV
	Finished	Under const.	Land	Residential	Other		
	7,303	1,039	12,647	3,541	3,054	27,584	
	2,572	762	5,291	2,108	0	10,733	
	2,602	665	4,750	4,332	3,096	15,445	
	3,887	840	4,376	2,791	1,402	13,296	
	273	29	72	2,502	574	3,450	
	4,731	277	7,356	1,433	3,054	16,851	
	3,241	564	4,037	1,999	0	9,841	
Total G6 - Spain	17,306	3,138	25,882	15,165	8,126	69,617	

Key Highlights

- REO risks concentrate in land exposures (€25.9bn or 37% of Stock)
- Bankia displays best REO profile due to SAREB transfer
- Merge of Santander and Popular created the entity with the greatest exposure amount to foreclosed assets (€27.6bn of which €12.6 are land) of which Popular accounts for 61%

1 | REO – Spanish Banks G6

Dashboard

Size & Quality

Profile & Evolution

REOs Profile by Asset Type Compared to Spanish Average

G-6 Banks	Total REOs GBV	REO type				
		Finished	Under const.	Land	Residential	Other
		26%	4%	46%	13%	11%
		24%	7%	49%	20%	0%
		17%	4%	31%	28%	20%
		29%	6%	33%	21%	11%
		8%	1%	2%	73%	17%
		28%	2%	44%	9%	18%
		33%	6%	41%	20%	0%
TOTAL SPAIN		25%	5%	37%	22%	12%

Key Highlights

- Santander REO book driven by Land & Under Construction assets, but the problem becomes Land and Finished assets after merger with Popular
- Bankia REO book is mainly Residential

● Significantly above average
● Above average
● Slightly below average
● Below average




1 | REO – Spanish Banks G6

Dashboard

Size & Quality

Profile & Evolution

REO Coverage Profile by Asset Type (%)

G-6 Banks	Total GBV (€m)	REO Coverage					REOs Coverage %	Total NBV (€m)
		Finished	Under const.	Land	Residential	Other		
	27,584	51%	50%	75%	28%	55%	60%	11,163
	10,733	42%	50%	62%	51%	0%	54%	4,902
	15,445	52%	65%	74%	60%	50%	61%	6,012
	13,296	42%	57%	62%	37%	41%	48%	6,876
	3,450	27%	31%	50%	38%	24%	35%	2,253
	16,851	30%	35%	52%	29%	26%	39%	10,306
	9,841	26%	31%	49%	30%	0%	37%	6,216
Total G6 - Spain	69,617	37%	50%	59%	44%	38%	47%	36,565

Key Highlights

- Strong coverage levels for BBVA and Santander
- Santander will raise capital for €7bn to compensate for the low coverage levels of Popular (already included in the figures shown), aiming to reach a consolidated REOs coverage of 60%, with a strong focus on land assets (75%)

● Below Average
● Slightly Above Average
● +5 PPS Above Average



1 | REO – Spanish Banks G6

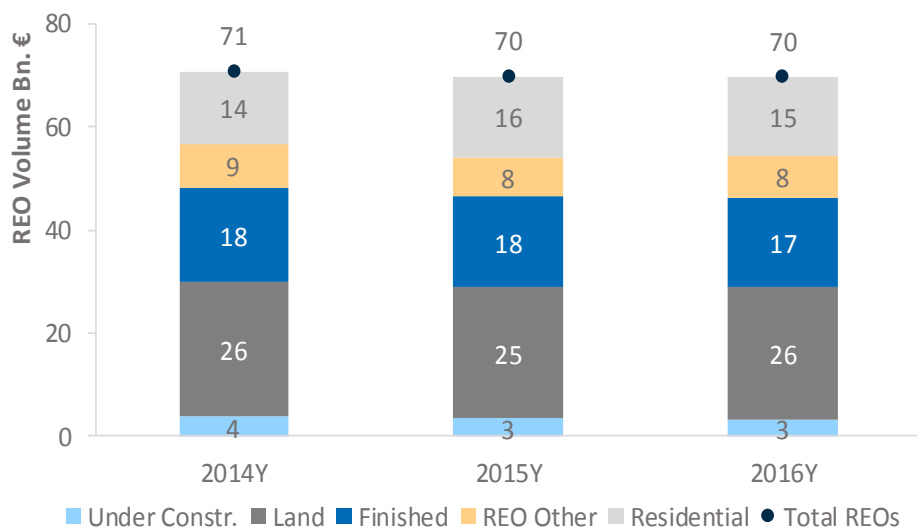
Dashboard

Size & Quality

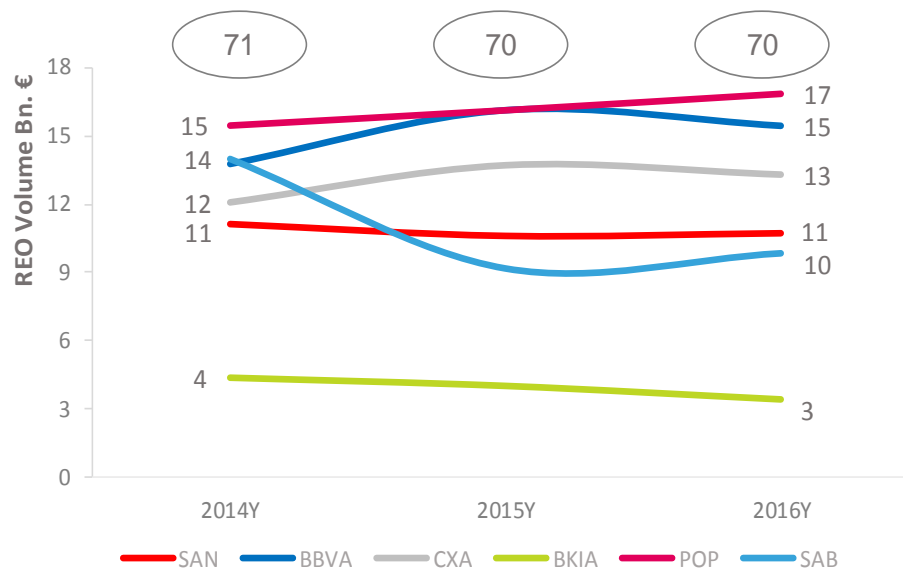
Profile & Evolution

Quarterly
Annually

REO Asset Type Evolution - Spain



Total REO Evolution – By Bank



Key takeaways

- REO stock remains constant since 2014
- Sabadell displays the largest decline in REO volume in 2 years (€4bn)

1 | REO – Spanish Banks G6

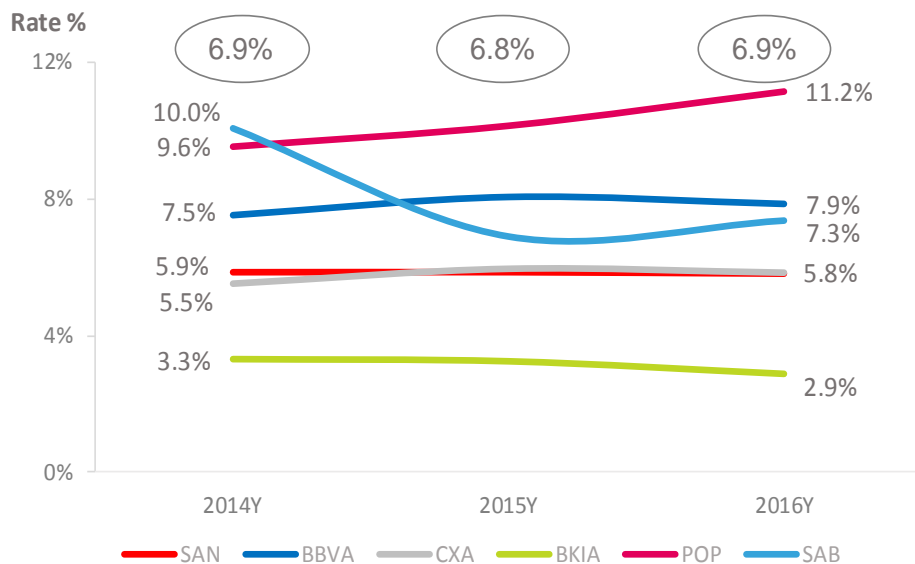
Dashboard

Size & Quality

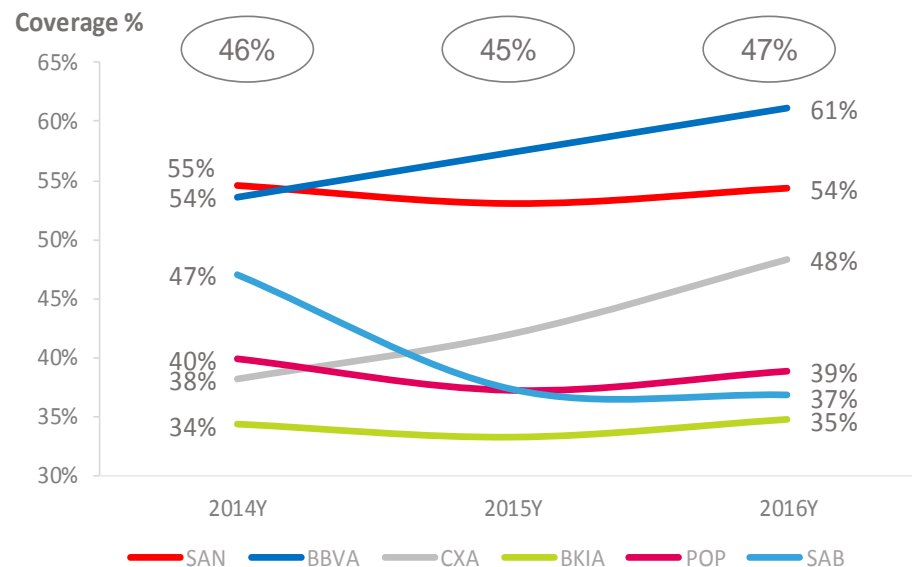
Profile & Evolution

Quarterly
Annually

REO Rate Evolution – By Bank



REO Coverage Evolution – By Bank



Key takeaways

- REO rate has remained constant for 2 years
- Popular shows a REO rate increase of 1.6 PPS, up to 11.2%. In contrast Sabadell has decreased 2.7 PPS, down to 7.3%
- High coverage levels for BBVA and Santander, which stay above average

2 | NPLs – Spanish Banks G6

Dashboard

Size & Quality

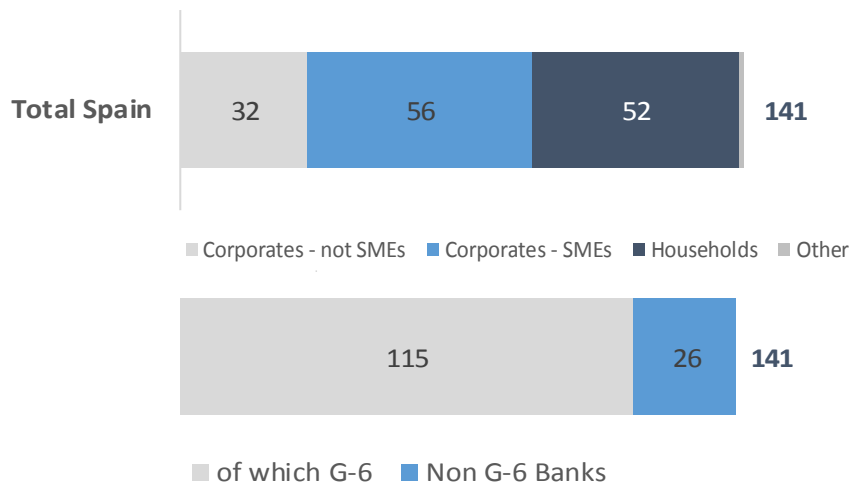
Profile & Evolution

NPL Summary Q1 2017 vs YTD and YoY – by Bank

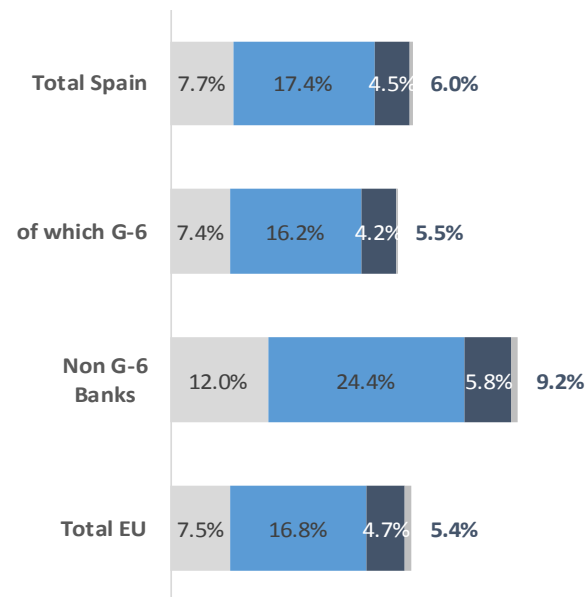
€ Mn.	NPLs	YTD Gross Change %	YoY Gross Change %	NPL Ratio	NPL Provisions	Provision Coverage %	YTD Change PPS	YoY Change PPS	NPL Net Amount	YTD Net Change	YoY Net Change
	28,117	-3% →	-2% →	9.4%	17,938 ↑	64%	+12.8%	+0.1%	10,179	-28.5% ↓	-36.5% ↓
	9,004	-4% →	-17% ↓	5.2%	4,421 ↓	49%	+0.8%	-1.1%	4,583	-5.9% ↓	-15.1% ↓
	10,385	-1% →	-11% ↓	5.8%	5,504 ↓	53%	+0.0%	-0.6%	4,881	-1.2% →	+2.3% ↑
	14,600	-1% →	-11% ↓	6.8%	6,800 ↓	47%	-0.4%	-0.8%	7,800	-0.6% →	+5.4% ↑
	10,984	-4% →	-13% ↓	9.5%	5,898 ↓	54%	-1.4%	-1.0%	5,086	-1.3% →	+2.4% ↑
	19,112	-2% →	+7% ↑	14.9%	10,317 ↑	54%	+1.7%	+2.2%	8,795	-6.0% ↓	-17.3% ↓
	9,143	-5% →	-22% ↓	7.5%	4,855 ↓	53%	+1.6%	-2.0%	4,288	-7.7% ↓	-19.5% ↓
G-6 Banks	73,229	-3% →	-10% ↓	7.9%	37,796 ↓	52%	+0.4%	-0.7%	35,433	-3.7% →	-8.0% ↓

2 | NPLs – Spanish Banks G6

NPL Volume by Segments – Spain



NPL Ratio by Segments – Spain



Key takeaways

- Spanish Banks NPL stock (incl. Spain & International Jurisdictions) has a concentration in SMEs & Retail-Households (77% of total)
- NPL rate ranges from 24.4% on SME Non G-6 Banks to 4.2% on Retail-Households G-6

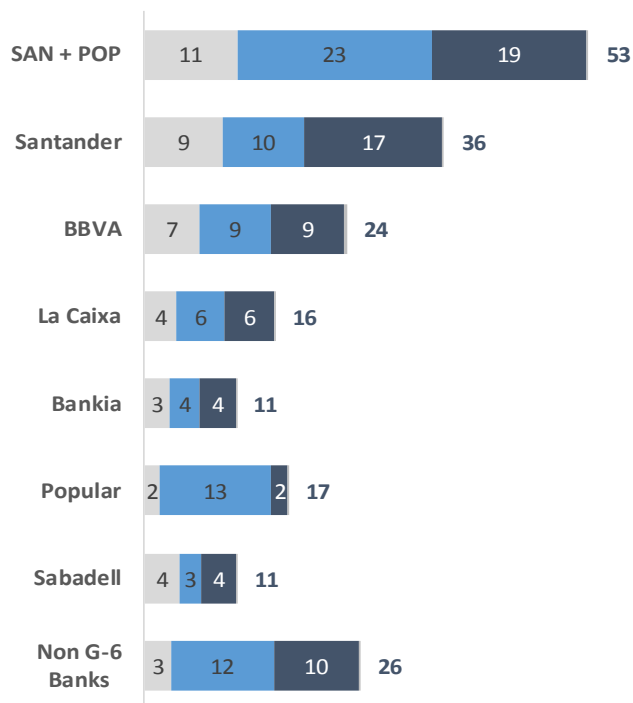
2 | NPLs – Spanish Banks G6

Dashboard

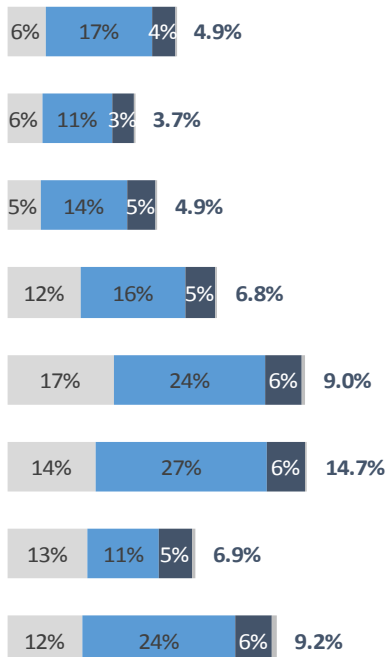
Size & Quality

Profile & Evolution

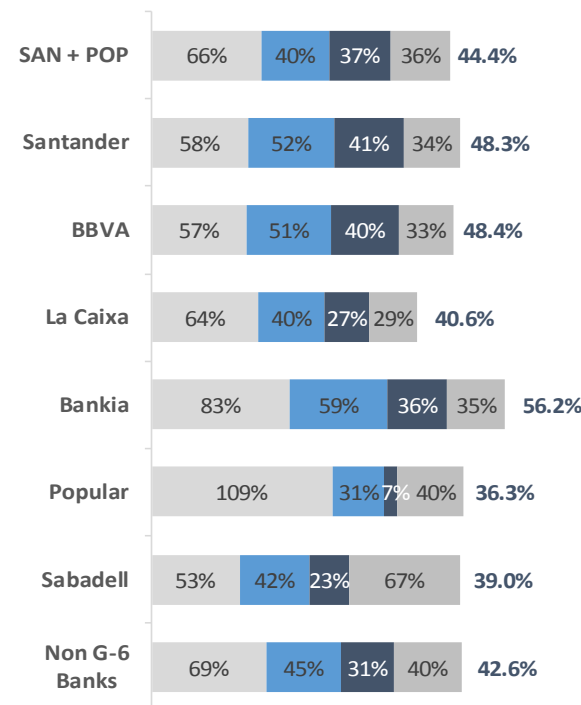
NPL Volume by Segment



NPL Ratio by Segment



NPL Coverage by Segment



Key takeaways

■ Corporates - not SMEs ■ Corporates - SMEs ■ Households ■ Other

- Santander and BBVA have the highest exposure to Retail-Households while Popular NPLs are mainly SME loans
- NPL ratios ranging from 27% on Popular-SMEs to 3% on Santander-Retail
- Strong coverage on Corporates, Sabadell having the lowest one at 53% while SMEs is more dispersed



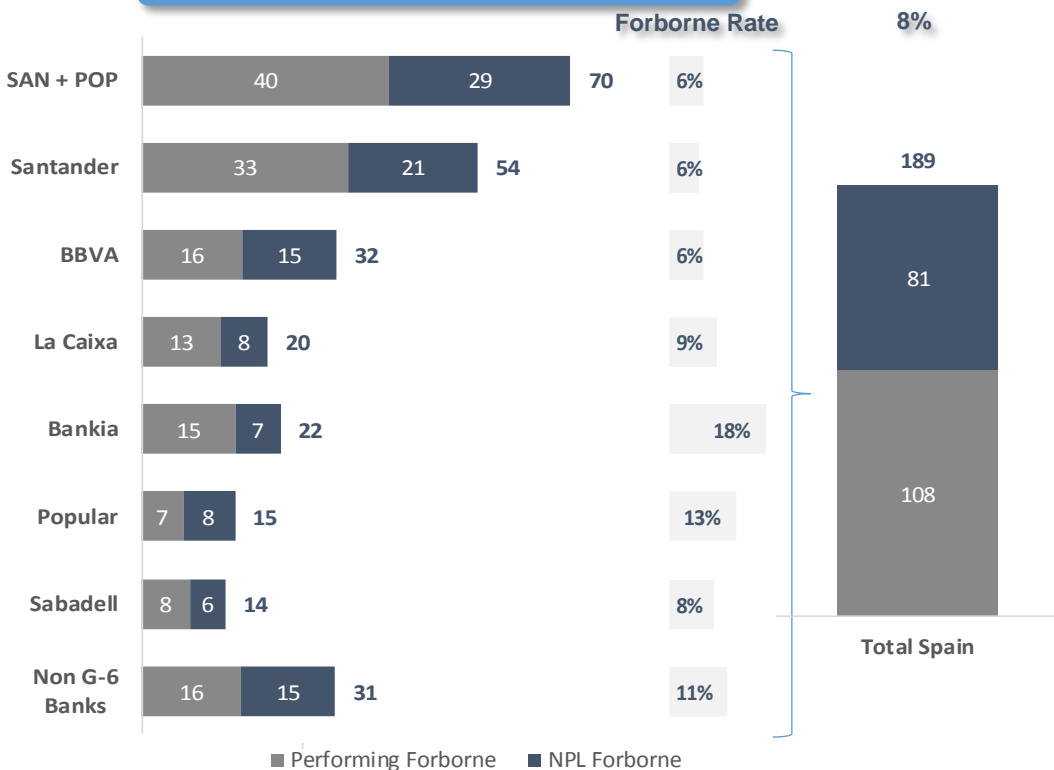
2 | NPLs – Spanish Banks G6

Dashboard

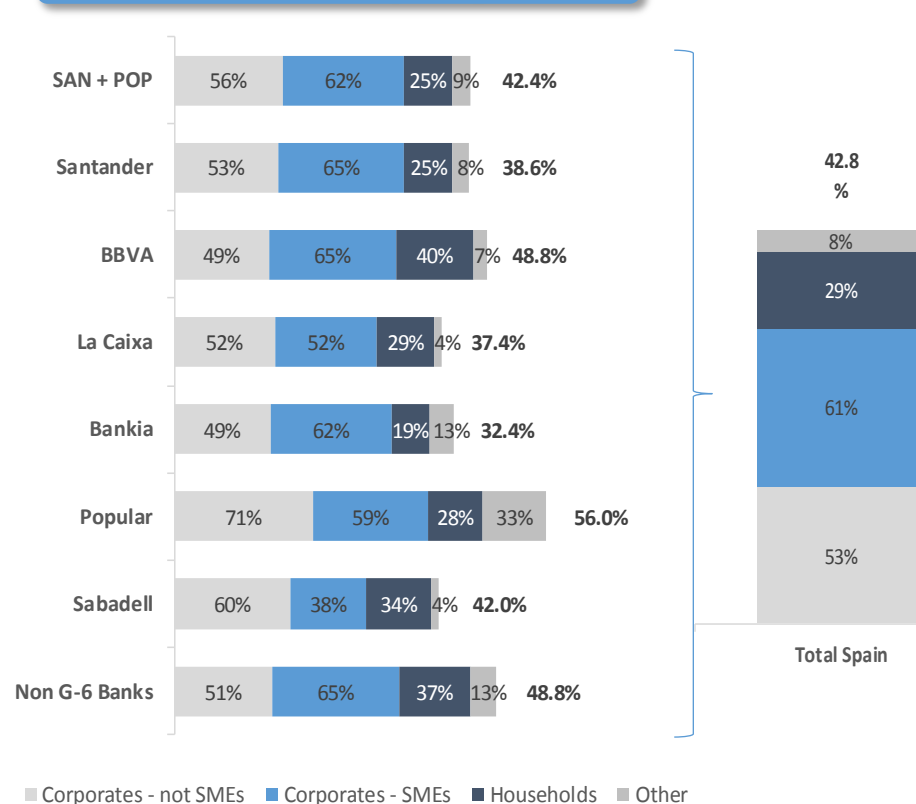
Size & Quality

Profile & Evolution

Forborne Stock by Status



NPL Forborne by Segment



Key takeaways

- Total Spanish banks Forborne loans amount to €189bn (or 8% Total Book) of which 43%, or €81bn, are non-performing
- Highest NPL Forborne stock for Santander and BBVA with €21bn and €15bn, respectively
- NPL forborne SME of €34bn or 61% ratio, Households of €26bn (26%) and Corporate of €20bn (53%)



2 | NPLs – Spanish Banks G6

Dashboard

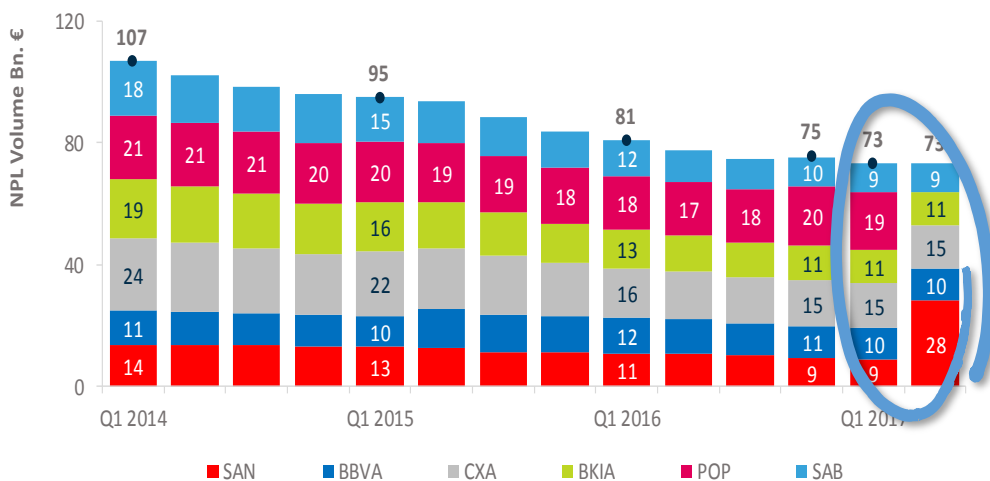
Size & Quality

Profile & Evolution

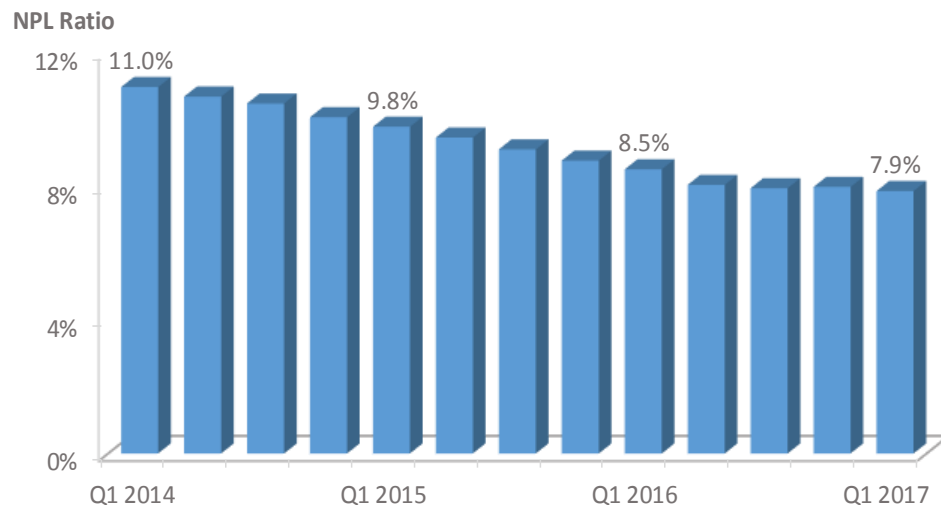
Quarterly

Annually

NPL Volume Evolution - Spain



NPL Ratio Evolution – Spain



Key takeaways

- NPL Spain volume has decreased €34bn (or -32%) since Q1-14, down to a total stock of €73bn for G-6
- As a result, NPL ratio has decreased 3.1 PPS since 2014, staying at 7.9% for Q1-17
- NPL volume for the new entity Santander + Popular of €28bn, Popular representing 68%

2 | NPLs – Spanish Banks G6

Dashboard

Size & Quality

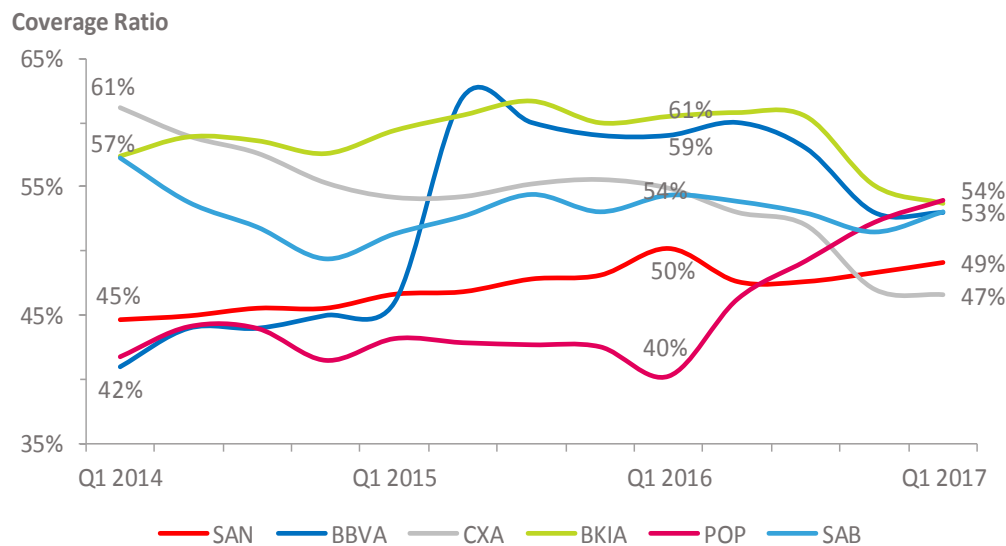
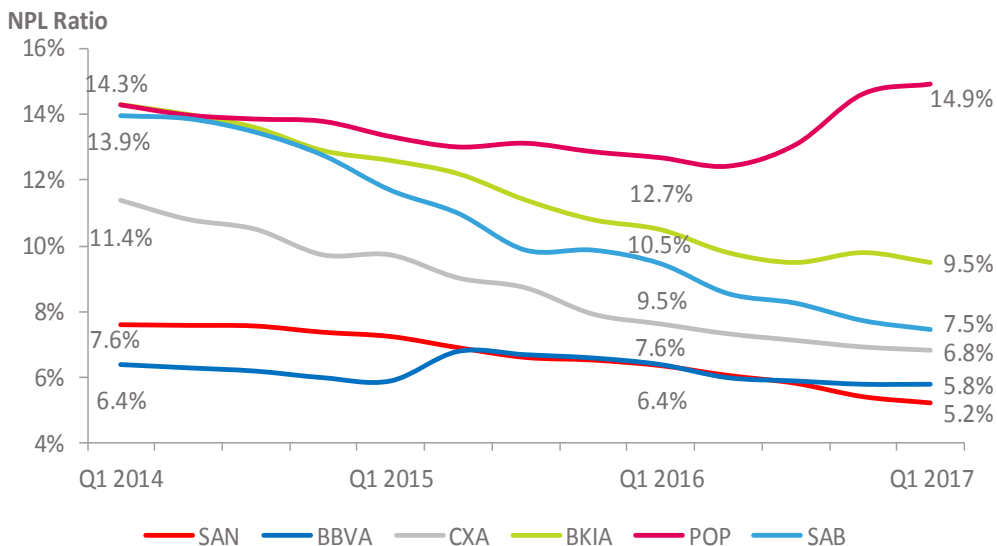
Profile & Evolution

Quarterly

Annually

NPL Ratio Evolution – By Bank

NPL Coverage Evolution – By Bank



Key takeaways

- Major improvements on NPL ratios can be seen for Bankia, Sabadell and Caixabank
- Santander and BBVA present the lowest NPL ratios, 5.2% and 5.8% respectively, although Santander rises to 9.4% after transaction with Popular
- Strong coverage evolution for BBVA and Santander, while Popular presents a significant increase since 2016, bringing it up to 54% in Q1-17 before the merger with Santander (post-deal figure of c. 64%)

2 | NPLs – Spanish Banks G6

Dashboard

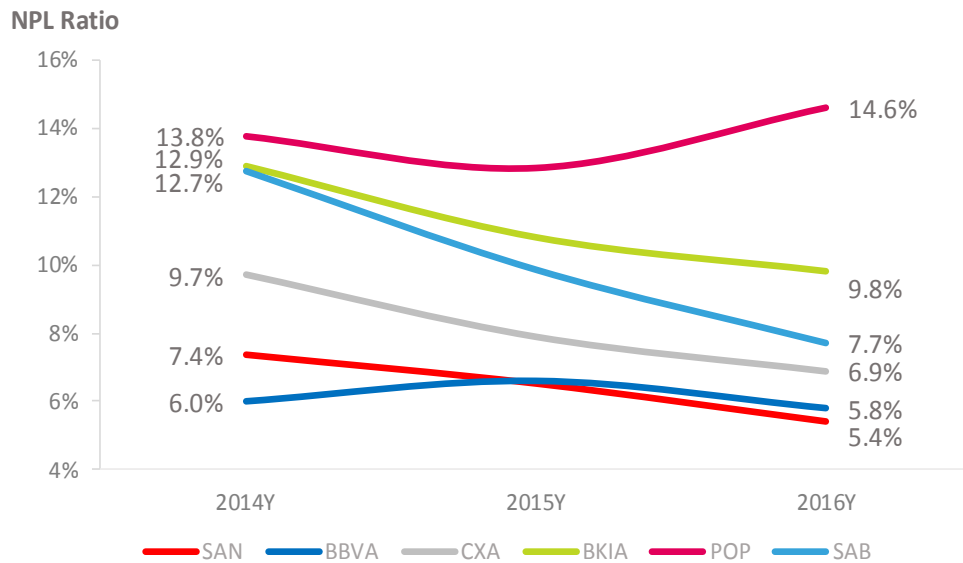
Size & Quality

Profile & Evolution

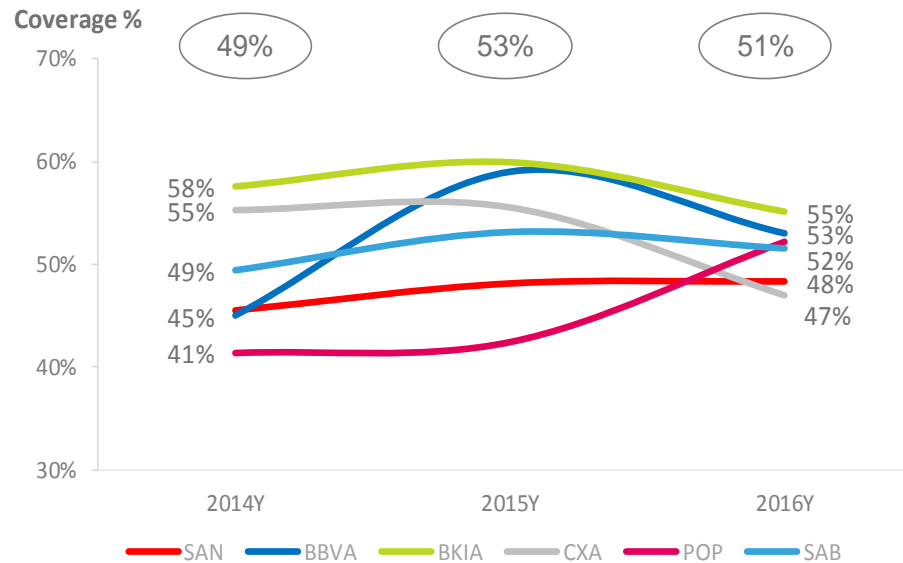
Quarterly

Annually

NPL Ratio Evolution – By Bank



NPL Coverage Evolution – By Bank



Key takeaways

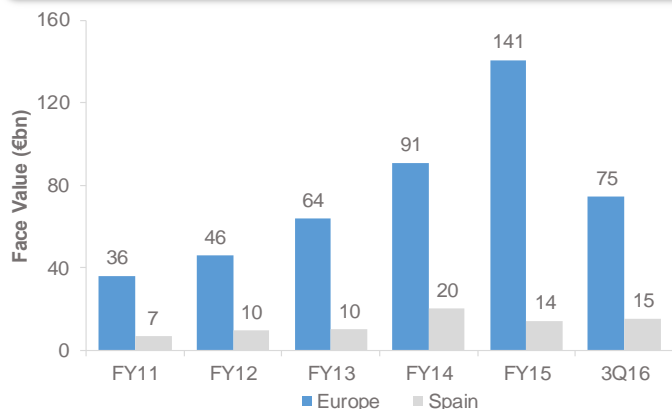
- Strong annual reduction trends of NPL ratios for 5/6 banks
- Stable coverage ratios for banks. Popular showing an increase in latest quarters

3 | Appendix

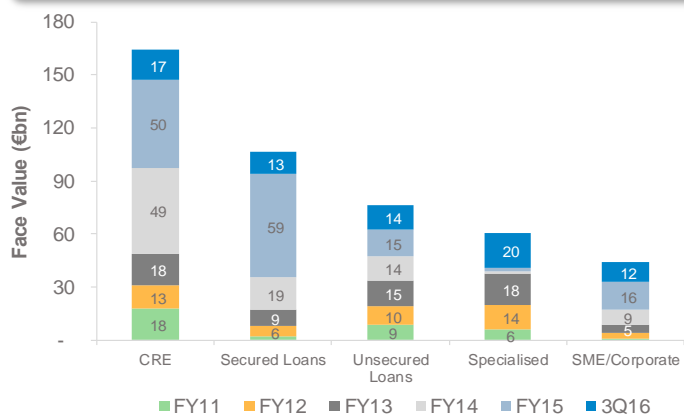
NPL Transactions

Spanish non-performing loan transactions had a peak in FY14 (€20bn) as the number of secured and unsecured loans transactions increased.

Total NPL Transactions – Spain & EU



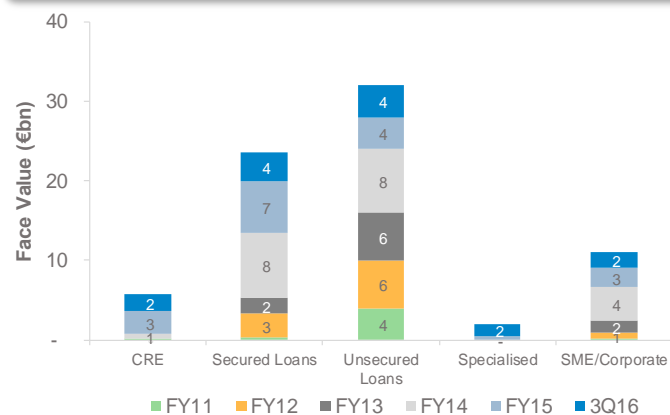
NPL Transactions in EU by Asset Type



Key Findings

- European NPLs transactions decreased by 47% showing a slowdown in seller activity
- Spanish NPLs represented 20% of the total 3Q16 European NPLs transactions
- By loan type, unsecured loans were the asset type most sold (43%), followed by secured loans (32%) and SME/Corporate (15%)

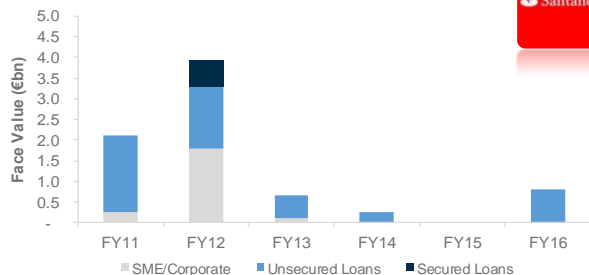
NPL Transaction in Spain by Asset Type



NPL Transactions

Bank

Banco Santander

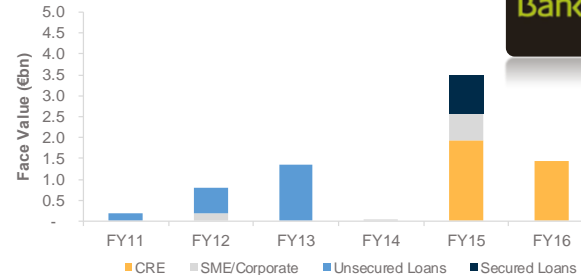


Key finding

- Most of its NPLs were sold during **FY11** (€2.1bn) and **FY12** (€3.9bn)
- **Unsecured loans** (60%) was the most common loan type sold
- Banco Santander sold its servicer platform (Altamira) in FY13 to Apollo

Bank

Bankia

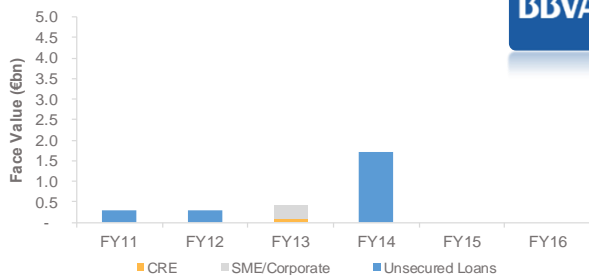


Key finding

- Most of its NPLs were sold during **FY15** (€3.5bn)
- **Commercial Real Estate** (40%) was the most common loan type sold
- Bankia sold in FY13 its servicer platform (Haya) to Cerberus

Bank

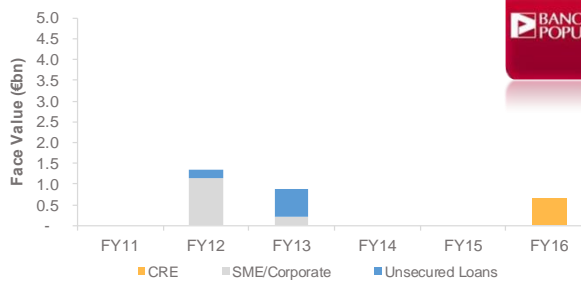
BBVA



- Most of its NPLs were sold during **FY14** (€1.7bn)
- **Unsecured loans** (85%) was the most common loan type sold
- BBVA outsourced its servicer through an internal carve-out

Bank

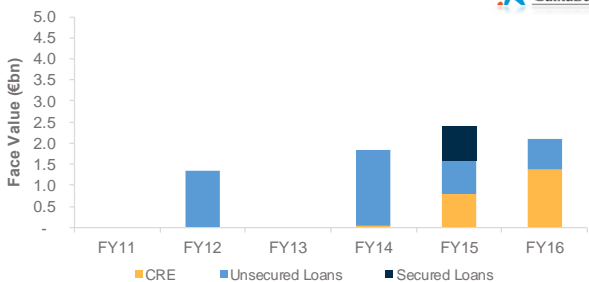
Banco Popular



- Most of its NPLs were sold during **FY12** (€1.3bn)
- **SME/Corporate** (60%) was the most common loan type sold
- Banco Popular sold in FY13 its servicer platform (Aliseda) to Kennedy Wilson y Varde

Bank

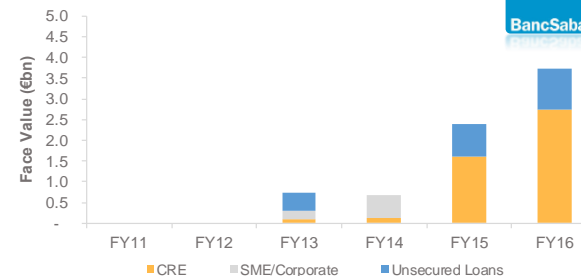
Caixabank



- Most of its NPLs were sold during **FY14** (€1.8bn) and **FY15** (€2.4bn)
- **Unsecured loans** (70%) was the most common loan type sold
- Caixabank sold in FY13 a 51% stake in its servicer platform (Servihabitat) to TPG

Bank

Banco Sabadell



- Most of its NPLs were sold during **FY15** (€2.4bn)
- **Commercial Real Estate** (58%) was the most common loan type sold



“The information contained in this document is of a general nature and has been obtained from publicly available information plus market insights. The information is not intended to address the specific circumstances of an individual or institution. There is no guarantee that the information is accurate at the date received by the recipient or that it will be accurate in the future. All parties should seek appropriate professional advice to analyze their particular situation before acting on any of the information contained herein.”

Alvarez & Marsal

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to activate change. Privately-held since 1983, A&M is a leading global professional services firm that delivers business performance improvement, turnaround management and advisory services to organizations seeking to transform operations, catapult growth and accelerate results through decisive action. Our senior professionals are experienced operators, world-class consultants and industry veterans who leverage the firm's restructuring heritage to help leaders turn change into a strategic business asset, manage risk and unlock value at every stage